Disruption Diaries

Is the grass greener on the sustainable side?

The future of financial services.

INSIDE: Results of Mambu's global survey on consumers' demands for green and sustainable finance services.

MAMBU

Including comments from: BAIN & COMPANY, Globant, ekko, GOCARDLESS, brim, Google Cloud

The economy doesn’t have to destroy the planet.

It’s an idea that the financial industry as a whole is waking up to, as green finance gains traction against the backdrop of global climate summits, alarming science reports and the already visible effects of climate change.

Mambu carried out an online survey of 6,039 consumers on their attitudes to green finance (nationally representative across age and gender) across the UK, Germany, Singapore, Australia and New Zealand, Thailand, Malaysia, Vietnam, US, Mexico, Brazil, Netherlands and Spain.

There's growing pressure from consumers too.

They're increasingly using their purses with purpose: according to The Global Sustainability Study 2021, 85% of consumers have shifted their purchase behaviour to become more sustainable in the past five years.

Spearheading this movement are younger generations, with nearly a third of Millennials significantly changing their behaviour in favour of greener choices - followed by just under a quarter (24%) across both Baby Boomers and Generation X.

But this consumer trend of purchasing with a purpose doesn't just exist in commerce. We are now seeing it spill over into financial services too as consumers increasingly demand more sustainable finance services and products. They want their money to do good.

Our recent The financial tribes you need to know report revealed that 70% of global consumers would choose a bank that puts purpose over profits, with a further 58% willing to pay a premium for financial services that help the environment and local communities.

There's an ethical imperative for banks to embrace sustainability but such statistics show that green finance also presents a great commercial opportunity.

As consumers increasingly seek sustainable goods and services, banks that can provide what they're looking for will win their custom and expand market share.

But what are consumers actually looking for when it comes to sustainable banking, and do they all share the same understanding of what it actually means?

That's the question this report seeks to answer. We spoke to over 6,000 consumers globally to understand their attitudes to green finance, their expectations of financial institutions and the types of products and services they'd like to see as banking gets greener.

Global findings

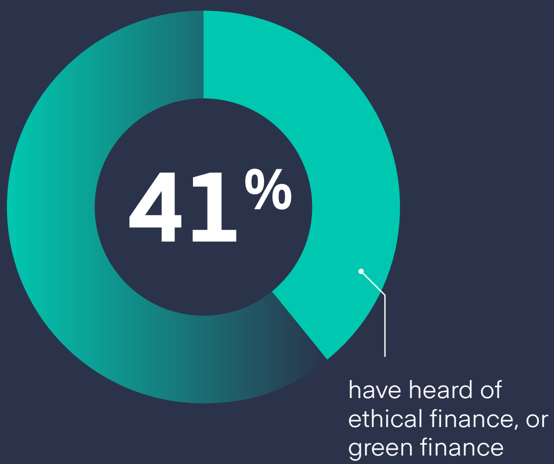
The findings provide a fascinating insight into how consumers around the world understand and interact with green finance.

And our research highlights the ways consumers want banks to engage with sustainability efforts, from how they talk about their commitments to the products and services they offer.

Green vs ethical finance

Terms like 'green' and 'ethical' finance may be common parlance among industry experts – but they're causing a level of confusion among consumers.

Globally, only 41% of consumers have heard of either ethical finance, green finance, or both, rising to 47% of consumers in Asia Pacific.



Over a third (35%) of consumers who had heard of either term say they don't fully understand how green and ethical finance are different, rising to 39% in EMEA.

And when it comes to green finance, consumers' definitions also vary, ranging from; 'financial services that fund organisations and projects which have a positive impact on the planet' (35%), to 'financial services that demonstrate a strong commitment to sustainability and wider ESG goals' (33%) and finally 'financial services that are low carbon and support the use of eco-friendly materials' (29%).

All of which hold some semblance of truth but do not encompass the full potential of what green finance has to offer.

Sustainable banking services and willingness to switch

Yet, despite lingering confusion around what green finance means, sustainable finance services are growing in popularity among consumers.

Over a quarter (29%) of consumers globally have knowingly banked with a sustainable finance institution or made use of a sustainable banking product or service, rising to 31% of consumers in Asia Pacific. Of this group, 84% said they were more satisfied with these products and services than with traditional banking options.

And the majority of global consumers now want their financial services to be sustainable.

