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Green Banking: A Literature Review on Profitability and Sustainability Implications

Maitham Rabea' Hadi
Prof. of Finance, Financial and Banking Sciences Dept., University of Kerbala, Iraq.
Email: maithem.rabea@uokerbala.edu.iq

Mohammed Faez Hasan
Associated Prof. of Finance, Financial and Banking Sciences Dept., University of Kerbala, Iraq.
E-mail: mohammed.faiz@uokerbala.edu.iq
Orcid: https://orcid.org/0000-0002-4579-3214

Hakeem Hammood Flayyih
Institut Supérieur de Gestion, University of Tunis, TUNSIA.
E-mail: hakeemhammood@gmail.com
Orcid: https://orcid.org/0000-0003-0615-0854

Mustafa Khudhair Hussein
IMAM A'ADHUM UNIVERSITY COLLEGE, IRAQ
E-mail: mustafakhudair87@gmail.com

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Abstract

The necessity for sustainable development in the financial sector and growing worries about climate change have given rise to the strategic response of green banking (GB). This study examines how GB contributes to environmental sustainability, bank profitability, and a more environmentally conscious financial climate. GB seeks to lessen the damaging effects that financial activities have on the environment and society by incorporating ecologically and socially responsible practices into banking operations and services. This study examines the potential advantages of GB, such as decreased operating expenses, improved client retention, and access to new markets, as well as the difficulties encountered, such as knowledge gaps, regulatory backing, and initially high costs. This study emphasizes the significance of GB as a catalyst for sustainable development and a tool for reducing the effects of climate change through a thorough literature assessment. In order to secure long-term profitability, environmental stewardship, and social responsibility—all of which eventually contribute to a sustainable and prosperous future—it underlines the necessity for banks and financial institutions to prioritize and adopt GB practices.
Keywords: Green Banking, Sustainability, Climate change, environmentally-friendly projects,

Introduction

Green banking, also known as sustainable banking or ethical banking, is a banking practice that emphasizes environmetal and social responsibility in financial decision-making. Green banks aim to promote sustainability and reduce negative impacts on the environment and society, while

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also considering financial profitability. One of the key aspects of GB is promoting sustainable development by supporting environmentally-friendly projects and initiatives such as renewable energy, eco-friendly agriculture, sustainable transportation, and waste management. Green banks also promote social responsibility by supporting projects that improve social well-being, such as education, healthcare, and affordable housing(Hasan, 2022).

Likewise, prioritize transparency and accountability, by providing stakeholders with clear and comprehensive information about their environmental and social performance. This helps to build trust and credibility among customers, investors, and the general public. In addition, green banks implement various policies and practices to minimize their own environmental impact, such as reducing paper usage, implementing energy-efficient technologies, and reducing waste. Overall, GB is an important tool for promoting sustainable development and reducing the negative impacts of financial activities on the environment and society. By promoting sustainable practices and responsible investment, GB can help to create a more just and sustainable world.

Literature review

Green Banking Emerging

Green banking is a concept that has gained increasing attention in recent years as financial institutions strive to address environmental and social challenges while remaining profitable. GB refers to the integration of environmental and social considerations into banking operations and services, with the goal of promoting sustainable development and mitigating climate change. The concept of GB emerged in the 1990s when environmental concerns began to gain traction in the financial sector. The Rio Earth Summit of 1992 highlighted the need for sustainable development, and banks began recognizing the potential risks and opportunities associated with environmental issues. In response, some banks began to develop environmental policies and programs, including adopting environmental management systems, green lending, and socially responsible investment.

The term "GB" gained popularity in the early 2000s, as more banks began to adopt sustainable practices and policies. GB has been defined as the practice of promoting sustainable development through financial services, products, and operations(Rehman et al., 2021). GB encompasses a wide range of activities, including financing renewable energy projects, promoting energy efficiency in buildings and operations, encouraging sustainable business practices, and incorporating environmental risk assessment in lending decisions(Hasan et al., 2021).

The principles of GB are grounded in the concept of sustainable development, which seeks to meet the needs of the present without compromising the ability of future generations to meet their own needs. GB recognizes the interdependence of the economy, society, and the environment and seeks to balance economic, social, and environmental considerations in banking operations and decision-making. The key principles of GB include environmental responsibility, social responsibility, economic viability, and stakeholder engagement(Chen et al., 2022).

Green Banking and Sustainability

Green banking refers to banking practices that prioritize environmental sustainability, with a focus on reducing carbon footprints and promoting eco-friendly operations. In recent years, there has been a growing movement towards GB, with banks across the world implementing various initiatives to reduce their environmental impact and promote sustainability. GB considerably influences sustainability by advocating eco-conscious practices within the financial sector. For instance, green banks frequently allocate funds to environmentally beneficial projects, such as solar power installations, which contribute positively to ecological preservation (Dikau & Volz,

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2021). Furthermore, GB fosters paperless transactions, diminishing the operational costs of financial activities and bolstering environmental sustainability (Gupta, 2015). GB paves the way for a more sustainable and environmentally responsible future for all by mitigating the banking sector's ecological footprint.

One of the primary benefits of GB is the potential to reduce carbon footprint. By financing renewable energy projects and promoting energy efficiency in buildings and operations, banks can significantly reduce greenhouse gas emissions(Nguyen et al., 2021). A study by Khairunnessa et al. (2021) found that GB practices positively affect environmental performance, especially in the area of greenhouse gas emissions reduction. Similarly, Julia & Kassim (2016) found that GB positively affects environmental performance, particularly in the area of waste management. These findings demonstrate the significant role that GB can play in reducing carbon footprint and promoting sustainable development.

