



Exploring the Impact of Green Credit Business on the Profitability of Commercial Banks

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Abstract. Green finance, as the name implies, is inseparable from green industries such as environmental protection, energy conservation and low carbon, and since the 21st century, it has become the consensus of the international community to develop a low carbon economy and seek sustainable development. These financial innovations, which are closely related to the promotion of a low-carbon and environmentally friendly economy, are generally referred to as “green finance”. This paper examines the impact of green credit on the profitability of commercial banks. The results show that green credit has a negative impact on the profitability of commercial banks, but in the long run it has positive implications for commercial banks.

Keywords: Green Finance · Commercial Banks · Profitability · Green Credit

1 Introduction

1.1 Background of the Chosen Topic

With population growth, rapid economic development and urbanisation, energy consumption has risen sharply and economic growth requires the consumption of large amounts of energy. Even though large-scale energy consumption promotes economic and social development, it also leads to ecological damage problems, and the world faces a more severe environmental situation with problems such as energy overuse, climate warming and water pollution. In this context, the development of low-carbon industries to promote green economic development has become a new global economic trend.

China’s resource shortage is becoming increasingly significant due to the country’s earlier approach of consuming resources to promote economic growth. At this stage, the scale of exploitation of mineral resources and water resources in China is huge, and the efficiency of exploitation is not high below 80% of that of developed countries. Pollutant emissions are high, ecological pollution and damage are serious, and investment in pollution control is insufficient. It is evident that China needs to change its mode of economic development and transition from a resource-consuming to a conservation-oriented low-carbon economy. With the gradual development of the world economy, the green economy is gradually becoming the core of modern economic, financial and

social resource allocation. As a result, financial institutions are committed to achieving sustainable economic development.

The development of green finance is the key to the development of a green economy, and green financial reform is the path to sustainable economic development in China, as well as the path to a new economy. Soon, China's financial sector will undergo great changes. Green finance will become a new trend in the development of the banking industry, gradually realising the development of the banking industry and the integration of financial institutions.

1.2 Current Status of Green Credit Development in China

Since the implementation of China's green finance policy by the State Environmental Protection Administration in 2007, green credit in China has developed rapidly and the banking industry has vigorously promoted green credit business in heed of the regulator's advocacy in October 2008, Industrial Bank officially announced its adoption of the Equator Principles and became the first Equator bank in China. By the end of 2013, 21 major banking financial institutions had a green credit balance of RMB5.2 trillion, accounting for 8.7% of their various loan balances.

General Information

The development of green credit in China has made remarkable progress, and with the introduction and implementation of national policies, green credit has entered a phase of rapid development. Overall, the scale of green credit in China is expanding, and according to relevant data, by the end of 2020, China's green credit balance reached \$11.6 trillion, ranking first in the world. The areas in which green credit is applied are also expanding, with green credit being invested not only in traditional areas such as environmental protection, energy and water conservancy, but also in emerging areas of technology and cultural and creative industries.

In addition to traditional commercial banks and policy banks, more and more internet financial institutions, microfinance companies and private equity funds have begun to participate in the green credit sector, greatly expanding the investment channels and scope of green credit.

The regulatory system for green credit has also become increasingly perfect. With the continuous development of green finance, relevant authorities have continued to strengthen the regulation of green credit, effectively improving the standards and certification system for green credit and strengthening the supervision and management of green credit institutions, a move that helps prevent market risks, reduce market disruptions and better protect the rights and interests of investors.

Problems

Although the development of green credit in China has made great progress, there are many shortcomings in many aspects due to the late start of green credit in China.

Green credit laws and regulations are not sound and policies are poorly operable. In recent years, the People's Bank of China, the State Environmental Protection Administration and the CBIRC have issued a series of policies on green credit, basically forming a more complete green credit system. However, these policies are mostly voluntary in

nature, leading to some banks that do not have a sense of implementing green credit on their own seizing the loopholes. And the relevant policies issued are mostly guiding in nature and not strong in standard, without forming a unified green credit implementation standard and evaluation system, resulting in different commercial banks implementing green credit in different ways, and consequently the emergence of green credit supervision difficulties, causing difficulties for the supervisory authorities and resulting in poor operability of green credit policies [1, 3].