Almost two-thirds (63%) of global consumers say they would like the core financial services they use to be sustainable and 60% say they would like every financial service they use to be sustainable.

Consumers would even be willing to switch in order to achieve this: half (49%) of global consumers say they would consider switching from their current financial services provider to a bank or financial institution with a stronger commitment to sustainability. This percentage jumps up to 62% of consumers in Latin America.

This isn't to say there aren't ways to drive consumer adoption of green financial services even further.

In fact, our research suggests that rewards could be great motivators as 54% of consumers around the world would switch to a new green financial service if a reward were offered for doing so, rising to 68% among consumers in Latin America.

Nearly two thirds (61%) of global consumers also say they would be more likely to bank with a financial institution that rewards them for making sustainable purchases. Again, this percentage is even higher in Latin America, jumping up to three quarters (75%).

29%

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49%

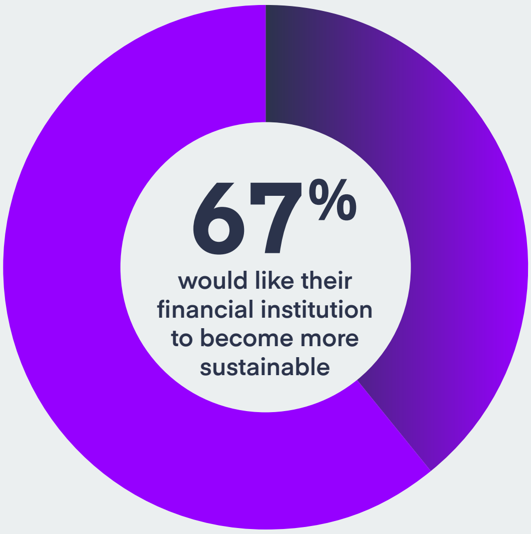
say they would consider switching providers to one with a stronger commitment to sustainability

61%

would be more likely to bank with a financial institution that rewards them for making sustainable purchases

Consumer expectations of banks' sustainability commitments

Consumers want their banks to act more sustainably, and commit to fulfilling their ambitions through decarbonisation of their portfolio, putting purpose over profits, and funding organisations and projects that have a positive impact on the planet, such as renewable energy firms, green infrastructure projects and similar.



60% think it's important that their financial institution aligns with their personal values and ethics

42% think that their current bank clearly communicates its sustainability commitments

37% know what climate pledges their financial institution has committed to

Our study found that more than two-thirds (67%) would like their bank or financial institution to become more sustainable in the future and 60% think it's important that their bank or financial institution aligns with their personal values and ethics.

Sustainability, then, is clearly important to consumers but banks are failing to properly communicate the environmental action they're taking.

Just 42% of global consumers think that their current bank or financial institution clearly communicates its sustainability commitments and only 37% say they know what climate pledges their current bank or financial institution has publicly announced or committed to.

Sustainability communications

This failure to clearly communicate can lead banks into greenwashing territory and consumer trust in this area is already low. Over two thirds (67%) of global consumers think their current bank is guilty of greenwashing - rising to 73% of consumers in EMEA.

But there's a balance to be struck here.

Whilst 42% of consumers would like banks to make customers aware of their sustainability commitments during the application process for all products and services (rising to 48% in Latin America), only 26% would like banks to share monthly reports or dashboards on progress against sustainability commitments with them.

And while 34% of global consumers would like banks to promote their sustainability commitments more prominently on their website or app (rising to 39% in Latin America), just 20% of consumers want to see banks publicly benchmark or score themselves using a sustainability index or rating system.

There's also a level of apathy (or perhaps, mistrust) around sustainability certifications. Only 24% of global consumers say they would like banks to attain a recognised mark of commitment to sustainability certified by an independent third party.

