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A global benchmark for sustainable banking 2022

BATTLE OF THE SUSTAINABLE BANKS: CHALLENGER VS. TRADITIONAL

October 2022

OVERVIEW

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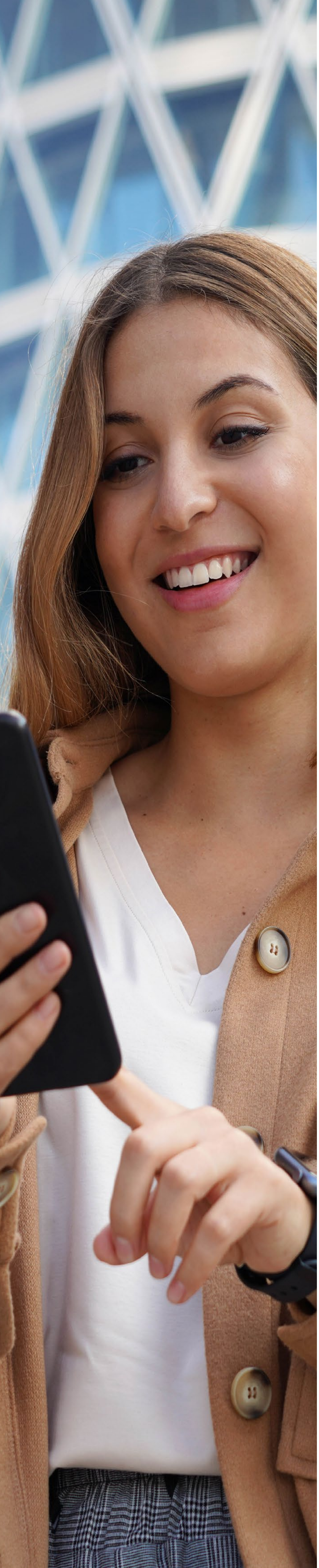


CHAPTER 1
Foreword

Peter-Jan van de Venn,
VP Global Digital Banking, Mobiquity

“No matter your size, if you’re not sustainable, your customer will leave”

Worldwide, industries across every sector have been facing increasing pressure to adopt and implement improved ESG strategies, and financial institutions are no exception. From traditional to challenger banks, corporations are being forced to review their current sustainability policies and update their initiatives based on evolving eco-societal standards.

Changing consumer demand and the need for greater transparency have been key driving forces for businesses to re-evaluate their environmental mandates, and while some businesses have seen this as a huge challenge to overcome, others have tapped into its potential. Customers are already opting to turn to the competition if their bank doesn’t exhibit ESG-friendly behaviour so, it’s in the best interest of financial institutions to ramp up and deliver on their sustainability efforts to gain market share.

Innovative digital technology is already enabling banks to keep pace with increasing ESG policy demand with eco-conscious changes, helping to move the industry as a whole and businesses within it, closer to their net zero goals and reducing banks’ overall carbon footprint.

However, financial institutions are still facing significant challenges. While it’s great to see so many banks with initiatives in the pipeline, one of the most concerning factors is that many banks are underperforming in terms of measuring those initiatives. This is particularly alarmingly in the US, for example, where only 45% of challenger banks are measuring governance.

While traditional banks are now catching up with challenger institutions with their sustainability efforts on a global scale, they still cite a lack of strategy, expertise, and budget as barriers to adopting greater sustainable behaviours.

Challenger banks are already reaping the rewards of a sustainable banking function, such as improved customer retention, increased operational efficiency and profitability, and accelerated innovation using digital products and solutions. While some traditional banks are seeing similar outcomes, without implementing a holistic ESG strategy, they can’t hope to see the same level of results.

That said, traditional banks are making progress by exhibiting an increased number of sustainability representatives at the board level on a global scale, and while both traditional and challenger banks have increased their percentages over the last year in this area, bigger budgets from larger traditional banks are likely lending a supporting hand.

Budget measures also come into play worldwide when considering the implementation of innovative technologies, like the Metaverse for example. Overall, traditional banks tend to have larger budgets to test out new technology. As a result, they're often the first to implement technologies, while challenger banks sit back to witness the outcome before investing themselves.

Nuances such as those outlined above have further increased the gap between traditional and challenger banks in recent years, and the volume of resources that can be put toward sustainability initiatives. Financial institutions need to focus on bridging their planning and execution phases to encourage greener success.

By adopting new and emerging technologies to support ESG initiatives, financial institutions place themselves in an advantageous position, to benefit from a sustainable finance function and profitable business model.

