2024

Greening the Finance

Sustainability in the Indian Private Sector Banking Industry

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Banking on a Greener Future: Pioneering Sustainability in the Financial Sector

India pledged to reduce carbon emissions by one billion tons by 2030 and reduce carbon intensity by more than 45% by 2030 as a signatory to the 2015 Paris Climate Agreement. Long-term, India aims to reach net-zero emissions by 2070. To spur green business innovation, sustainability is becoming an "emerging mega-trend" and a crucial business goal.

The purpose of the report is to shed light on the investments and operations of India’s top private banking institutions. This study involved analysis of company annual reports to gather data on investments made in CSR initiatives, CO_2 investments etc.

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Financial Institutions in India have a critical role to play in spearheading sustainability

Sustainable banking is to be approached as a win-win for the financial institutions as well as the industries and the economy. From a long-term perspective, financial institutions should aim at building a sustainable ecosystem from an outside-in (customers and investors) as well as inside-out (products, services, and internal operations).

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Background and Rationale

Environmental concerns are on the rise in all types of business; however, banking assumes a special niche due to its ability to influence the economic growth and development of the country. Banking sector facilitates adaptation of environment friendly strategies, mitigates climate risks and supports recovery by diverting funds to climate-sensitive sectors. Today, environmental and green banking has become synonymous with sustainability, so banks are broadcasting corporate social responsibility (CSR) activities. Banks globally are investing substantially in green strategies to create a green image. Greening of banks is further reducing carbon footprints from banking activities, and this is mutually beneficial to the banks, industries and the economy.

There is also a regulatory push for sustainable practices in the banking sector. In India, the Reserve Bank of India (RBI) has released a discussion paper on climate risk and sustainable finance to help regulated entities understand and manage climate-related risks. Additionally, the Securities and Exchange Board of India (SEBI) has introduced Business Responsibility and Sustainability Reporting (BRSR) Core, which requires companies to disclose their involvement in ESG investing.

From a business perspective, sustainable practices can also provide a competitive advantage. Consumers are increasingly willing to pay more for sustainable products and services, and aligning offerings accordingly can attract environmentally and socially conscious customers. Furthermore, green banking initiatives can improve a bank's reputation and contribute towards sustainability.

Studies have shown that the adoption of the international sustainability code of conduct in the Indian banking sector is still in its preliminary stage. Moreover, banks are more focused on addressing social dimensions rather than other important dimensions of sustainable banking, namely, environmental consideration, development of green products and services, and sustainability reporting.

Based on a recent report published by the Reserve Bank of India (RBI), amongst 34 leading Indian commercial banks a mere 6% of banks either have an existing green product or intend to offer one shortly. Moreover, only 35% of surveyed banks have dedicated coverage on sustainability, ESG, and climate risks on their company websites. From a global perspective, the Indian banking industry can be considered as part of the ‘late majority’ in sustainability adoption. On the brighter side, 56% of these banks intend to bring sustainable lending at the forefront in the short to medium term. However, there is a strong need for clarity on the potential roadmap and the next best action.

