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Green Banking

Amy Kalloch

Bonnie Bachman
Missouri University of Science and Technology, bachmanb@mst.edu

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Dr. Bonnie Bachman
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Department of Business and IT

Executive Summary

Green banking is generally defined as promoting environmentally friendly practices that aid customers in reducing their carbon footprint through their banking operation activities. These practices include such things as online banking, statements, bill payments, and account opening. Banks also invest in internal initiatives to reduce their own carbon footprint. The majority of programs consist of energy efficiency, recycling, ride sharing, and environmentally friendly lending. Banks that support the local community and environment are seen as leaders in this movement. Many online banks and smaller community banks are seen as 'greener' than the large corporate financial institutions. One criticism of the large banks includes the financing of environmentally detrimental endeavors, such as British Petroleum's oil spill. Those banks that received Troubled Asset Relief Program (TARP) or bailout money are also seen in a negative light as well as held to higher standards based on the sustainability initiatives they have promised publically.

Sustainability has varying definitions depending on the organization's core practices and strategies, but carries a common importance to corporations as a critical success factor as seen from the recent increase in companies producing annual sustainability reports and creating a C-suite position called Chief Sustainability Officer (CSO). The banking industry recognizes green initiatives as an increasingly important business strategy, for which the top U. S. banks are all striving to gain a competitive advantage. Recent research and surveys of these concepts aid in the conclusion that sustainability will continue to play a large role in the banking industry's competitive dynamics; in addition, long-term consequences for the environment and overall business practices will be realized.

Sustainability

A special report by MIT Sloan Management Review titled "The Business of Sustainability: Findings and Insights from the First Annual Business of Sustainability Survey and the Global Thought Leaders' Research Project" sought to find the answers to several questions regarding the impact of sustainability on corporations. In the report, the results of over 1500 surveys from corporate executives and managers regarding the sustainability within their business strategy were analyzed. One of their early findings revealed that there was no single definition of sustainably among the corporations. While some companies accounted for environmental impacts only, others looked at the economic, social, and personal components within their organizations. The majority of the companies surveyed did come to a consensus on sustainability playing a larger role in the company's strategy and success. Sustainability is not seen as merely the right thing to do, but also the smart thing. Companies have increasingly determined that sustainable practices contribute to the planet, as well as to their bottom lines. These sustainable practices, also seen in the form of green initiatives, have become increasingly important in the banking industry. These practices have branched out from internal programs to core competitive strategies and will establish the way banks function and are managed. Several key activities contribute to a financial institution's sustainability practices and these activities will be outlined in the remainder of this report.

Business Processes

Financial institution's conduct numerous business processes that can be considered green practices. One primary area is paper consumption. Other areas include energy savings, recycling initiatives, and employee ride sharing. According to the 2008 Market Pulse survey, A Different Shade of Green, banks are expanding from these familiar green programs to offer green friendly home and auto financing as well as environmentally friendly revolving credit accounts. This survey included responses from 124 financial institution executives. Of these executives, approximately 88% stated that green initiatives are important to their organizations. Additional finding from the survey were as follows:

- 58% of executives were exclusively planning new building projects, with 75% of them also considering the use of green building materials and practices
- Of the green initiatives mentioned, participation was as follows

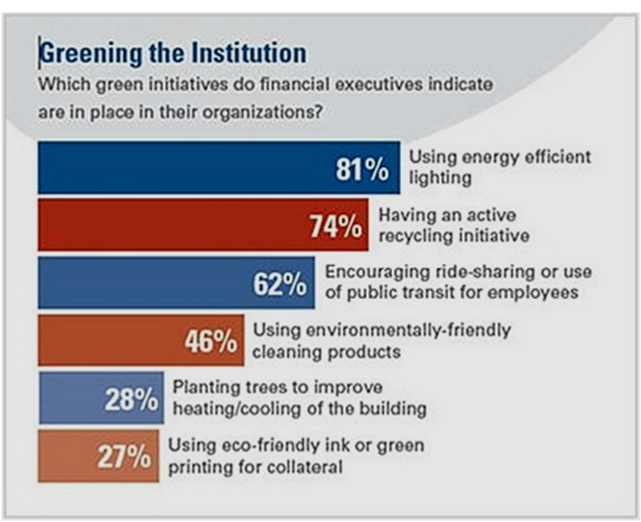

Figure 1- Market Pulse survey: A Different Shade of Green

- 90% of the institutions surveyed offered paperless options, though the following depicts lack of adoption of these options

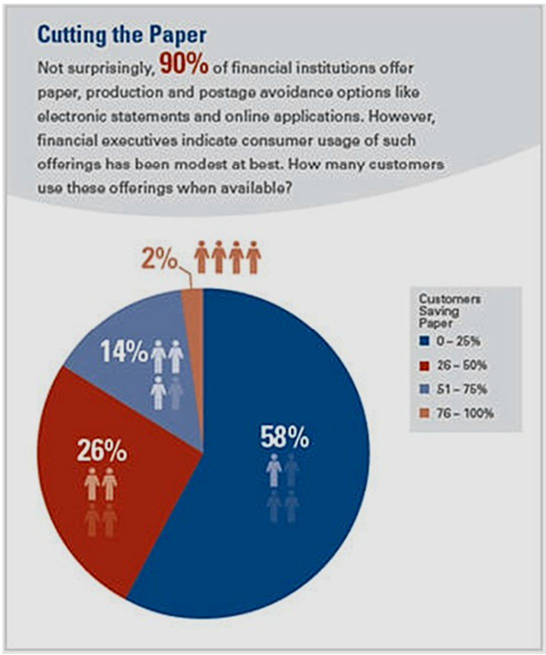

Figure 2- Market Pulse survey: A Different Shade of Green

- 74% of the financial institutions surveyed had recycling programs with the following items being reported

