

Research on the Development Model of Low Carbon Finance in Commercial Banks

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Abstract: The low-carbon economy has become a hot topic of discussion and research, and Chinese commercial banks have made effective attempts in low-carbon finance. At present, the model of commercial banks supporting the development of carbon finance is a valuable research topic. This article takes the connotation of carbon finance as the perspective, sorts out the development model of carbon finance, and combines the actual development situation of carbon finance in Chinese commercial banks to think about the future development strategic planning of commercial banks.

Keywords: Commercial Bank; Low Carbon Finance; Financial Business; Development Model

1. Introduction

At present, in the process of global development, low-carbon economy has become the mainstream development direction, and existing economic and financial development models have been reformed. Commercial banks in China have conducted extensive practice in low-carbon finance and achieved effective results. As the interest rate spread gradually narrows and credit risk increases, commercial banks are facing increasing pressure^[1]. In order to adapt to the low-carbon development of the economy and society, it is necessary to update dynamic products in a timely manner. Carbon finance is a dynamic concept that will face various financial problems as the economy and society gradually develop towards low-carbon direction. When there is no carbon trading market, financial institutions can adjust capital prices and credit conditions to influence investment behavior in emission reduction, and further guide the market appropriately. Based on this, in the context of the development of low-carbon economy, it is worth for commercial banks to deeply consider how to transform and innovate their business models.

2. Analysis of the connotation of carbon finance

Carbon finance fully considers resource and environmental factors, integrating endogenous factors of economic development. Simply put, in the process of implementing investment behavior, it pays attention to protecting the ecological environment and controlling environmental pollution. Commercial banks regulate their own investment and financing behavior, strengthen the integration of financial products and services, guide enterprises and individuals to engage in low-carbon consumption and investment, thereby fundamentally optimizing the structure of the industry and updating the production technology of enterprises. When the carbon trading market was in its early stages of establishment, the supporters of funds were financial institutions. As carbon trading became more mature, financial institutions would design differentiated financial products based on actual situations to cope with price fluctuations and default risks. From this, it can also be seen that in the process of gradual development of low-carbon, finance needs to optimize and adjust its own identity, and design different products^[2].

3. Current Development Status of Low Carbon Finance in Commercial Banks

At present, commercial banks in China are only initially involved in low-carbon financial business, with fewer types of

business, mainly green credit. Industrial Bank first launched an energy efficiency financing project in 2006 and became the first equatorial bank in China in 2008. In 2009, it completed the first equatorial principle project in the Chinese banking industry - Fujian Huadian Yong'an Power Generation 2 × 300MW expansion project. Subsequently, China Merchants Bank, Agricultural Bank of China, and others have also launched green credit businesses. In terms of product retail, Industrial Bank, China Everbright Bank, Agricultural Bank of China, and Bank of China have successively launched low-carbon concept credit cards, introducing energy conservation and emission reduction work from the field of enterprise projects to the field of personal consumption, advocating green and low-carbon consumption. Shenzhen Development Bank, Bank of Communications, China Merchants Bank, and others have successively launched financial products linked to carbon emissions.

3.1 Insufficient awareness of low-carbon finance

The development time of low-carbon finance in China is not long, and banks and enterprises do not have a deep understanding of it. It is still unclear how commercial banks can carry out low-carbon finance, what type of carbon finance business to develop, and what benefits it can bring to banks. At present, only a few banks in China have carried out related businesses, but they are only preliminary and have not delved into the core parts. Moreover, commercial banks generally lack professional talents with knowledge related to low-carbon finance, and have not established carbon finance related departments for research, making them less willing to hastily carry out low-carbon finance business^[3].

3.2 Insufficient national policy support

The development of low-carbon finance not only requires the active participation of commercial banks themselves, but also the enforcement and active guidance of laws and policies in various aspects of the country. Currently, multiple laws and regulations related to carbon finance transactions have been promulgated abroad, while domestic laws are not yet perfect. Commercial banks lack regulations and guidelines to follow when carrying out low-carbon finance business. Most banks believe that the development of low-carbon finance business only helps to improve social reputation, does not bring profits, and lacks the motivation to carry out it.

3.3 High risk of low-carbon business

The cycle of carrying out low-carbon financial businesses such as CDM projects is long, requiring complex approval procedures, and involving significant risks, including policy risks and project risks, such as the continuous changes in international emission reduction policies and the uncertainty of project construction. Commercial banks have long relied on the spread of interest rates between deposits and loans to generate large profits, so they are unwilling to take risks to carry out low-carbon financial businesses.

