

INVESTING IN TRUST

Sustainability strategies for retail banks



1. REBUILDING THE TRUST

Sustainability and the future of retail banking

What was once the domain of the fringe is rapidly becoming a mainstream movement. Not since the 1960s has the world seen an environmental paradigm shift of such significance. The climate change agenda and its net-zero initiatives have touched people from all walks of life. The financial sector is no exception. Today, it stands at the brink of a profound transformation that will shape its operations for decades to come.

It is no longer news that the financial sector is facing incredible pressure to not only embrace the sustainability ethos, but to take the lead in shaping a more sustainable economy. Increasing regulatory pressure and client expectations are compelling financial institutions to implement large-scale adjustments that make sustainability targets and requirements part of their DNA. This new approach must consider all functions of the business: strategy, data, marketing, governance, reporting, disclosures, et cetera).

A KEY ROLE

From buying a coffee or a train ticket to taking a mortgage or a business loan, retail banks are a daily presence in the average consumer's life. As such, they are uniquely positioned to connect with clients on the sustainability agenda. Responding to their clients' increased interest in sustainability, retail banks have been developing the sort of offers they are looking for. This is an integral part of the banks' transformation to a long-term model.



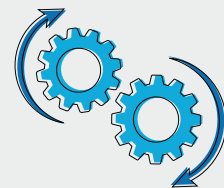
A LARGE GAP TO BRIDGE

As in every sector, retail banks vary in the rate of their sustainability transformation. Globally, there is a heterogeneous level of maturity in the offers available to clients. However, the main challenge is not the development of offers but the ability to bridge important gaps between banks and their clients. Banks need to better understand their clients' requirements and then explore their own capacity to embrace, sell, and market their offers. Clients do not often see a link between their financial choices and a greener economy. Despite being mobilized to that cause, they fail to recognize the bank as a partner who can help them make a difference.



A SWIFT TRANSFORMATION

Our conviction is that retail banks, beyond continuing to develop sustainability offers, need to take immediate action to bridge those gaps. They can do this by leveraging their unique position in order to educate their clients on how banking and sustainability can go hand in hand. Short of this, retail banks run the risk of alienating their client base and losing credibility on topic that will continue to gain momentum and importance for years to come. Moreover, there is a chance they will miss the boat where potential growth is concerned.



2. NEW OFFERS AND CHALLENGES

Embedding sustainability in retail banking

It is true that many banks have some long-standing offers that can be adapted to meet their clients' requirements, but this is only a temporary and ineffective solution. If retail banks want to maximize levels of engagement and boost the influx of new business, they need to develop some tailor-made offers for an environmentally conscious client base.

The pressure to keep delivering Sustainability offers

People increasingly expect their banks to get on board with the green movement. Some clients have reached such a level of maturity on the topic that they recognize areas where banks must improve. In fact, they would consider changing banks if their current institution did not provide them with the right offers on sustainability.

A survey from Visa revealed that for many consumers, there was a willingness to either open an additional sustainable bank account, or swap to another bank with a sustainable value proposition (50% of responses).¹ A consumer survey on behalf of IDEMIA and HSBC discovered that 92% of clients wanted banks to have active engagement with environmental preservation. It also found that 87% expected to be provided with eco-friendly debit and credit cards.²

Today's consumer

 **50%**
Would switch banks

 **92%**
Want eco-friendly banks

 **87%**
Expect recyclable cards

Types of offers available on the market today

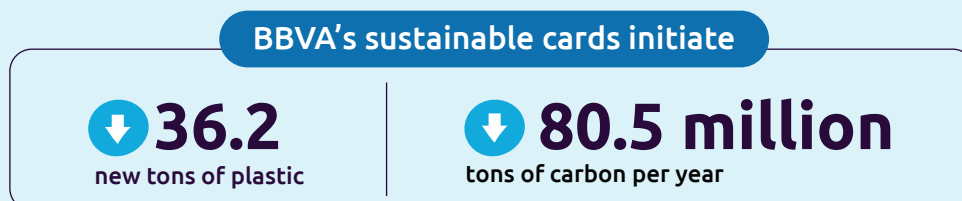
Today, common offerings include green mortgages, green financing for electric vehicles, and recyclable bank cards. Barclays launched a green mortgage proposition in 2018 – before its peers – and has since committed to expanding it. Today, the green home mortgage offers lower interest for newly built properties that meet minimum energy efficiency requirements.³ Nordea also offers green mortgages to clients who live in climate smart homes that comply with local guidance on the energy classification of buildings.⁴