Green Banking and Profitability

The relationship between GB and bank profitability is multifaceted, encompassing both short-term implications and long-term advantages. While initial investments in renewable energy or sustainable infrastructure may incur immediate expenses, research indicates that GB initiatives can yield significant benefits in the long run. For instance, a study conducted by the European Banking Federation revealed that allocating funds to eco-friendly projects can positively influence a bank's financial performance over time, as these investments enhance efficiency, curtail expenditures, and bolster risk management(Park & Kim, 2020). Moreover, the adoption of GB practices can bolster a bank's public image, an essential factor in attracting clientele and sustaining profitability in the long term (Mir & Bhat, 2022). By demonstrating a commitment to environmental sustainability, financial institutions can differentiate themselves from competitors and appeal to an increasingly eco-conscious consumer base. In turn, this positive reputation can lead to customer loyalty, brand recognition, and potentially higher market share(Ansari et al., 2022). Furthermore, GB initiatives can result in reduced regulatory risks and compliance costs. As governments and international organizations continue to prioritize climate change and environmental protection, banks that proactively implement sustainable practices are likely to be better positioned to adapt to evolving regulations and avoid potential penalties(Prabu et al., 2021). In summary, while GB may entail some initial costs, the long-term benefits of increased efficiency, reduced costs, improved risk management, enhanced reputation, and regulatory compliance can outweigh the short-term expenses, ultimately contributing to a bank's overall profitability and resilience in an increasingly eco-conscious world(Vijayalakshmi et al., 2021). Overall, GB has a positive impact on both sustainability and banking profitability. By prioritizing environmentally friendly practices, green banks can help to promote a more sustainable future while also potentially improving their bottom line over time. As the importance of sustainability continues to grow, it is likely that GB will become an increasingly important aspect of the banking sector in the years to come.

Moreover, GB practices can also result in lower operating costs for banks. For example, promoting energy efficiency in buildings and operations can result in significant cost savings on energy bills. Additionally, incorporating environmental risk assessment in lending decisions can help banks avoid lending to risky projects that may result in environmental damages and associated costs(Sangeetha et al., 2021). Charles and Nairobi (2016) found that GB positively affects financial performance, especially in the area of cost reduction. These findings suggest that GB practices can help banks achieve cost savings while promoting sustainability.

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GB practices can also increase customer loyalty and trust. A study by Ibe-enwo et al. (2019) found that GB positively affects corporate reputation, which in turn can lead to increased customer loyalty. Similarly, Charles and Nairobi (2016) found that GB positively affects customer loyalty, and that this relationship is mediated by green trust. These findings suggest that GB practices can help banks attract and retain customers by promoting their commitment to environmental sustainability. GB can also provide access to new markets and business opportunities, as the demand for sustainable financial products and services continues to grow (Bukhari et al., 2019). Finally, GB practices can provide banks with access to new markets and business opportunities. For example, financing renewable energy projects can open up new business opportunities in the rapidly growing renewable energy sector. Similarly, promoting sustainable business practices can attract customers who prioritize sustainability and ethical considerations in their business dealings. Jatana and Jain (2020) found that GB practices are still in their infancy in India, but there is potential for significant growth in the future. These findings suggest that GB practices can help banks tap into new markets and business opportunities while promoting sustainability.

While GB has many potential benefits, it also faces challenges. One of the main challenges is the limited knowledge and understanding of GB practices among bankers and customers. Many banks lack the expertise and resources to develop and implement sustainable practices and policies, while customers may be unaware of the benefits of GB and the availability of sustainable financial products and services (Usman & Amran, 2015). In addition, the lack of government support and policies can hinder the growth of GB initiatives, and the high initial costs of implementing green initiatives can also pose a challenge for some banks (Khairunnessa et al., 2021).

In brief, GB has emerged as a vital concept in response to the escalating awareness of the necessity for sustainable development and environmental stewardship within the financial sector. This innovative approach entails the incorporation of ecological and social factors into banking operations and services, with the overarching objective of facilitating sustainable development and alleviating the repercussions of climate change. Although GB offers an abundance of potential advantages, it also encounters obstacles pertaining to knowledge and comprehension, governmental backing, and elevated expenses. Nevertheless, GB possesses the capacity to significantly contribute to addressing environmental and societal challenges while maintaining profitability for financial institutions, as well as generating benefits for customers and the broader community.

As an increasing number of banks and financial institutions embrace GB practices and policies, the financial sector can assume a pivotal role in propelling sustainable development and mitigating the ramifications of climate change (Vinoth et al., 2021). In this way, GB has the potential to transform the financial landscape, fostering a paradigm shift toward eco-consciousness, social responsibility, and long-term sustainability. This transformation will not only yield tangible benefits for the environment and society but also create new opportunities for financial institutions to thrive in an increasingly competitive and environmentally aware global market.

Conclusions

The adoption of GB practices can yield a plethora of advantages for financial institutions, encompassing the potential to minimize their carbon footprint, curtail operational expenditures, enhance customer loyalty and trust, and tap into novel markets and business prospects. These multifaceted benefits underscore the critical role that GB can assume in fostering sustainable development and combating climate change. Consequently, banks should place considerable

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emphasis on integrating sustainability into their operational framework and lending protocols to harness the full potential of GB. By actively pursuing environmentally responsible practices, banks not only contribute to global efforts to address pressing environmental challenges but also fortify their own financial performance and long-term viability. Furthermore, as regulatory bodies and public sentiment increasingly prioritize climate action and eco-consciousness, financial institutions embracing GB practices are better positioned to navigate the evolving landscape and maintain a competitive edge. In summary, the advantages of GB are manifold, spanning from environmental impact reduction to bolstered customer relationships and the exploration of emerging markets. To ensure a sustainable and prosperous future, it is imperative that banks embrace the principles of GB and incorporate them into their core business strategies and practices

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