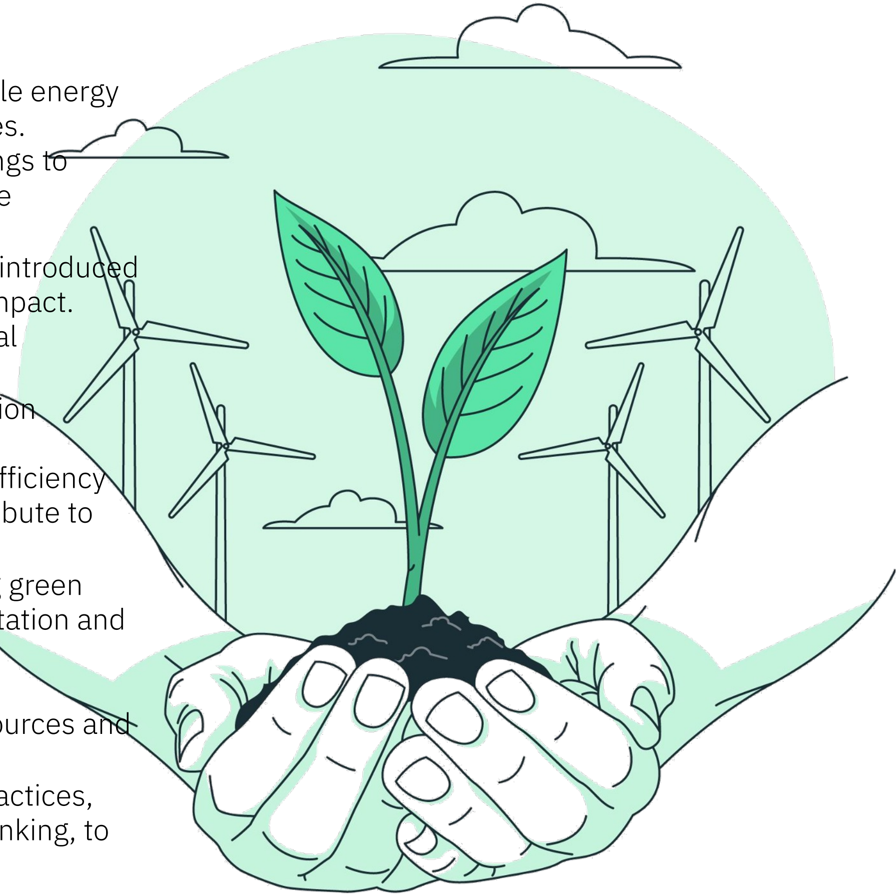
Financial Institutions in India have a critical role to play in spearheading sustainability. Sustainable banking is to be approached as a win-win for the financial institutions as well as the industries and the economy. From a long-term perspective, financial institutions should aim at building a sustainable ecosystem from an outside-in (customers and investors) as well as inside-out (products, services, and internal operations).

Driving Positive Change: The Rise of Sustainable Banking Practices

Sustainable banking practices are increasingly vital in today's world, where environmental and social responsibility are paramount. Banks play a crucial role in driving positive change by incorporating sustainability principles into their operations and decision-making processes. They are implementing measures to reduce their environmental footprint by minimizing energy consumption, reducing paper usage, and adopting renewable energy sources for their operations. Moreover, banks are integrating environmental, social, and governance (ESG) criteria into their lending and investment decisions to ensure that funds are allocated to projects and companies that adhere to sustainable practices. They are actively supporting initiatives that promote economic development, social inclusion, and environmental sustainability, contributing to the achievement of the Sustainable Development Goals (SDGs). Additionally, banks are enhancing transparency and accountability by disclosing information about their sustainability performance to stakeholders and engaging with local communities through philanthropic initiatives and community development projects.

Sustainable banking practices done by banks

Green Lending: Banks are offering loans for renewable energy projects, green buildings, and energy-efficient vehicles.
Green Buildings: Banks are investing in green buildings to reduce their carbon footprint and promote sustainable architecture.
Solar Power: Some banks, like IndusInd Bank, have introduced solar-powered ATMs to reduce their environmental impact.
CSR Practices: Banks are engaging in corporate social responsibility (CSR) practices to support community development programs and environmental conservation projects.
Energy Efficiency: Banks are implementing energy efficiency measures to reduce their operational costs and contribute to sustainability.
Green Products and Services: Banks are developing green financial products and services to enhance their reputation and contribute towards sustainable development.
Waste Management: Banks are implementing waste management programs to control the wastage of resources and promote sustainability.
Green IT Initiatives: Banks are adopting green IT practices, such as reducing paperwork and promoting online banking, to reduce their environmental impact.



Regulatory landscape and guidelines

A range of voluntary and legislative actions have highlighted prominent strands of the sustainability imperative in India, particularly related to financial markets and the banking system.

