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RBI regulations on green deposits

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Why in News: Last month, the Reserve Bank of India (RBI) came up with a regulatory framework for banks to accept green deposits from customers. Under the new framework, banks that accept green deposits will have to disclose more information on how they invest these deposits.

About Green Deposits

Green deposits are not very different from the regular deposits that banks accept from their customers.

The only major difference is that banks promise to earmark the money that they receive as green deposits towards environment-friendly projects. For example, a bank may promise that green deposits will be used towards financing renewable energy projects that fight climate change.

A green deposit is just one product in a wide array of other financial products such as green bonds that help investors put money into environmentally sustainable projects.

About RBI's regulatory framework

The RBI's framework for the acceptance of green deposits lays down certain conditions that banks must fulfill to accept green deposits from customers.

Firstly, banks will have to come up with a set of rules or policies approved by their respective Boards that need to be followed while investing green deposits from customers.

These rules need to be made public on the banks' websites and banks will have to disclose regular information about the amount of green deposits received, how these deposits were allocated towards various green projects, and the impact of such investments on the environment.

A third-party will have to verify the claims made by banks regarding the projects in which the banks invest their green deposits as well as the sustainability credentials of these business projects.

The RBI has come up with a list of sectors that can be classified as sustainable and thus eligible to receive green deposits. These include renewable energy, waste management, clean transportation, energy efficiency, and afforestation.

Banks will be barred from investing green deposits in business projects involving fossil fuels, nuclear power, tobacco, etc. The new rules are aimed at preventing green washing, which refers to making misleading claims about the positive environmental impact of an activity.

For example, a bank may advertise that their green deposits will have a huge positive impact on the environment, while the actual impact may be minimal.

Challenges in Green Deposits

Depositors who care about the environment may get some satisfaction from investing their money in environmentally sustainable investment products.

However, there are challenges, for the range of projects in which green funds can be invested by the bank is limited by design.

When it comes to protecting the environment, green investing enthusiasts believe that putting money into green projects may be one of the best ways to help the environment.

Critics, however, argue that green investment products are often just a way to make investors feel good about themselves and that these investments don't really do much good to the environment.

Noted finance expert Aswath Damodaran, for instance, calls green investing "a feel-good scam" that enriches only consultants. Second, in a complex world where any action involves second-order effects that are difficult to see, it can be extremely hard to know if a project is really environmentally sustainable