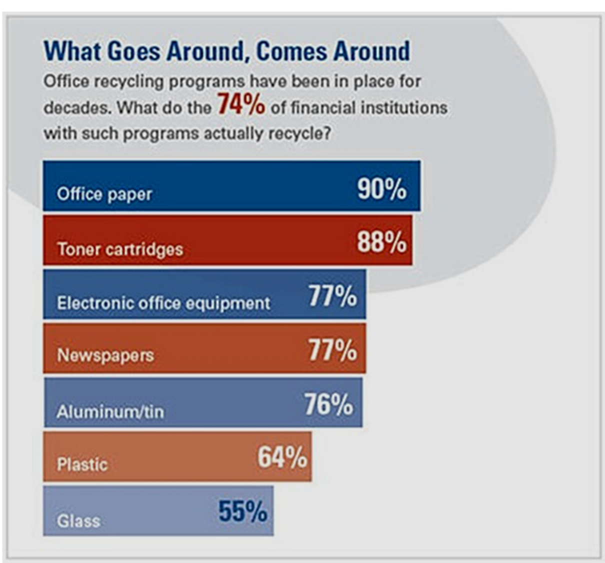

Figure 3- Market Pulse survey: A Different Shade of Green

Although these finding indicate that banking executives are aware of the importance of these services and programs to their customers, improvements can be realized in their executions. Through review of the top U. S. banks, current practices are in place to enhance adoption of green banking options. This is seen through the account offerings and incentives. Several banks offer higher interest rates or lower fees for customers that take advantage of paperless options such as statements and bill payments. Banks are also offering incentives for customers to use green credit cards, in which a percentage of purchases are donated to environmental organizations.

PayItGreen is a coalition that is led by NACHA, the Electronic Payment Association, whose mission is to forge the sustainability efforts of its partner financial institutions. The primary services of focus for PayItGreen are electronic bill paying, direct deposits, and paperless statements. The organization's efforts are supported by its several members through education and outreach to the customer. Many of these members, including founding members are leading U. S. banks. This program creates benefits for all stakeholders, from the customer to the financial institution executives. This multi-corporation program along with individual company initiatives, demonstrates that a significant emphasis has been placed on sustainability in the current banking environment.

PayItGreen® Good for the Environment. Good for You.

Figure 4- PayItGreen

Figure 5 highlights the sustainability infinitives of the top financial institutions in the U. S.:

Financial Institution	**Member of PayItGreen**	**Paper Reduction/ Recycling Initiative**	**Energy Efficient Lighting/Heating & Cooling**	**Ride-Sharing/ Public Transportation**	**Environmental-Friendly Financing & Credit Cards**
Bank of America	NO	YES	YES	YES	YES
JP Morgan Chase	Founding Member	YES	YES	YES	YES
Citigroup	NO	YES	YES	YES	YES
US Bank	Founding Member	YES	YES	YES	YES
Wells Fargo	Founding Member	YES	YES	YES	YES

Figure 5- Sustainability Practices of Leading Banks

The “Big Four” banks of the United States (Bank of America, JPMorgan Chase, Citigroup, and Wells Fargo) and US Bank have publically proclaimed their support for sustainability issues. What can be deduced from these findings is that the top banks in the U.S. are using sustainability as a competitive edge as well as a means to connect with stakeholders. Of those institutions that are not members of the PayItGreen program, both Bank of America and Citigroup drive similar services independently. Very little variance is found in the programs and services provided by the listed institutions. The largest differences come into play with the types of products and services that are offered by each financial institution. A chief area of present competition is seen in the technology enhancements of existing online banking and ATM services. As adoption of online services increases mobility, convenience, and enables the institution to manage higher demands. These features have been offered by banks in the form of mobile phone banking, check scan deposits, and imaging ATM's. The implementation and execution of these services in the banking industry are the current competitive hurdles, that if overcome, increase the adoption rate of paperless and green incentives offered to their customers.

Local community banks are doing their part to offer environmentally friendly solutions and implement sustainable practices. According to a survey by Javelin Strategy & Research, 43% of consumers said they are more likely to do business with companies they perceived to be green and 22% said green initiatives "cement the bond they have with their bank." This survey's results along with other similar studies are driving smaller community banks to take their sustainability initiatives to higher levels. A poll on MonsterTRAK.com also found that green initiatives help banks attract young professionals and that 92% of younger workers would rather work for a company that is environmentally friendly. These factors along with others listed in this report are promoting community banks to become more focused on sustainable practices. Other research suggests that most customers view local banks as more green than those institutions that have been bailout by government TARP money. Many of the large banks have also been criticized for their financing of projects that lead to environmental harm, such as the BP oil spill n the Gulf of Mexico. These criticism and negative connotations associated with large financial institutions have led to increased opportunities for local community banks.

Conclusion

Green banking has continued to evolve in the recent years and is expected to become an even greater driving force behind banks competitive strategies. Several studies have been done to determine the impacts and implications of sustainability in the banking industry. These studies reinforce the importance sustainable practices play in the banking industry. Additional studies should be conducted to gauge the most current practices due to quickly evolving technology and the core differences among the top U.S. financial institutions. These studies would assist in the understanding of how the success of the organization can be measured based on its sustainable practices. Regardless of the size of the institution, sustainble practices have a place and will aid in company success aas a result of overall stakeholder satisfaction. Measuring this satisfaction should be a primary concern for bank executives. Green initiatives offer more than just monetary benefits to the company, the intangible benefits include reputation, increased customer base, positive effects on the environment, and simplicity of bank processes. Green should no longer be considered a movement in the banking industry, but rather a mainstream activity.

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