The RBI issued its first circular on banking and sustainable development in 2007, encouraging the adoption of best practices and greater transparency. Since then, important steps have been taken as outlined below. In addition to various progressive measures, corporate social responsibility (CSR) has been formally introduced through the Companies Act of 2013 with effect from 1 April 2014. All companies, private limited or public limited, with a net worth of INR 5 billion (US$81.8 million), a turnover of INR 10 billion (US$163.7 million) or a net profit of INR 50 million (US$0.8 million) have to spend at least two per cent of their average net profit of the immediately preceding three financial years on CSR activities. Notably, sustainability-linked funding is an option available to companies.

Green Guidelines: The RBI has issued green guidelines for regulated entities, covering aspects such as green deposits, climate risk disclosure, and climate scenario analysis. These guidelines will provide a framework for banks to accept deposits invested in green activities, disclose climate-related financial risks, and offer guidance on climate scenario analysis and stress testing. The guidelines will be issued in a phased manner to help Indian banks navigate climate-related financial risks and promote sustainable finance practices.

Disclosure Framework on Climate-related Financial Risks: The RBI has presented draft guidelines on the Disclosure framework on Climate-related Financial Risks, 2024. This framework requires regulated entities to detail identified climate-related risks and opportunities over the short, medium, and long term. It also mandates disclosures related to governance, strategy, risk management, metrics, and targets to communicate an entity's performance in relation to its climate-related financial risks and progress towards climate-related targets.

Carbon Pricing: India does not have any explicit carbon pricing or cap-and-trade mechanisms. Instead, it has an array of schemes that place an implicit price on carbon. One such scheme is the Perform, Achieve and Trade (PAT) scheme, which aims to reduce emissions from energy-intensive industrial sectors by setting specific energy efficiency targets.

Sustainability Practices in Banking – A comparative analysis

In this comparative analysis, we delve into the environmental impact of leading banks in India by examining key metrics such as the Social Cost of Carbon (SCC), CO_2 emissions, and the adoption of Indian Green Building Council (IGBC) standards. By evaluating these factors, we aim to shed light on the sustainability practices and contributions of banks towards mitigating climate change and promoting green building initiatives.

Banks	Co2 emission in 2022 (Sum of scope 1,2, and 3)(metric tons)	Social Cost of Carbon (SCC) 2021-22 (in INR Crore)	Co2 emission in 2023 (Sum of scope 1,2, and 3) (metric tons)	Social Cost of Carbon (SCC) 2022-23 (in INR Crore)	IGBC Certified	No. of Green buildings
HDFC Bank	20876.97 tCO_2e	36.4 crore	29828.8 tCO_2e	51.7 crore	Yes	947
ICICI Bank	11717.34 tCO_2e	20.4 crore	7456.1 tCO_2e	12.9 crore	Yes	126
Axis Bank	175,269.34 tCO_2e	305.7 crore	208,528.68 tCO_2e	362 crore	Yes	1
Kotak Mahindra Bank	125,275.73 tCO_2e	218.5 crore	169,751 tCO_2e	294.7 crore	Yes	Undergoing
IDBI Bank	3,908.59 tCO_2e	6.8 crore	3,480.07 tCO_2e	6.04 crore	Not available	NA
Yes Bank	41009.5 tCO_2e	71.5 crore	47,501.64 tCO_2e	82.4 crore	No	NA
Federal Bank	36,456.67 tCO_2e	63.6 crore	35,637.75 tCO_2e	61.8 crore	Yes	3, 2 Under construction
IndusInd Bank	69,467 tCO_2e	121.1 crore	72,422 tCO_2e	125.7 crore	Yes	13
RBL Bank	7,727 tCO_2e	13.4 crore	8,917 tCO_2e	15.4 crore	Yes	2

Notes:
Scope 1 emission: Scope 1 covers emissions from sources that an organization owns or controls directly.
Scope 2 emission: Scope 2 includes emissions from the source of energy that a company purchases and uses, which are caused indirectly by the company.
Scope 3 emission: Scope 3 includes emissions produced by third parties that are indirectly accountable to the company for activities occurring up and down its value chain, rather than by the company itself or as a result of operations involving assets it owns or controls.