CHAPTER 2
Literature review

Adi Gaskell,
Forbes Contributor

The cost-of-living crisis has shone a fresh light on the importance of energy security and the inherent fragility of fossil fuel supplies. This builds on a zeitgeist that is very much leaning towards increased sustainability, with research from the University of Bristol highlighting how people want the world to be more sustainable in the wake of the Covid pandemic.

This is something that is front of mind for employees, with data from tech company Unily revealing that 83% of workers weren't satisfied with the efforts being made by their employer on climate change and sustainability. What's more, 65% of them said that they'd be much more likely to work for a firm with strong environmental credentials.

It's no wonder that young people today are actively choosing to work for employers with sustainability at the forefront of how they operate, with many even willing to take a pay cut to do so.

Global risk

It's perhaps no surprise that the annual Global Risk Report from the WEF cites the health of the planet as the key risk society faces, which is echoed in the annual Institute of International Finance report, which reveals that 91% of risk officers in the finance sector believe climate change is the biggest risk facing the world today.

While things like energy costs are a factor, the climate focus for banks is primarily one of the investments they make and the insurance risks posed by climate change. This risk is increasingly presented as an opportunity, with Sir James Bevan, CEO of the Environment Agency, telling a recent Association of Foreign Banks event that there are considerable investment opportunities presented by our attempt to tackle the climate emergency. Indeed, Bevan highlighted that the Agency's own pension fund was committed to reducing its listed equity emissions by 95% by 2030.

Challenging times

Tackling the climate crisis is something that challenger banks are also grappling with. For instance, **Monzo** recently outlined how they're working towards net-zero status by 2030, both through the low carbon footprint of their digital platform and also the investments they make.

"Our mission is to make money work for everyone, and it's our responsibility to ensure that at the very least we do no damage to the environment, by reaching net-zero emissions as a business," they explain. "We also know that fighting the climate crisis really matters to our customers and our team, and we want to hold ourselves to a standard that we can all be proud of."

Starling Bank has not gone as far but has nonetheless pledged to cut carbon emissions by a third by 2030, while also offsetting emissions from across its supply chain. As with Monzo, this change is largely driven by expectations from customers. The bank is also a founding member of the TechZero charter, which is a climate action group that has been established by various UK tech businesses.

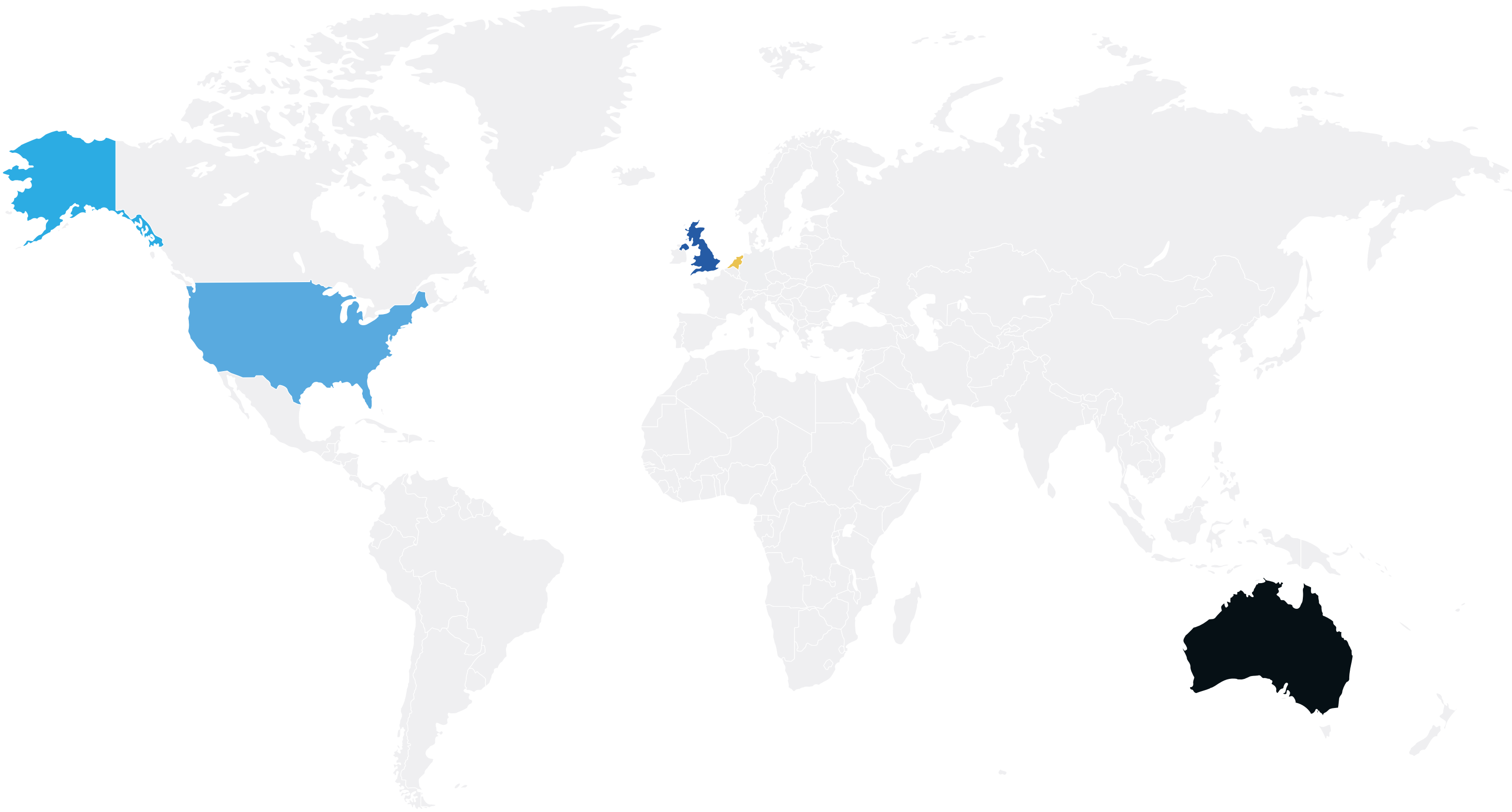
bunq has arguably gone further than all as it was founded with climate change very much in mind. As such, they strive to provide a leading example of sustainability across the financial sector. They do this in a number of ways, such as by allowing customers to offset emissions. They recently announced that this activity has seen over 5 million trees planted via the Eden Reforestation Projects.