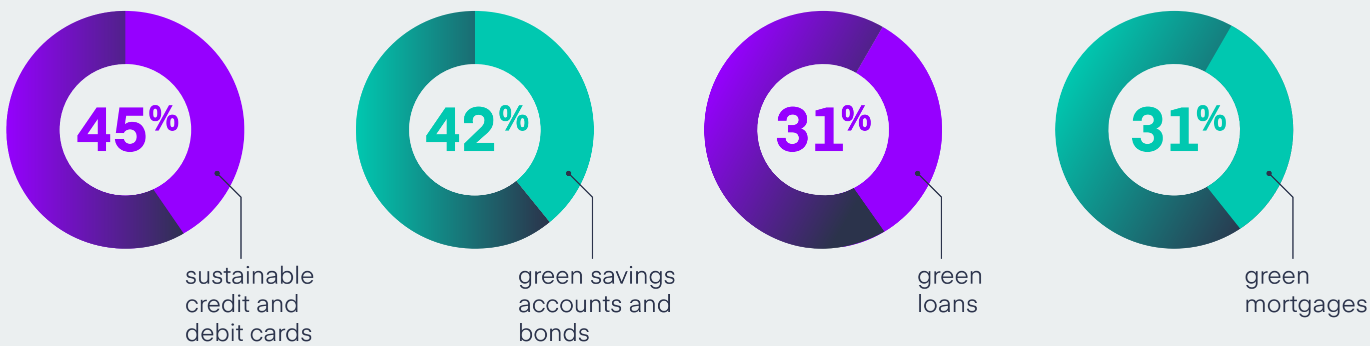
However, they are keen to have banks support them in making greener financial decisions. 42% say they would like banks to add or create incentives or loyalty programmes for customers which reward them for making financial decisions that support the sustainability transition, rising to 47% of consumers in Latin America.

Consumer products and services

Consumers are looking for more sustainable services but they also want greater transparency from banks and more power in decision-making.

The majority (58%) of global consumers say they would like to have a say on how and where financial institutions invest their money, so that these investments align with their personal values. This percentage is even greater in Latin America, with 69% of consumers wanting more say.

A further three fifths (60%) of consumers globally would like to be a customer of a bank or financial institution that has a sustainability agenda (rising to 72% in Latin America) and 58% of global consumers would like to actively use green financial services in the future (rising to 70% in Latin America).



The top three sustainable products and services consumers would like to see are sustainable credit and debit cards (45%); green savings accounts and bonds (42%); green loans (31%) and green mortgages (31%).

In more evidence, consumers want to play an active role in the transition to green finance, more than half (55%) would like to have a say on the types of sustainable finance products and services that their financial institution develops in the future, with 66% of consumers in Latin America wanting to be empowered in this way.

What's next?

Green finance represents a huge opportunity for banks and financial institutions. But there's work to be done if the industry is to capitalise on the transition to greener services, specifically:

1. Fixing the communication gap

If banks want to facilitate the transition to green finance they need to invest in consumer education.

Despite growing recognition of the terms 'green' and 'ethical' finance, still only a minority of global consumers (41%) are familiar with either term. What's more, there's significant confusion as to what they each mean.

Banks have to bear some of the responsibility for this. With high demand globally for financial institutions to better communicate their sustainability commitments, the industry must seek to understand how consumers want to learn about green initiatives and equip them with the information to make more sustainable financial decisions.

2. Putting action first

Greenwashing represents another communication challenge, with high levels of distrust among consumers that financial institutions are committed to instigating real change.

If banks want to win customers over, they need to interrogate their own claims to ensure they are making a measurable and tangible difference. That means reviewing the environmental impact of their entire business: consumers are savvy and will discern that offering green financial products doesn't counteract polluting operations elsewhere.

Our findings suggest that detailed reports and third-party certifications aren't the way to do this. But consumers openly welcome the opportunity to hear more about green initiatives during the onboarding process for products and services, as well as rewards for making greener financial choices.

3. Tailoring green initiatives by market

There's a clear and growing global appetite for green financial products and services.

Banks' top priorities should be developing sustainable credit and debit cards, green savings accounts and bonds and green loans and mortgages, as these were the offerings consumers were most keen to see globally.

However, banks should also pay attention to regional differences. For instance, consumers in Brazil were especially interested in Impact Accounts while some countries in APAC are seeking cryptocurrency services that are more sustainable.

As with any financial offering, a one-size approach rarely fits all.

4. Empowering consumers

Finally, banks should be galvanising their customer base to play a more active role as they build out their green offering.

Our research shows that consumers want a direct say on the types of green financial products and services their financial institution develops in future, as well as greater influence over how and where their money is invested.

By tapping into this demand, banks can not only empower their customers in the transition to green finance but gain valuable consumer insights along the way.