“E”SG Scores of Private Banks in India

The S&P Global Environment Score, a performance-based score with a range of 0 to 100, evaluates a company's environmental practices. It is a component of the larger S&P Global ESG Scores, which also include governance and social factors. Businesses with higher scores have better environmental practices, while those with a lesser perform moderately well in terms of environmental factors when compared to those with higher scores.

Bank Name	Environmental scores
Yes Bank	66
Axis Bank	44
RBL Bank	43
IndusInd Bank	36
HDFC Bank	35
Kotak Mahindra Bank	28
ICICI Bank	22
Federal Bank	20
IDBI Bank	5

S&P ESG Scores of Private Banks in India

The S&P Global ESG Score assesses a company's performance in addressing and managing material ESG risks, opportunities, and impacts. The CSA provides the primary information for S&P Global ESG Scores. It covers 62 industries using industry-specific questionnaires that evaluate 23 sustainability topics in an average of 100 questions.

Companies can complete the CSA in one of two ways: directly by providing detailed data and supporting documentation, which may include internal documentation as well as public disclosures when appropriate. Alternatively, a team of analysts uses publicly available data to fill out assessment forms for businesses that choose not to participate.

The banking sector received the highest score of 81, while the industry average score for the environment was 26.

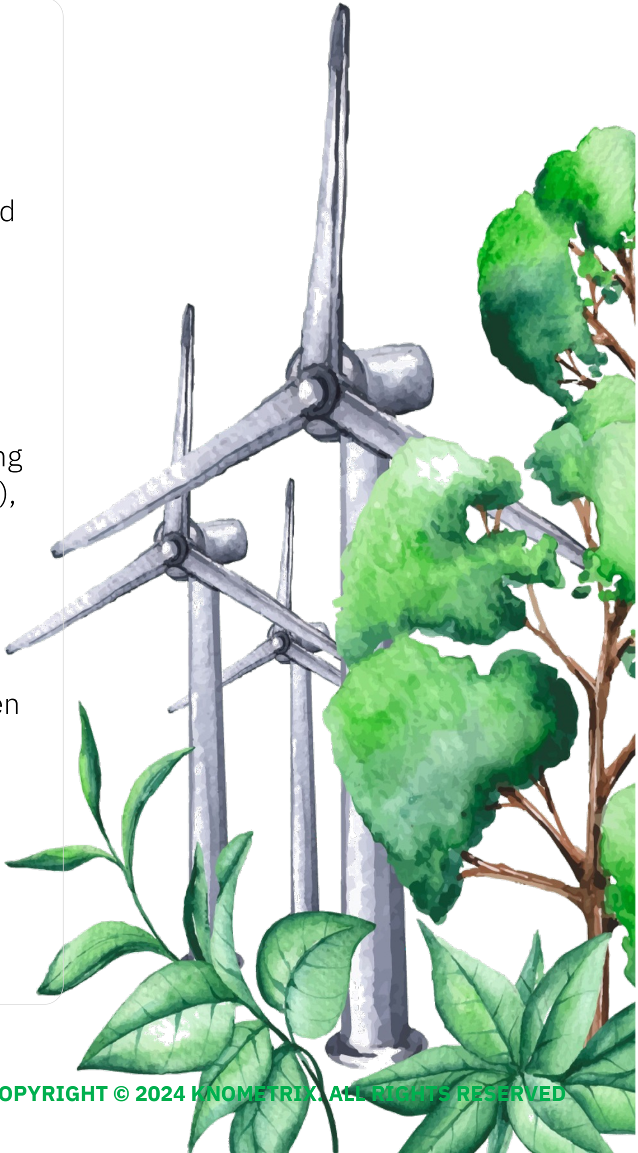
Analysis of Investments in Sustainable Projects & Initiatives

