



The Role of Banks in Addressing Climate Change

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India's ancient culture has long recognized the delicate balance between humanity and nature. For millennia, our forefathers lived in harmony with the environment, understanding that we are but stewards of this Earth, tasked with giving back to Mother Nature what we take from her. The principles of sustainability, conservation and reverence for the natural world are deeply ingrained in the Indian ethos.

In the Vedas, the sacred texts of Hinduism, we find countless references to the sanctity of the elements - water, air, fire and earth. The concept of "Vasudhaiva Kutumbakam," or "the world is one family," underscores our belief that all living beings are interconnected and deserve our care and protection. This holistic worldview has shaped a lifestyle centered on minimizing our ecological footprint and preserving the delicate balance of our planet.

Throughout India's rich history, this deep reverence for nature has manifested in various cultural practices and traditions. The planting of trees during auspicious occasions, the protection of sacred groves and the reverence for animal life are just a few examples of how our ancestors lived in harmony with the environment. The concept of "Chipko movement," where local communities hugged trees to prevent deforestation, is a testament to the ingrained environmental consciousness of the Indian people.

Unfortunately, as the world has rapidly industrialized and modernized, the delicate balance between

humans and nature has been disrupted. The relentless pursuit of economic growth, coupled with unsustainable resource extraction and pollution, has led to the current climate crisis that threatens the very fabric of our existence. It is now more important than ever to revisit and revive the environmental wisdom of our ancestors and to find innovative ways to integrate these principles into our contemporary way of life.

The Global Awakening to Climate Change

While India's traditional wisdom has long recognized the importance of environmental stewardship, it is only in recent decades that the world has truly awakened to the pressing issue of climate change. The scientific community has unequivocally demonstrated the significant impact of human activities on the Earth's climate, leading to a global call to action.

The United Nations Framework Convention on Climate Change (UNFCCC), signed in 1992, marked a pivotal moment in the international community's efforts to address the climate crisis. This landmark agreement, later reinforced by the Kyoto Protocol and the Paris Agreement, has galvanized nations around the world to work towards a sustainable future.

These global pacts have set ambitious targets for greenhouse gas emission reductions, encouraged the development of renewable energy sources and promoted the adoption of climate-resilient practices across various sectors. They have also emphasized

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the importance of financial institutions in mobilizing the necessary resources and investments to facilitate the transition to a low-carbon economy.

The Role of the Financial Sector in Addressing Climate Change

The financial sector, including banking institutions, plays a crucial role in the global effort to address climate change. As the primary providers of capital, financial institutions have the power to direct investment flows towards sustainable projects and technologies, thereby, catalyzing the transition to a low-carbon economy.

By aligning their lending portfolios, investment strategies and risk management practices with sustainability principles, banks can incentivize the development of renewable energy, energy-efficient infrastructure and other climate-friendly initiatives. This shift towards “Green finance” not only supports environmental preservation but also creates new opportunities for economic growth and job creation in the emerging green economy.

Moreover, financial institutions can serve as important conduits for channeling climate finance from global sources, such as multilateral development banks and international climate funds, to local communities and projects in need of such investments. This cross-border flow of climate-related capital can be a game-changer in accelerating the implementation of mitigation and adaptation measures in developing countries like India.

India’s Commitment to Climate Action

As a signatory to these global pacts, India has emerged as a leader in the fight against climate change. The country has set ambitious targets for renewable energy generation, with a goal of achieving 450 GW of installed capacity by 2030. Furthermore,

the Indian Government has introduced a range of policy initiatives, such as the National Action Plan on Climate Change and the Perform, Achieve and Trade (PAT) scheme, to drive sustainable development and emission reduction.

These policy measures, coupled with targeted investments in renewable energy, afforestation and climate-resilient infrastructure, have positioned India as a global pioneer in the transition to a low-carbon future. The country’s commitment to the Paris Agreement’s goals, its active participation in international climate negotiations and its growing domestic climate action initiatives have earned it widespread recognition and respect in the global arena.

RBI Initiatives and Actions Taken

The Reserve Bank of India (RBI) is weaving climate consciousness into the fabric of India’s financial system, underscoring the undeniable link between environmental health and economic stability. In early 2024, the RBI unveiled a draft disclosure framework, a proactive move compelling banks, financial institutions and non-banking companies to face climate risks head-on. This framework is not just a checklist-it is a roadmap for financial institutions to understand, prepare for and mitigate climate-related threats that could ripple through the economy. By naming climate change a risk to financial resilience and price stability, the RBI brings attention to how erratic rainfall and extreme weather events could send shockwaves through prices and supply chains alike, stressing the urgent need for climate-aligned financial strategies.

But the RBI’s initiatives extend beyond warnings; they are fostering green growth. Renewable energy projects have now taken their place as priority lending sectors, a clear nod to sustainable development.