Lack of relevant incentive control measures. For enterprises, adopting a policy of green operation and low-carbon development will lead to much higher operating costs and reduced profits. In contrast, if a company adopts a policy of non-compliance by making high profits to pay fines, the profits gained by the company are much higher than those gained by green business. In addition, the state does not provide enough incentives for environmentally friendly enterprises, and many enterprises do not enjoy the state's incentives, resulting in a lack of willingness on the part of most enterprises to operate green. For commercial banks, as profit-making institutions, the green projects launched by commercial banks have a long profit cycle and cannot be profitable in the short term, which is a high risk for commercial banks, and a considerable part of the projects supported by green credit are not very economically efficient, such as wind power and waste-to-energy, thus reducing the profit of commercial banks to a certain extent [1]. The weak state subsidies on green projects lead to a lack of intrinsic motivation for commercial banks to develop green projects, which can lead to a decrease in commercial banks' investment in green projects and continued investment in highly polluting enterprises, making it difficult to develop green credit [4].

Lack of professional talents in the field of green finance. China's domestic financial system is well established and has a large number of excellent financial practitioners. Although these financial practitioners have professional financial knowledge, they lack knowledge in the field of environmental protection. In addition, China has not formed a sound system of green credit, and financial practitioners lack knowledge of green credit laws and regulations. Commercial banks are not only required to have a wealth of financial knowledge to conduct green credit business, but also a wealth of professional knowledge of environmental protection. As a result, commercial banks have difficulty in launching green credit business due to the lack of relevant talents.

1.3 Research Significance

For society green finance promotes economic benefits as well as increased social benefits. To a large extent, green finance increases social wealth and promotes employment, while improving the quality of life and living standards of people. Moreover, the development of green finance has led to improvements in environmentally friendly projects that were once relatively difficult to finance, changing the past perception of the entire industry and facilitating the reduction of damage to the environment and ecology while ensuring economic benefits and improving resource utilisation. With a focus on environmental protection, green finance takes into account the environmental impact in its operation, changing the previous "pollute first, treat later" model of development and ensuring sustainable human development. China has a huge demand for green financing at this stage and in the future, and needs to develop green finance to optimise the allocation of

resources, effectively carry out green credit operations, master the laws of green finance development, and provide managers with a scientific and reliable basis for decision-making while protecting the environment.

For commercial banks, although the current study of green finance has more social significance than economic significance, it still has high research value in terms of its impact on profitability. In China, the social significance of developing green finance in the banking industry is to reduce environmental pollution, protect the ecological environment and assume corporate social responsibility; the economic significance makes green finance of particular value, helping to transform the traditional business model, driving the development of intermediate business, promoting the sustainable development of banks and thus enhancing their profitability. Study the impact of green finance on the profitability of commercial banks, and whether the greater the proportion of green credit, the better the profitability. In summary, the development of green finance is of great significance, both from the perspective of corporate social responsibility and from the perspective of banks' operational efficiency.

2 Influence

2.1 Green Credit Affects the Cost Mechanism of Commercial Banks

The costs incurred by commercial banks in implementing green credit are divided into direct costs and indirect costs. China is a late starter in green credit, and compared to other countries that started green finance earlier, China's green credit system is not sound. Therefore, commercial banks need to invest a lot of money to establish a green credit platform if they want to implement green credit business. At the same time, due to the lack of a sound information and communication platform, commercial banks need to invest a lot of money in assessing credit risks. On the other hand, as a result of the green credit policy, commercial banks have to partially change their credit targets to environmental protection enterprises, and when lending to projects of "two high and one leftover" enterprises, they need to restrict the loan amount and increase the interest rate. This will cause commercial banks to lose customers and increase their opportunity costs.

This will increase the cost pressure on commercial banks and affect their cost mechanism.