"Sustainability is a virtue bunq's users value so highly," founder Ali Niknam says. "Together, we are doing everything possible to redefine what banking is and what it can do for our planet. We hope today's announcements show the impressive steps bunq has taken so far."

Novus has similarly been created very much with sustainability in mind. The heart of their offering is an ecosystem of around 130 brand partners who have all been selected based on their ethical credentials. As well as earning cashback on each purchase with the partner brands, a percentage is also donated to various environmental causes. Consumers can track their donations and also offset their emissions.

German neobank **Tomorrow** was created with sustainability at its core. They state that they're as committed to sustainability as they are to profits and the founders want to use money as a lever for societal change. They heavily promote renewable energy and sustainable agriculture to their customers.

It's clear that challenger banks have greater potential to embed sustainability in their very business model, whereas traditional banks are instead attempting to meet sustainability goals via the investments they make. In a world in which consumers and employees are increasingly voting with their feet (and their wallets), it is good for the planet that such choices exist.



Mobiquity surveyed 602 C-suite banking executives across the United States, United Kingdom, the Netherlands, and Australia.

The survey found that there has been a shift in awareness around sustainable banking and an increase of board representatives incorporating sustainability as part of their business strategy in comparison to 2021.

Top concerns at board level for challenger and traditional banks across the United States, United Kingdom, Netherlands and Australia.

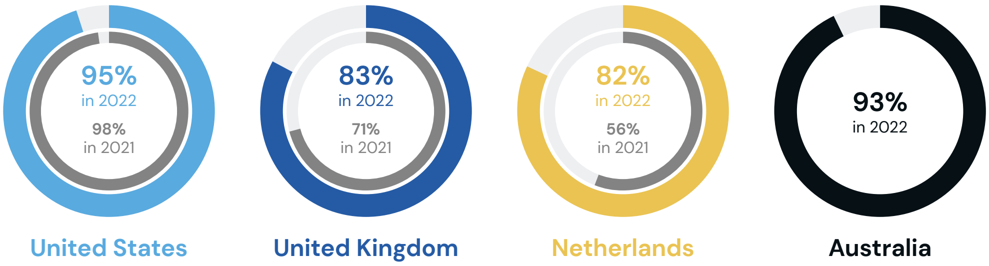
The research data shows that challenger banks are focusing less on sustainable banking than in 2021. However, for traditional banks, sustainable banking has become a key concern across the UK and US in 2022.