The introduction of green deposits reflects the RBI's support for eco-conscious investment avenues, setting a precedent for the industry to follow. With a vision to develop a robust regulatory framework, ensure payment systems can withstand climate impacts and work with the Government to create a unified climate taxonomy, the RBI's agenda is both ambitious and necessary. As one of the countries most vulnerable to the effects of extreme heat, India stands at a crossroads. The RBI's initiatives are a reminder that the path to financial stability is, in fact, green.

The Role of Financial Institution

As the backbone of India's financial ecosystem, Financial Institutions (FIs) are uniquely positioned to play a pivotal role in addressing the climate challenge. These institutions, with their vast reach and deep roots in the local communities, can leverage their resources and influence to catalyze climate-friendly initiatives.

1. **Sustainable Lending Practices:** Financial Institutions (FIs) can reorient their lending portfolios to prioritize investments in renewable energy, energy-efficient technologies and environmentally-conscious projects. By aligning their credit policies with sustainability principles, these banks can incentivize green investments and steer the economy towards a low-carbon future.
2. **Green Financing Schemes:** Financial Institutions (FIs) can develop innovative financial products and services tailored to support climate-resilient infrastructure sustainable agriculture and the transition to a circular economy. These specialized green financing schemes can help mobilize private capital and drive the widespread adoption of clean technologies.

3. **Environmental Risk Assessment:** Integrating climate-related risk assessments into their credit evaluation processes will enable Financial Institutions (FIs) to better understand and mitigate the potential impacts of climate change on their loan portfolios. This holistic approach will strengthen the resilience of the Financial Institutions (FIs) and safeguard the long-term interests of both the institutions and their customers.
4. **Capacity Building and Awareness:** Financial Institutions (FIs) can leverage their extensive networks to educate and empower their employees, customers and local communities on the importance of climate action. Through targeted training programs, knowledge-sharing initiatives and collaboration with environmental experts, these banks can catalyze a grassroots movement towards a sustainable future.
5. **Operational Sustainability:** Financial Institutions (FIs) can lead by example by adopting environmentally-conscious practices within their own operations. Measures such as reducing energy consumption, minimizing waste and promoting sustainable IT infrastructure can help these institutions lower their carbon footprint and inspire others to follow suit.

The Synergistic Potential of Public Sector Banks

By harnessing the synergies between the RBI's regulatory initiatives, the Government's climate action agenda and the unique capabilities of public sector banks, India can unleash the transformative potential of the financial sector in addressing the climate crisis.

Public Sector Banks (PSBs), with their widespread presence, deep community ties and trusted brand image, can serve as the conduit for channeling climate finance and catalyzing sustainable development at the grassroots level. These banks can work closely

with local Governments, community organizations and small-scale enterprises to identify and support climate-resilient projects, thereby, ensuring that the benefits of green investments reach the most vulnerable and underserved populations.

Moreover, the integration of climate-related risk management practices within the PSBs' operations will not only strengthen the sector's resilience but also incentivize other financial institutions to follow suit. As these banks lead by example, showcasing the financial and operational viability of sustainable banking practices, they can inspire a ripple effect across the broader financial ecosystem, catalyzing a systemic shift towards a low-carbon, climate-resilient economy.

Indian Overseas Bank's Green Banking Journey

Indian Overseas Bank (IOB) has taken important steps to make banking more environmentally responsible. The bank now do data mining and analysis on the address recorded for all properties and keeps careful track of insurance for buildings, farm animals, machines and vehicles.

For big loans of ₹100 crore and above, they use a special climate risk questionnaire to understand environmental impacts. Working on the study of "The Council on Energy, Environment and Water" (CEEW), an independent, non-profit policy research institution based in India, IOB has created district-level maps that show climate risks, helping them make smarter lending decisions.

We also study how different industries affect the environment by looking at their pollution levels, both direct and indirect and how much money these industries need to become greener. These steps are part of IOB's bigger plan to protect the environment while doing good business. The bank checks how industries create pollution, use energy and plan to

become more environment-friendly. Through these efforts, IOB is showing that banks can be successful while helping protect our planet.

We believe that making profit is by-product of sustainable banking and caring for nature. This approach to banking is not just about profits - it is about creating a better future for everyone while running a successful bank. By making these changes, IOB is leading the way in showing how banks can help create a healthier environment while serving their customers well.

Conclusion

As we navigate the uncharted waters of the climate crisis, the role of India's public sector banks becomes increasingly vital. By harnessing their financial might, their extensive reach and their deep understanding of local communities, these institutions can emerge as catalysts for a green and resilient future.

Through a multifaceted approach that encompasses sustainable lending, innovative green financing, climate risk management, capacity building and operational sustainability, PSBs can contribute significantly to India's climate action agenda. By aligning their strategies with the country's broader sustainable development goals, these banks can help secure a brighter, more sustainable tomorrow for all.

The integration of India's ancient environmental wisdom with the modern tools and technologies of the banking sector can create a powerful synergy, positioning Financial sector as champions of climate action and sustainable development. As these institutions embrace their role as custodians of the planet, they can inspire a nationwide movement towards a more harmonious and resilient future, where the prosperity of humanity and the preservation of our natural world go hand in hand.