2.2 Green Credit Improves the Credit Structure of Commercial Banks

For commercial banks, the implementation of green credit has directly changed the credit structure of commercial banks, and the target of commercial banks' loans has changed from the "two high and one leftover" enterprises to the new environmental protection enterprises. Under the guidelines of the green credit policy, commercial banks limit the loan amount of highly polluting enterprises, and do not grant loans to enterprises that do not meet environmental protection standards, and strengthen the review of their daily business activities. To a certain extent, the quality of commercial banks' assets can be improved, and the value of their assets and their ability to realise cash can be

enhanced. In line with the trend of the times, more and more enterprises will adopt green business practices, and commercial banks will face more and more environmentally friendly enterprises, which will also lead to the optimisation of commercial banks' credit targets. The implementation of green credit policy will fundamentally optimise the credit structure of commercial banks.

2.3 Green Credit Affects the Reputation and Competitiveness of Commercial Banks

With the development of the economy and the progress of society, the green economy is increasingly recognised by the world, people's awareness of environmental protection has greatly increased and enterprises are given more social responsibility. With the development of the times, enterprises can only make more significant progress if they take the initiative to comply with the policies of the state and the wishes of the public. In the financial sector, banks are an integral part of the industry. Commercial banks that vigorously pursue green credit business can establish a good image in the minds of enterprises and the public, which is crucial to their sustainable development. The more socially responsible a commercial bank is, the more it will be recognised by investors, which undoubtedly increases the intangible value of the commercial bank and the hidden benefits it will receive.

Internationally, green credit has become an internationally recognised credit approach and a mainstream trend. China's commercial banks are underdeveloped and in a disadvantaged position in the international arena. Only by keeping up to date with international trends can they keep pace with the world's development and be recognised by the international financial industry. China's Industrial Bank has set a precedent for implementing the Equator Principles, while more and more commercial banks are actively implementing green credit operations, strengthening their international influence and raising their international profile, allowing them to better integrate into international banking cooperation and competition.

3 Conclusion

The analysis of the impact of green credit on commercial banks shows that green credit plays a catalytic role in the development of the banking industry, injecting new vitality into the development of the banking sector. Therefore, the question of how to improve the current situation of green credit business in China has become an issue that requires our in-depth consideration.

4 Suggestions

4.1 Establishing Uniform Industry Standards and Sound Laws and Regulations

Although China's green credit policy system is being gradually improved in recent years, the relevant policies are mostly guidance-based and lack relevance and relevance, and there are no exact standards to regulate the implementation of green credit business

of commercial banks. Each commercial bank has its own standards for implementing green credit business, and each bank has different specific measures and processes. In order to maximise their interests, banks will develop a green credit specification system that is in line with their own interests and development, and the lack of uniformity in the implementation of standards will easily lead to adverse competition among banks, which will lead to problems such as the generally low quality of green credit. It is therefore important to establish a uniform industry standard that can be adapted to all banks. The establishment of unified industry standards can regulate healthy competition among banks and guide them to take the initiative to carry out green credit business. At the same time, relevant laws and regulations should be improved and precise regulatory requirements should be formulated to promote the standardisation of green credit business and effective supervision.

4.2 Increasing Incentives and Support for Green Credit Business

Due to the impact on the profitability of commercial banks, major commercial banks are not very active in carrying out green credit business. Therefore, in view of the huge investment and long repayment period of colour credit projects, a lower financing cost for financial institutions can be considered in terms of policy, and a risk diversification mechanism can be arranged in advance to provide certain subsidies for possible risks.

Fiscally, we should provide subsidised interest rates for green loans and study the creation of carbon emission reduction support tools that directly reach the real economy [5]. In addition, banking institutions should be encouraged to take initiative to vigorously improve the management performance of green loans and reduce the capital consumption of green projects.

4.3 Strengthening the Training of Professionals

Although Chinese financial industry practitioners have professional financial knowledge, they lack knowledge of the environmental protection field and lack a professional knowledge base in the environmental protection field, which is not conducive to commercial banks to carry out green credit business. Therefore, it is crucial to cultivate professional green credit talents [2]. Commercial banks should strengthen the training of talents, popularise environmental protection knowledge by employing experts in relevant fields and promote the learning of environmental protection field knowledge among the bank's internal staff. At the same time, they can cooperate with international banks internationally to learn more advanced and mature green credit knowledge, improve the quality of the bank's internal team, and build a professional team to systematically carry out green credit business. Turn reactive into proactive and professional management.

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