HDFC BANK

- Carbon Neutrality Pathway - The bank intends to reduce absolute emissions and energy consumption from the current level of 315,583 MT CO_2 emissions and achieve carbon neutrality for Scope 1 and Scope 2 emissions by FY32.
- The bank has also created a Sustainable Finance Framework, which includes a commitment to report on the allocation of revenues and their impact on its website once a year until full allocation.
- HDFC Bank intends to convert 50% of its total sourced electricity to renewable energy and to establish single-use plastic-free corporate premises.
- The bank is focusing on 1,500 additional branches of its Smart IoT-based building management system, which presently has 600. Their retail marketing team's 'Green Event Guidelines' helped save around 33.10 lakh square feet of paper in a single year. Plantation efforts have resulted in a sequestration potential of over 45,000 tCO_2e per year.
- The bank has financed renewable energy capacity, with a significant increase in recent years, reaching a total of 6,110 MW in solar and wind energy projects, supported by loans of approximately INR 151,150 million (USD 1819.64 million).

ICICI BANK

- In fiscal year 2023, the bank's green financing portfolio accounted for 21.4% of total lending, or ₹119 billion (~$1.4 billion). This portfolio has provided money to a variety of sectors, including renewable energy, electric automobiles, and green-certified real estate.
- ICICI Bank has also helped to build capacity in environmentally friendly sectors like renewable energy and electric automobiles.
- The bank has built green workspaces that meet the demanding criteria stipulated by the Indian Green Building Council (IGBC), with 28 new sites totaling 2.87 million square feet earning IGBC certification in fiscal year 2023.
- In terms of energy usage, ICICI Bank used 17.08 million kWh of renewable energy in fiscal 2023, representing 9% of its overall energy consumption. The bank has also opted for green tariffs from distribution companies in Maharashtra and Telangana.



Analysis of Investments in Sustainable Projects & Initiatives

AXIS BANK

In fiscal 2023, the Bank used 35.40 lac units of power for its Data Center alone, saving approximately 2870 tCO_2e of carbon emissions. By fiscal 2026, the bank has pledged to provide an additional ₹30,000 crores in funding through Wholesale Banking to industries that yield favourable social and environmental results. The bank had reached an incremental exposure of ₹20,400 crores as of March 2023. Three large offices in Mumbai i.e. Axis House Mumbai, MIDC Andheri and the Ruby premises are being operational on 100% renewable green energy. By installing solar energy projects in a few Axis Bank branches and offices, totaling around 2 MW, it was able to reduce carbon emissions by about 2590 tCO2e in the fiscal year 2023.

IDBI BANK

IDBI Bank has been actively involved in green activities, primarily sponsoring promising green ventures based on clean technologies. One remarkable move was the issuance of a USD 350 million Green Bond in 2015, the first by any public sector bank in India. The revenues of this bond were used to refinance sustainable energy projects such as wind, solar, biomass, water recycling, energy distribution, and management systems. IDBI Bank has also taken steps to fund potential green projects using clean technology, such as renewable energy, solar cell/module projects, co-generation, and energy efficiency equipment projects. The bank has evaluated third-party consultants' reports on resource evaluation and other aspects of the project, such as cost and environmental effect.

FEDERAL BANK

The International Finance Corporation (IFC) made an equity investment in Federal Bank, amounting to $126 million (₹916 crores), for a 4.99 percent stake in the bank. This investment is intended to increase financing for climate-friendly projects and strengthen Federal Bank's commitment to environmental, social, and governance (ESG) standards, with a focus on areas like energy efficiency, renewable energy, climate-smart agriculture, green buildings, and waste management. Federal Bank's commitment to terminating financing for new coal-related projects, including coal-fired power plants, aligns with the IFC's strategy to promote green growth and help India achieve its climate goals.