CHALLENGER BANKS		TRADITIONAL BANKS	
United States			
55%	Digital transformation	50%	Digital transformation
50%	Talent management	44%	Sustainable banking
45%	Customer retention during COVID-19	41%	Increasingly burdensome regulatory compliance
United Kingdom			
49%	Talent management	49%	Sustainable banking
48%	Increasing competition	45%	Customer retention and the impact of COVID-19
43%	Increasingly burdensome regulatory compliance	39%	Talent management
Netherlands			
49%	Cultural shifts in banking behaviours, rising expectations for customer experience	52%	Digital transformation
46%	Customer retention and the impact of COVID-19	45%	Increasingly burdensome regulatory compliance
45%	Increasing competition	45%	Cultural shifts in banking behaviours, rising expectations for customer experience
Australia			
43%	Sustainable banking	51%	Cultural shifts in banking behaviours
43%	Digital transformation	46%	Increasingly burdensome regulatory compliance
41%	Cultural shifts in banking behaviours	41%	Customer retention and the impact of COVID-19

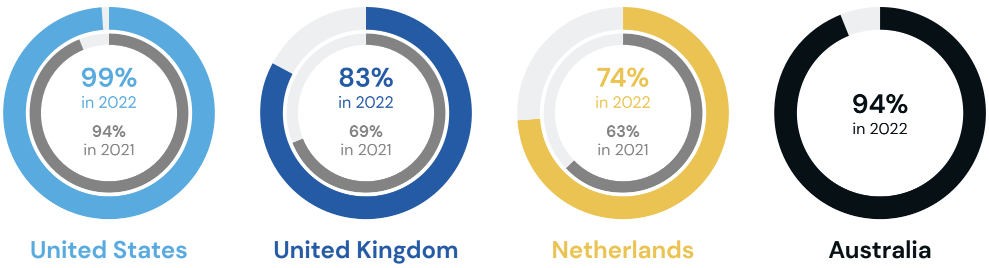
Reporting on sustainability at board level

Overall, reporting at board level has increased globally across challenger and traditional banks. Challenger banks in the Netherlands have increased their reporting at board level the most, marking a 26% increase year-on-year.

CHALLENGER BANKS



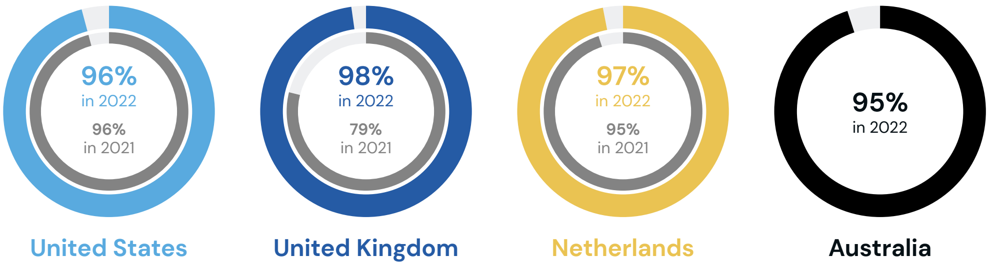
TRADITIONAL BANKS



Importance of sustainability as part of banks business strategy

Across all regions, both traditional and challenger banks have placed greater importance on sustainability as part of the overall business strategy. This could be due to the global COVID-19 pandemic and societal pressure for sustainable banking. Also companies with 250 employees and more need to start reporting conform the CSRD soon.

CHALLENGER BANKS



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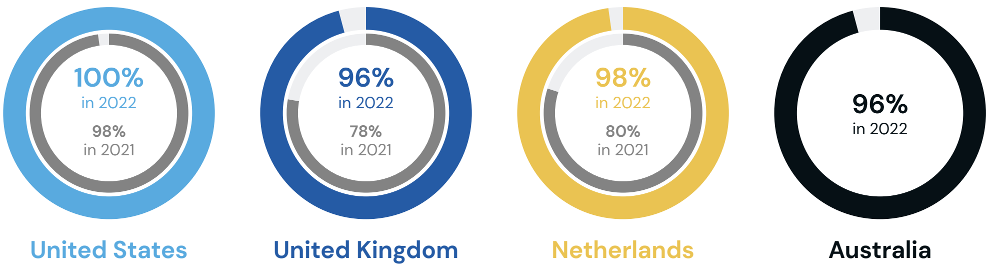
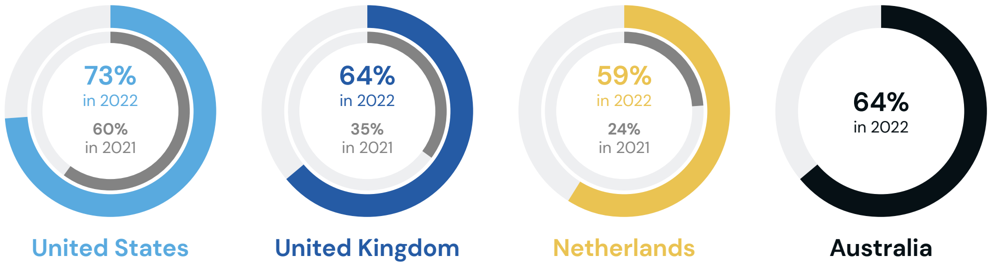