Investment is also a key component in the offering. For example, ING offers Sustainable Investment (SI) services to its retail banking clients in the Netherlands, Belgium, Luxembourg, and Germany. As part of this, retail clients are provided with brokerage, advisory, and discretionary management.⁵

¹Visa (2021)
²HSBC (2021)
³Barclays PLC (2020)
⁴Nordea (2020)
⁵ING (2020)



Spanish banks, like Banco Bilbao Vizcaya Argentaria (BBVA) and Caixabank, have taken the lead in introducing recyclable cards into their retail banking product catalogues. BBVA offered a total of 11.5 million of such new debit and credit cards in 2021. It also plans to have only recycled cards in its inventory by 2023.



The bank aims to prevent up to 36.2 tons of new plastic from getting into its consumers' wallets. This would reduce the bank's carbon footprint by 80.5 million tons per year, in the absence of the associated manufacturing process.⁶

Heterogenous levels of maturity and room for development

Our analysis finds that banks have varied maturity profiles globally. For example, many retail banks in Western Europe have already included and amplified green retail portfolios during the last few years, while those in the US and APAC lag behind by a considerable margin. This can be attributed to the rise of supporting regulations from the European commission, forcing European retail banks to embark on transformational programs that integrate sustainability and their processes. Strategy also plays a role in the disparity amongst retail banks. For example, some have taken it upon themselves to stretch the canvas far and wide, while others simply choose to observe from the side-lines in an effort to "time it" better.

Figure 1: Distribution of retail banks measured according to the richness of sustainable offers and their level of ESG impact.





3. THE CHALLENGE

Gaining traction

Today, even mature banks struggle to reach their consumer base in a meaningful way on the topic of sustainability. A recent study highlighted that while more than 60% of banking clients are looking for more sustainable products,

at least half of them believe there is not enough choice.⁷ Similarly, in April 2020, an executive in the Bank Governance Leadership Network explained how beneficial it would be to embrace this new model.



What we are seeing, particularly with our younger clients, is that they are crying out for green products, green credit cards, whatever we can come up with. We have just started to dip our toes in the water and are totally overwhelmed by the response so far.⁸

Naturally, such glaringly positive results beg one very interesting question: If the appetite for more sustainable retail banking services is growing at such a high pace, why are retail banks struggling to respond?

The short answer is that banks face a challenging conundrum. On the one hand, financial institutions are not what people have in mind when they think of sustainability. It is simply not a positive connection people make. On the other hand, the demand coming from clients is so diverse that banks struggle to package their response in the most appealing manner.

Customers' skepticism and criticism

It has not sunk into most people's minds that their investment and banking products choices carry at least as much weight in the switch towards a more sustainable economy as recycling, buying from sustainable brands, and changing eating habits.⁹



Recycling



Banking



Shopping



Eating

Even so, many people do not see the connection. As Morgan Stanley's Senior Advisor and former Chief Sustainability Officer, Audrey Choi puts it:

So, why do we think that our choice of a four-dollar, shade-grown, fair-trade, artisanal cup of coffee in a reusable mug matters but what we do with 4,000 dollars in our investment account for our IRA doesn't?¹⁰



⁷Consultancy.uk (2021)

⁸Bank Governance Leadership Network (2020)

⁹Timperley, J. (2021)

¹⁰TED Talks (2016)

To address this, we recommend retail banks grow on two fronts:

Level of trust

Banks must be truly trustworthy partners for their clients. This can only be achieved by putting an end to greenwashing and rainbow washing, raising the bar in transparency, and communicating in a straightforward manner to demonstrate commitment. As of today, an important number of financial institutions find themselves caught in the middle of greenwashing scandals, often caused by their continued financing of contentious industries, such as fossil fuels. In the context of rising climate concerns, backing industries that pollute erodes customers' trust and enhances skepticism of sustainability offerings.