4. Suggestions for the Development of Low Carbon Finance in Commercial Banks

4.1 Enhancing the importance of low-carbon financial development

Concept is very important for the development of banks, and commercial banks in China urgently need to change their mindset and recognize the existence of low-carbon financial services

Significant profits and significant significance for enhancing the social reputation of banks and achieving sustainable development. At present, there are few relevant talents in commercial banks, let alone the establishment of specialized departments to develop related businesses. In this regard, Industrial Bank has taken the lead in establishing a sustainable financial center to provide customers with comprehensive services related to low-carbon financial business. CDM projects, low-carbon financial intermediary services and other businesses require a wide range of expertise. Commercial banks must pay attention to the recruitment and training of professionals, establish low-carbon departments, study related businesses, and formulate development plans to achieve better development if they want to carry out low-carbon financial business more deeply and extensively.

4.2 Increase the support of incentive and constraint policies

If commercial banks want to fully carry out low-carbon financial business, they cannot do without government support in legal, policy, tax, and other aspects. Energy conservation and emission reduction projects often face significant risks, and commercial banks lack experience in related areas. Commercial banks are unwilling to take such uncertain risks in order to maintain stable profits^[4]. The government should formulate relevant laws and policies to support the implementation of low-carbon projects, such as providing certain tax incentives, interest subsidies, etc., and regularly announce the completion of energy conservation and emission reduction by enterprises, so that commercial banks can timely grasp relevant information. At the same time, urge enterprises to carry out energy-saving and emission reduction projects, and make carbon emission standards a requirement that listed companies must meet, forming a mandatory constraint on them. China has currently promulgated relevant laws such as the Environmental Protection Law, the Environmental Impact Assessment Law, the Air Pollution Prevention and Control Law, and the Clean Production Promotion Law. These laws should be amended in a timely manner, and their implementation should be strengthened. Punishments should be increased, and specific legal norms and regulations related to low-carbon finance should be formulated to promote the development of low-carbon finance business.

4.3 Strengthen innovation in low-carbon financial business

Firstly, if commercial banks want to develop low-carbon financial services, they must continue to deepen green credit on the current basis, such as financing for energy-saving and emission reduction technology renovation projects, financing for CDM projects, financing leasing, and mortgage financing for emission rights. Secondly, we provide comprehensive services for customers to participate in various aspects of emission trading, such as financial advisors related to energy conservation and emission reduction, registration, settlement, and carbon emission reduction transaction guarantees for voluntary emission reduction of enterprises. Then, strengthen cooperation with insurance institutions, fund companies, etc., and launch financial products related to carbon emission rights. After Shenzhen Development Bank launched the first domestic wealth management product linked to carbon dioxide emissions, Bank of Communications, China Merchants Bank, and Everbright Bank have also launched their own low-carbon wealth management products. Finally, in terms of related retail business, Industrial Bank and others have launched low-carbon credit cards. In addition, commercial banks can also provide low-carbon transportation loans, green housing mortgage loans, etc. to individuals to promote green and low-carbon consumption

4.4 Emphasizing International Cooperation in Low Carbon Finance

Nowadays, the economy has become globalized, and the development of various businesses cannot be separated from the participation and cooperation of various governments, enterprises, organizations, etc., and each country bears a common responsibility for global sustainable development. The low-carbon financial business in developed countries started early and developed relatively mature, accumulating many experiences that are worth learning from for commercial banks in China. When domestic banks develop their business, in addition to cooperating with their own governments, enterprises, etc., they can also strengthen cooperation with international organizations, banks, enterprises, research institutions, etc., join international organizations, comply with international standards, and carry out specific project cooperation to obtain experience and technical support, in order to facilitate their better development.

Conclusion

In short, low-carbon finance is the main theme of future development. If Chinese commercial banks want to achieve sustainable development in the future, they cannot do without innovation in low-carbon finance business. At present, there are few low-carbon financial services carried out by domestic commercial banks, and there are problems such as insufficient understanding, talent shortage, insufficient national policy support, and high business risks. Commercial banks can strengthen talent cultivation, focus on business innovation, and carry out extensive international cooperation to achieve strategic transformation and sustainable development.

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