Industry comment

Oli Cook
CEO & Co-founder, ekko

The opportunity for green finance will come from leveraging technology to make a positive difference at scale. By empowering customers to have a tangible positive impact on the environment as a result of essential activities like everyday spending, and through transparent and audited actions taken on their behalf (for example fully audited tree planting), companies can work with consumers to harness the benefits of individual actions that add up to a collective result. It's no longer a choice between being green-focused or a self-sustaining for-profit – a combination of both is what will make a real difference to the industry and customers we serve.

We've spent years investing in and building tech to make everyday banking transactions as effortless as possible – people expect it – the same is already becoming true for environmental considerations. Customers will move to providers who not only make things effortless for them in transactional terms, they will also look for inclusive mechanisms to improve their individual impact – things like carbon metres showing the footprint of their spending, empowering people with information that helps them to make long-term changes, through transactional transparency.

Making positive environmental impact as effortless as we've made banking is the way to go.

Dr. Stefan Wörner
Partner, Bain & Company, Inc.

Consumers increasingly factor in ESG in their brand advocacy and purchasing decisions. ESG thus has the potential to transform the retail banking business model along several dimensions: from ESG-based customer segmentation and ESG-linked pricing to ESG-branded products.

In choosing their preferred bank, sustainable customers consider whether 'Elements of Value' are fulfilled on a functional, emotional, life-changing and social impact (value to society) level. Brands embedding ESG as one of their core 'Elements of Value' are able to meet 3x customers' expectations on overall 'Elements of Value' compared to sustainability laggards and outperform other brands by 5x higher revenue growth.

The bank's perceived 'responsibility' has a clear relationship with overall NPS scores (R2 of 71% in Bain's annual NPS observatory). A ESG-driven NPS uplift can lead to significant revenue upside by increasing likelihood of repeated purchase. In Europe, ~50% of respondents to the Bain's Retail Banking NPS Survey declared that their primary bank's ESG products increase likelihood of their next purchase from the bank.

Integrating ESG in retail FS products therefore is a powerful way to boost advocacy particularly among Millennials and Gen Z customer segments. Moreover, an ESG-driven NPS uplift of 10 percentage points can improve profitability by factor 1.7 – 2.2.

Bain's unique approach to designing 'Elements of Value' - based customer value propositions can help identify and validate the best ESG product innovations centred around the sustainable banking client.

Jeff Sternberg
Director, Office of the CTO, Google Cloud

Google Cloud

Technology is playing a crucial role in enabling financial stakeholders to consider climate in key decisions. I have a background in financial services and fintech, and work with technology leaders across financial services and other industries to transform sustainability in their organizations. Here are three technology areas that are vital for sustainable finance.

1. Understanding localized climate risks

Understanding how climate change will affect company operations, employees' lives, and entire value chains is critical. With tools like Google Earth Engine and BigQuery, it's possible to leverage geospatial analytics and modeling to create a localized, precise understanding of climate-related physical risks for each value chain location.

2. Using AI to improve climate disclosure

Improving the quantity, quality and comparability of climate-related disclosures is critical. Tools like Google Document AI and Vertex AI, natural language machine learning approaches can be applied to classifying and extracting structured information from sustainability disclosures.

3. Collaborative sustainability data sharing

What if sharing climate and sustainability data were as simple as sharing photos or documents in the cloud? Cloud-native tools like Analytics Hub, built on BigQuery, can help.

Thanks to Google's renewable energy matching, the net operational greenhouse gas emissions associated is zero for applications deployed on Google Cloud. Learn more about sustainability and sustainable finance from Google Cloud.

Meenaz Sunderji
Chief Growth Officer, Brim Financial Inc.

brim

Sustainability in banking has value for not only the environment, but the customer and bank relationship, as well. In a 2021 LendingTree survey, almost 40% of consumers stated they could boycott a company for not being eco-conscious with Gen-Z and Millennials most willing to boycott non-eco-conscious companies, at 58% and 50% respectively.

Consumers are looking for eco-first products: a 2019 First Insight report on the state of consumer spending found 62% of Gen-Z customers prefer to buy from sustainable brands, on par with findings for Millennials. Banks can make the switch to eco-conscious offerings by providing digital-first services. This has the benefit of providing real-time, live banking services and to address and solve customer needs provides benefits to both sides of the relationship through a seamless experience. Customers can also receive eco-evaluations on the companies and products they purchase, by having spend tracking implemented. Providing value to the end customer is the best way to incentivise adoption of environmentally-friendly products.