Educational initiatives

Banks must also launch awareness campaigns to demonstrate to their clients the impact they can make by using everyday banking products and services. Our internal research indicates that retail banks are currently absent from the main sustainability-related discussions on social media. Similarly, sustainable banking products and services are frequently left out of official guidelines and recommendations on a sustainable lifestyle. For instance, "The Lazy Person's Guide to Saving the World" from the United Nations recommends more than 50 actions for individuals. However, nowhere is there any mention of retail banking and money-related initiatives.¹¹

Heterogenous consumer profiles

As an added challenge, retail banks face highly heterogenous customer profiles with occasionally conflicting interests and demands. Despite a diverse customer base

mitigating risks, it also increases the difficulty meeting the highly specific needs of the individual. A concrete case of conflict would be the wide generational spectrum of clients.

The importance of the environment for millennials in France

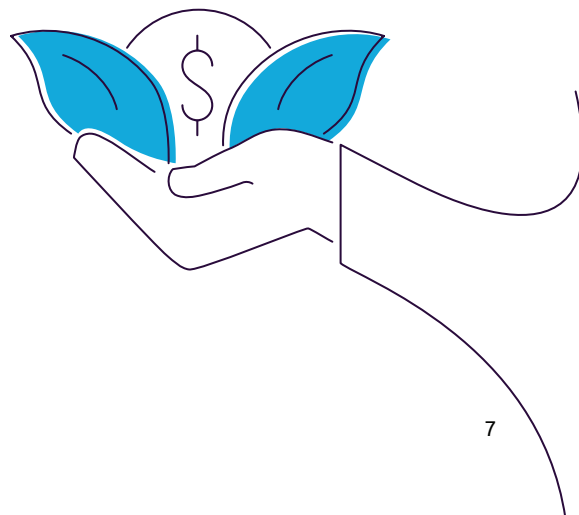
 **31%**
Would switch banks

 **87%**
Expect recyclable cards

For example, in France, 31% of people aged between 25 and 34 (millennials) consider the environment to be the most important issue for the country. At 16%, the number of people over 65 who echoed the sentiment was almost half.¹²

While the generational divide is reflected in the appetite for sustainable products, it is also mirrored in generational wealth. Based on data from the Federal Reserve, at the beginning of 2021, younger American people were no less than 10 times poorer than their parents.¹³ To sum it

up, although younger customers show a high demand for sustainable offerings, the revenue this segment brings to retail banks is relatively low. The consequence is that banks have assigned younger Americans only a limited lever of priorities. The Sustainable Client Matrix below underlines the heterogeneity of clients' profiles. Though age and wealth are not featured, younger clients would place in the upper-right quadrant, while older generations would find themselves in the lower-left quadrant.