Analysis of Investments in Sustainable Projects & Initiatives

KOTAK BANK

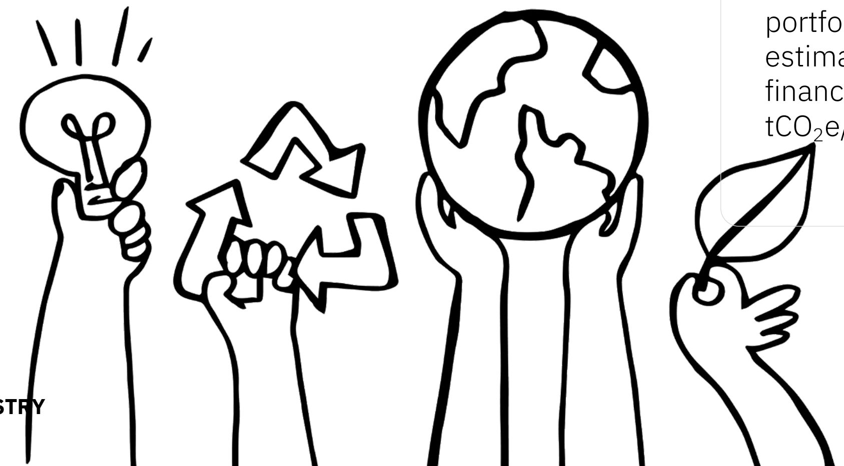
Kotak Mahindra is the first Indian asset management group committing to make its investment decisions in a more responsible and sustainable manner using the PRI's voluntary framework. The Asset Management has signed up for climate action 100+ :as part of our sustainability strategy to increase engagement and disclosures on climate risks and opportunities with focus companies. The total Scope 1 emissions for the group for FY 2022-23 were 12,214 tCO_2e, while the total Scope 2 emissions stood at 80,482 tCO_2e, which are computed as prescribed by the GHG protocol. Kotak bank is working towards Scope 3, seven categories were chosen these include employee commute, business travel covering air and rail modes, capital goods, purchased goods and services, waste generated in operations on the basis of the waste disposal method for each category of waste, fuel and energy-related emissions, as well as upstream leased assets.

RBL BANK

Two of its largest workplaces by carpet area, Airoli and NOC in Mumbai, are located in certified green buildings (IGBC). They installed solar roofing at 21 rural branches, generating around 96 kWp of renewable energy. During the last year, their two offices generated approximately 150 MWh of solar electricity, resulting in a reduction in GHG emissions by 141 tCO.2 Since 2014, their CSR programs have directly benefited over 5 lakh individuals. In the previous year, the bank spent a total of 5.22 crore on CSR.

YES BANK

Yes Bank has noticed a reduction of 23.61% in emission intensity FTE (Y-O-Y), The Bank is utilising "The Global GHG accounting and reporting Standard for the Financial Industry" as a guidance for measurement and treatment of financed emissions. Bank has measured the financed emission of its electricity generation portfolio (covering corporate loans, investment (treasury), project finance) and is striving to scale up the approach to climate intensive sectors. Considering the base year of FY22, the Bank has developed an interim target of reducing financed emission intensity of its electricity generation portfolio, at least by 50%, while striving for achieving 75% reduction by FY32. Yes Bank has developed an internal roadmap of a mix of non-renewable energy and renewable energy, that has been incorporated in risk appetite. Further, the Bank has developed internal additional criteria for financing towards the non-renewable energy sector. In FY22, the emission intensity of electricity generation fund-based portfolio (corporate loans, project finance, investments) was estimated to be 0.628 tCO_2e /MWh. At the end of FY23, the financed emission of the portfolio has declined to 0.404 tCO_2e/MWh.