Brim has taken initial steps in our green strategy by offering an entirely cardless banking experience through our mobile wallets. We offer virtual card solutions so our customers do not need to rely on plastic or physical cards. Beyond the environmental benefit, this means customers can access their payment solution anywhere, any time, and never have to worry about loss as virtual cards are instantly replaceable. We ensure our digital-first banking solutions provide value to the environment and our customers as we strive to lead an eco-friendly financial future.

Marilyn Waite
Managing Director, Climate Finance Fund

In a nutshell, customers would rather not participate in the destruction of people and planet. While banks could previously rely on a lack of awareness of how customer deposits are leveraged for fossil fuel and other extractive loans, awareness efforts are increasing actionable consumer finance knowledge, including Don't Look Up's Make Your Money Count, new investment funds such as Sphere's SPFXX, viral TikTok videos on banking, and publications such as Activate Your Money.

Elena Morettini
Global Head Sustainable Business, Globant

ESG needs the finance industry all the way! Financial systems trigger the pace and rhythm of sustainable development and sustainable impact. Time is up to materialise transitions towards sustainable, circular, inclusive and regenerative economy. Financial institutions hold the unlocking key to this transformational era.

Sustainability and climate are the metrics content for risk management at all levels and in all fields. Physical and transitional risks, material risks, reputational risks are all impacting traditional and legacy portfolios, representing the new foundations of the green economy and leading-edge opportunities.

Consumers and impact investors demand more, every day, in terms of responsible finance and products, giving the spot to ESG as a finance differentiator for decision-making processes.

ESG concepts play a protagonist role in strategic conversations and discussions, for financial and every other industries. At Globant we like referring to it as I-ESG, where "I" stands for Innovation and Inclusion. Innovation needs to be inclusive, implementing and scaling sustainable and game changing solutions driving decarbonization for all industries, leaving nobody behind and integrating the scientific community, technology partners, governments, financial institutions, academia and civil society together to make this reality come true. Inclusive financial institutions play a key role in making this happen.

All this is crucial for making this just transition occur now. The immediate aspect of this transition can only occur relying on the scale and breadth that technology can provide. Technology is the enabler for the broader reach out sustainability impact.

Technologies such as blockchain, artificial intelligence, robotics, cloud computing, Internet of Things and quantum computing are creating infinite opportunities for sustainable solution design. And we believe sustainable and collaborative innovation design holds a promise for green development, where financial institutions need to be at the forefront of this transformation, considering impact investment as the core of their business.

Mario Boehm
Senior Partner and Alliance Manager, GoCardless

GOCARDLESS

As the world enters a pivotal period in the fight against climate change and the biodiversity crisis, it's more urgent than ever to cut carbon emissions. Many of us are familiar with well-publicised tactics such as eating less meat and changing our travel habits. But for the 60% of Germans who are actively looking for more ways to reduce their environmental footprint, there's another way: swapping payments by plastic cards for methods that move money directly from one account to another, such as direct debit.

This would reduce emissions on two fronts. First, it would lessen the demand for plastic. The extraction of materials and the production of the 17.2 billion plastic cards in circulation in 2021 generated the same level of carbon emissions as driving a diesel car around the Earth 43,000 times. Second, a typical card transaction requires eight stages while an account-to-account payment needs two – so the level of emissions drops four-fold.

GoCardless has specialised in A2A payments for over a decade. While we always thought it was the most cost-effective, secure, and efficient payment method, our calculations now reveal it's good for the environment too. As a founding member of Tech Zero, we are committed to reaching net zero by 2035 and we're proud to offer merchants and consumers an easy way to calculate their carbon emissions and practical actions to take today to combat the climate crisis.

About Mambu

Mambu is the cloud banking platform where modern financial experiences are built. Launched in 2011, Mambu fast-tracks the design and build of nearly any type of financial offering for banks of all sizes, lenders, fintechs, retailers, telcos and more. Our unique composable approach means that independent components, systems and connectors can be assembled in any configuration to meet business needs and end user demands. Mambu supports hundreds of customers in over 65 countries - including N26, BancoEstado, OakNorth, Raiffeisen Bank, ABN AMRO, Bank Islam and Orange Bank.

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