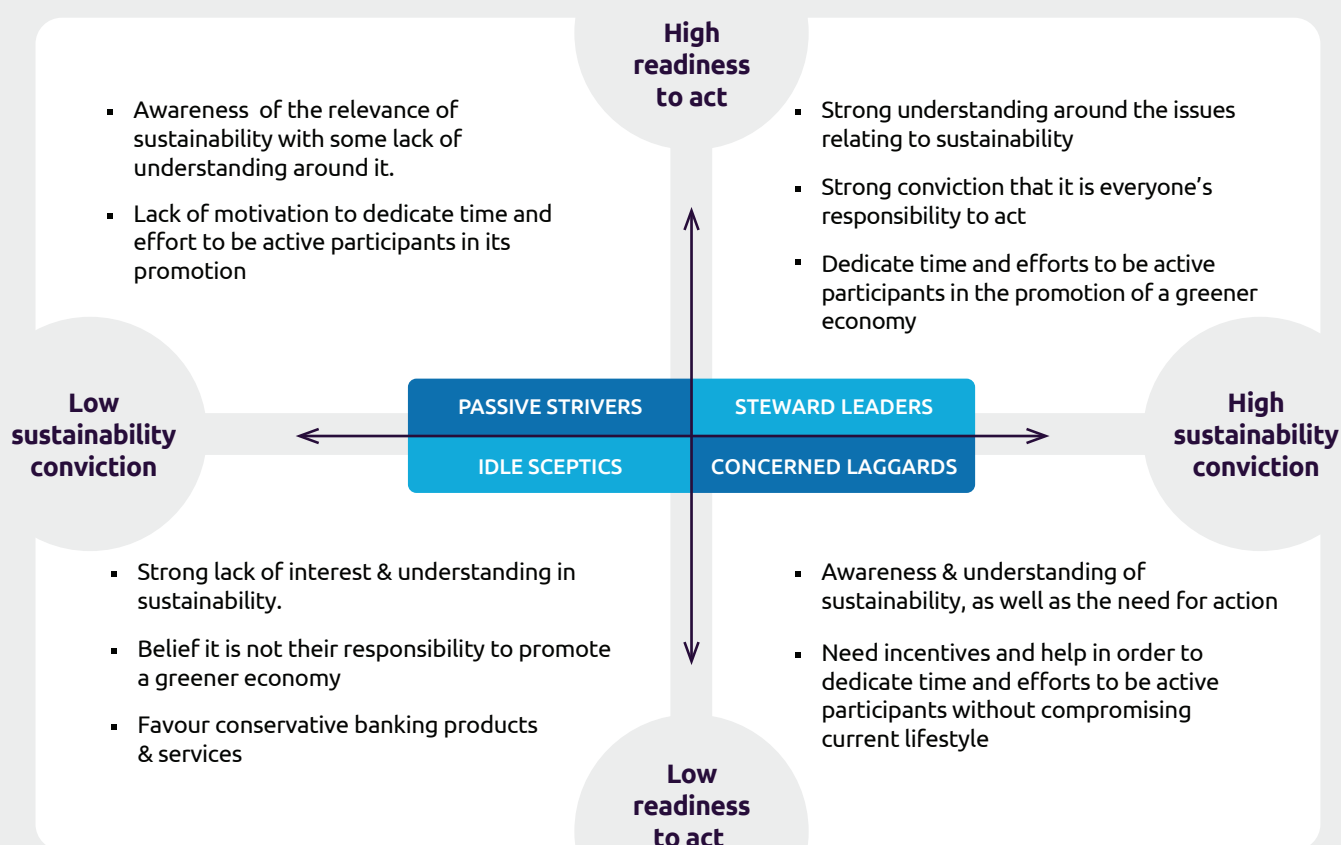
¹¹United Nations (2021)

¹²L'Agence de l'environnement et de la maîtrise de l'énergie (ADEME) (2020)

¹³Board of Governors of the Federal Reserve System (2022)

The Sustainable Client Matrix

Figure 2: The positioning and assessment of clients' needs according to their sustainability convictions and readiness to act. Each segment has a specific link to age and wealth, complicating a retail bank's ability to easily respond to its client base.





4. THE SOLUTION

Transformation from within

Retail banks need to bridge two gaps, not one. The good news is that by bridging one, they will consequently do the same with the other. The first and most concerning gap is the one between retail banks' sustainability offerings and infrastructure and the impact they have on their client base. The second gap, the one that will close the first, is the one between the development of sustainable offers and their sales conversions. It is our conviction that that as retail banks move forward on developing green offers, they must, in parallel, start empowering their retail-facing employees to be activists, enablers of change. To do this, it is vital that banks provide these employees with the capacity to successfully sell these new sustainable offers.

In order to successfully get to what we called here the "Activist-Employee Model," three interconnected elements must be adopted.

Bold leadership

The first building block of this model is a bold leadership. That is, leadership must be committed to sustainability and aim to instill an enterprise-wide sustainability mission in all employees. Beyond advocating for sustainability cause, leaders must also take concrete actions and build a robust and relevant governance structure. This will ensure they successfully meet and even exceed their strategic sustainability ambitions. But profound change requires profound action. For strategy and ambition spur tangible results, leaders must implement a structure and system of governance that reflect the new vision. Without the appropriate CSR governance, retail banks run the risk of wasting their time and money and missing out on the many opportunities.

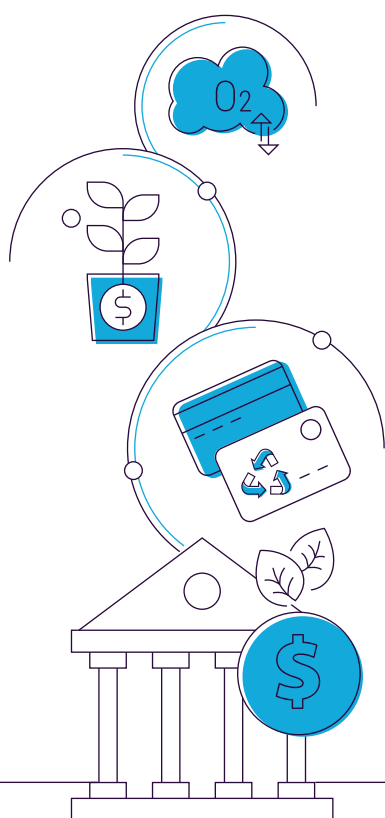


Figure 3: Three necessary steps to promote the "Activist Employee model"