HDFC leading the way in Green Banking

Key Findings and Insights

The Indian banking sector is actively working toward a sustainable future through initiatives such as energy conservation, green infrastructure, renewable energy, climate change, infrastructure finance, and so on. After calculating the SCC, we can see that IDBI Bank had the largest SCC among the nine banks examined for the analysis in 2021–22, with INR 6.88 crore, followed by RBL Bank and ICICI Bank with INR 13.4 crore and 20.4 crore, respectively. In the fiscal year 2022–23, IDBI Bank again ranked as the leading contributor of CO_2, with an SCC of INR 60.4 crore , followed by ICICI Bank and RBL Bank with INR 12.9 crore and 15.4 crore of social cost, respectively. In both years under consideration, Kotak Mahindra Bank and Axis Bank ranked lowest, with INR 218.5 crore and 294.7 crore SCC for Kotak Mahindra Bank and INR 305.7 crore and 362 crore SCC for Axis Bank.

This implies that HDFC Bank has the highest number green buildings of any bank considered, and ICICI Bank follows suit. HDFC has currently 947 buildings approved by the IGBC board, with ICICI following with 126 green buildings. Among all the banks analysed, IDBI bank does not have an IGBC accreditation, hence this criterion does not apply to the specified entity. Aside from that, Kotak Mahindra Bank is working to obtain IGBC certification, which is currently under progress. The Federal Bank now has three green buildings that have been certified by the IGBC, with two more buildings undergoing certification. Data about Yes Bank's green building is not available.

Methodology : Social Cost of Carbon

The social cost of carbon (SCC) is an estimate, in dollars, of the economic damages that would result from emitting one additional ton of greenhouse gases into the atmosphere. The SCC puts the effects of climate change into economic terms to help policymakers and other decision makers understand the economic impacts of decisions that would increase or decrease emissions. The SCC is currently used by local, state, and federal governments to inform billions of dollars of policy and investment decisions in the United States and abroad.

These indicators include health outcomes, agricultural production, property values, and other factors that are affected by climate change. An extra ton of carbon emissions shortens lifespans, hurts crops, and causes sea levels to rise, decreasing property values. The SCC is calculated by simulating what the path of climate change would be in the absence of a policy change, then augmenting the model to record how much damage and climate change increases as a result of an extra ton of emissions. The difference in damage is the social cost of carbon.

The SCC is considered an important number because it provides the key information societies need to determine how much to sacrifice to combat climate change. It is the benefit – that is, the avoided damage – from reducing emissions of CO_2. This makes it a key guide to policymakers: By indicating how much society benefits from reducing CO_2 emissions, it shows that climate policies will pay for themselves as long as the economic sacrifices involved don't exceed the social cost of carbon

Step 1

Predict future emissions based on population, economic growth, and other factors.

Step 2

Model future climate responses, such as temperature increase and sea level rise.

Step 3

Assess the economic impact that these climatic changes will have on agriculture, health, energy use, and other aspects of the economy.

Step 4

Convert future damages into their present-day value and add them up to determine total damages

In Step 4 of the SCC modelling mentioned above, future damages are translated into present-day value by using a discount rate to decide how much weight is given to future consequences. Future costs and benefits are often regarded as less significant than current costs and benefits, and the discount rate reflects this relative importance. This analysis used a 2% discount rate.

Methodology : Bank Selection

Bank Name	HQ City	Total Branches	Revenue 2022-23 (In Rupees)	Market Cap*
HDFC Bank	Mumbai	7915	1,18,057 Cr.	11.05 Trillion
ICICI Bank	Mumbai	6074	1,25,771.56 Cr.	7.72 Trillion
Axis Bank	Mumbai	5000	21,933 Cr.	3.24 Trillion
Kotak Mahindra Bank	Mumbai	1996	266.38 Cr.	3.56 Trillion
IDBI Bank	Mumbai	1900	149.23 Cr	869.87 Billion
Yes Bank	Mumbai	1192	193 Cr.	671.73 Billion
Federal Bank	Aluva	1355	9,562.16 Cr.	365.30 Billion
IndusInd Bank	Pune	2606	25,758.49 Cr.	1.21 Trillion
RBL Bank	Mumbai	517	4,451 Cr.	144.53 Billion

*(as of 28th March 2024)

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