Empowered salesforce

Once employees have been "onboarded" to the sustainability vision of the organization, they must be given the right toolkit to accurately frame the complex sustainability questions their clients face. This second building block of our "Activist-Employee Model" goes beyond simply raising awareness on the issue. Employees must be well-versed enough to become their clients' partners as they embark on their sustainability journey. One bank that has taken bold steps towards realizing this ambition is BNP Paribas. The bank recently launched its "We Engage" training series to all 200,000 employees worldwide. The initiative provide employees with a deeper understanding of sustainable finance issues. Its is to bring sustainable issues to life in the bank and highlight the role employees are expected to play in their clients' sustainability transformation. This is the first phase of training for BNB Paribas employees.

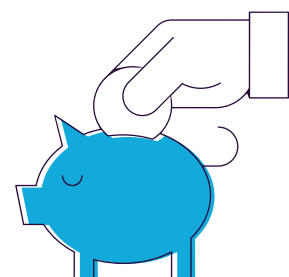
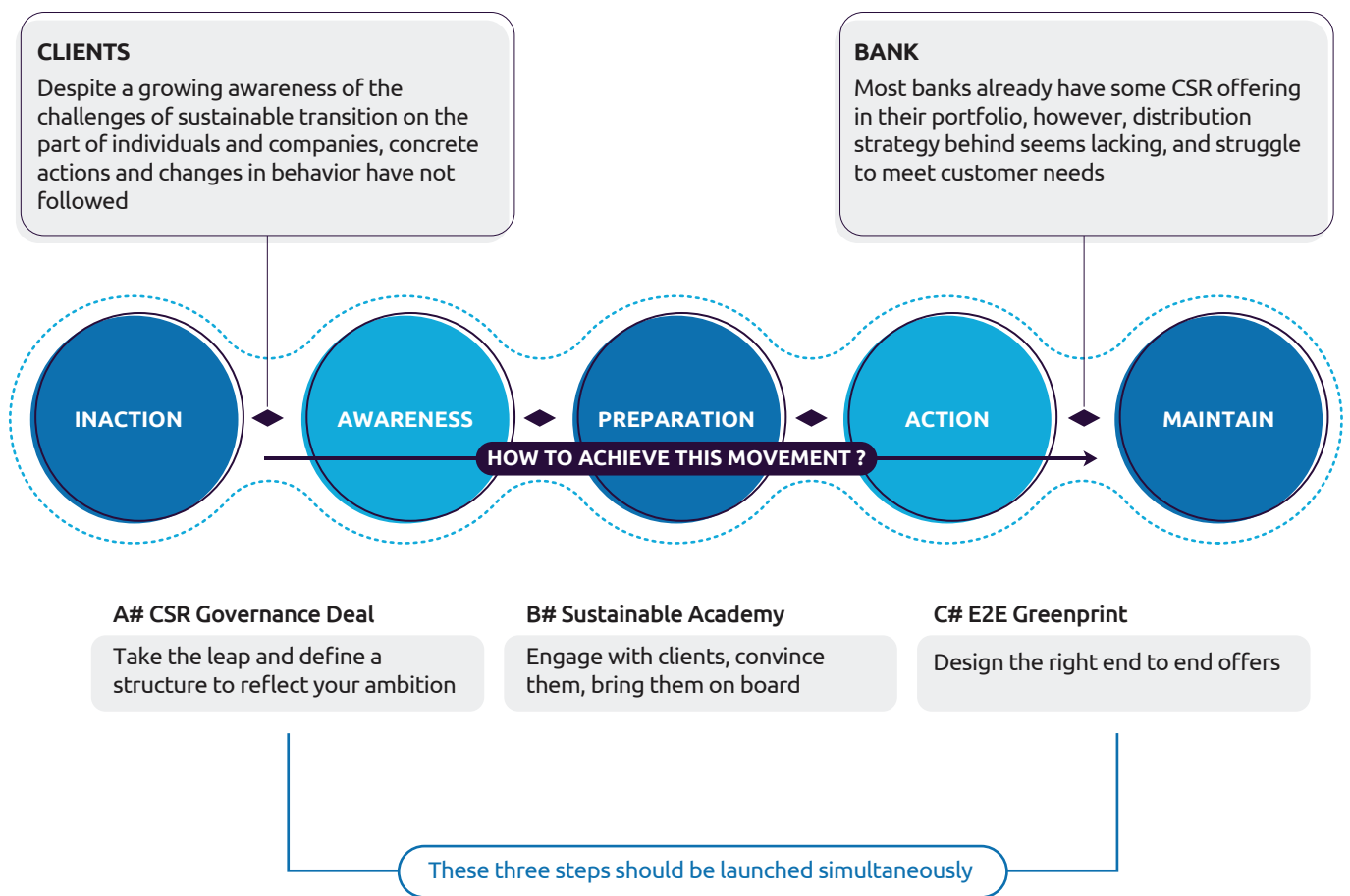
Implementing this facet of the Activist-Employee model is a formidable challenge to banks, as the entire employee experience needs to be reshaped to align with the organization's sustainability mission. Since this is the first time retail banks have attempted this transformation, there are sure to be time-consuming and costly mistakes made along the way. As always, experience counts. Our Sustainability Academy is a powerful accelerator that facilitates transformation from within, enabling the workforce to dovetail their knowledge and skills with the bank's strategy and ambition. The Sustainable Academy helps retail banking employees understand how to best engage with clients, convince them of the importance of sustainability, and help them transform their operations in keeping with the mission. The Academy relies on three pillars: awareness, education, and anchoring behavioral change. Among other things, this three-dimensional approach brings sales employees up to speed by grounding them in the culture and equipping them with the relevant technical skills. The result is a workforce of trusted advisors for clients.

Client partnership

The “trusted advisor” model is the core of retail banking. Clients expect bank employees to be reliable sources of knowledge with actionable experience. As such, the onus is on the advisor to both educate their client on sustainable product offerings and incorporate sustainability metrics in their financial goals. While this in and of itself is certainly a challenge for retail banks, it is increasingly difficult to differentiate their products and offerings in such a nascent vertical market.

The banks that act first have the advantage. They can create proprietary products and services and claim the title of pioneer. Competing retail banks, the vast majority, will simply propose similar offers to their clients. The main business lever and differentiator will be the user experience, from both a client and an employee’s journey perspective. To customize this journey, we support our retail banking clients on the end-to-end (E2E) design of their offers. Accounting for differing levels of maturity, we adjust, greenify, and create sustainable offers and services that meet the requirements of environmentally conscious clients worldwide.

Figure 4: Capgemini Invent’s framework to support our clients in the retail banking space with bridging the gap with their clients.



5. FINAL REFLECTIONS

The introduction of new regulations governing sustainability continues to shape the future of business worldwide. Such regulations will have an impact on every sector. It is becoming increasingly clear that they must all transform to not only survive, but to capitalize of the many burgeoning opportunities.

Retail banks are at a crossroad: they can be either followers or activists. Followers will be commended for having chosen the correct path. But as always, it is the activities who will be remembered for having led the way. Retail banks that don't take a strong stance today risk missing out on the biggest transformation of the decade. Moreover, by not taking a leadership role in their industry, they stand to lose considerable market shares.

Today, consumers' priorities are changing. The choices they make are based not only on affordability and quality. They make decisions and long-term commitments based on tangible actions aimed at improving society. The banks that act now and successfully engage with clients on sustainability will reap the benefits of being front runners.

- 1 Increase income with better performance and gain market share
- 2 Boost their reputation and brand perception in the eyes of general public
- 3 Establish barriers to entry while getting ahead of the learning curve from an offering, journey, skillset, and posture aspect
- 4 Gain technological leadership through the innovation and establishment of patents and brands
- 5 Enjoy economies of scale, discovering the best market opportunities to reduce marginal costs

The key to the kind of transformation retail banks need to make as soon as possible is internal reinvention. It is vital that retail banks take stock of their services and offerings. They need to rediscover that long-standing spirit of banking in the community: the embodiment of the trusted advisor. This begins with bold leadership, an example the entire organization can follow. Sales forces must be given the tools to meet the needs of the modern, socially conscious consumer. And finally, banks must become the partners their clients both demand and deserve.



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