Banks taking steps to foster sustainable behaviours and outcomes

US banks in general are leading the way, but what's most interesting, is that traditional banks have made huge steps to focus their efforts on sustainable outcomes. This could be a way for traditional banks to keep pace with challenger competition.

CHALLENGER BANKS



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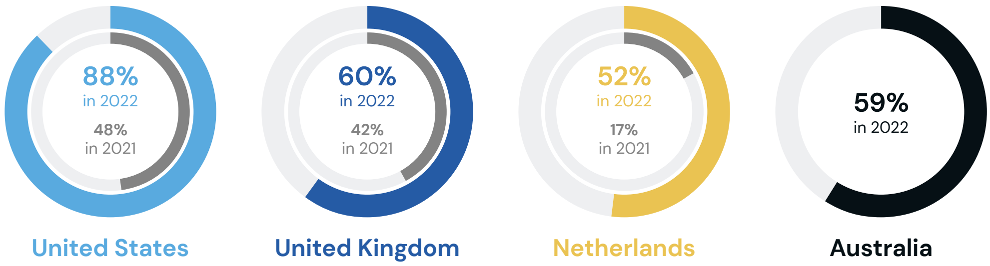
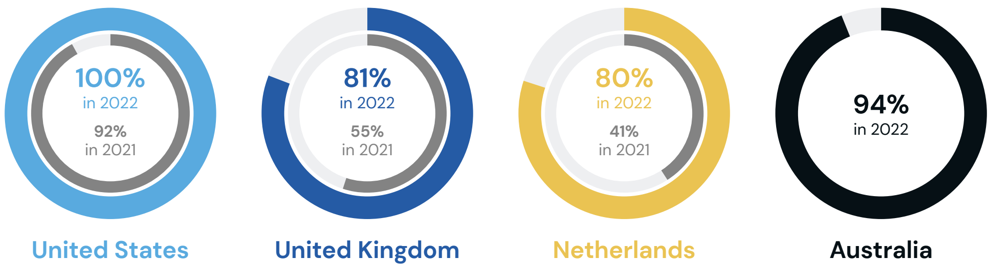


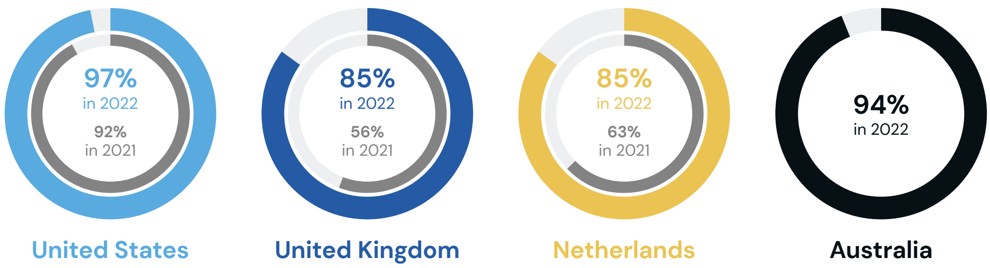
Banks with a sustainability representative at board level

More than three-quarters of challenger and traditional banks have ESG representatives at the board level. This suggests that the majority of banks plan to invest long-term in sustainability initiatives. This is particularly prominent in the US, where all challenger banks have representatives at the board level, and traditional banks are close behind at 97%.

CHALLENGER BANKS



TRADITIONAL BANKS



Top strategic imperatives as part of the banks sustainability agenda across all regions

For challenger banks, common strategic imperatives include mitigating climate change risks through assessing portfolios and aligning to global standards reporting on sustainability, the focus has clearly shifted when compared to 2021. For example, both challenger and traditional UK banks cite aligning to global standards as their top imperative, as did US challenger banks in 2021. However, in 2022, US challenger banks pivoted and placed mitigating climate risk via portfolio assessment as their top strategic imperative, and traditional banks are focusing on digital processes. The majority of traditional banks are more focused on digital imperatives for their agendas.

CHALLENGER BANKS		TRADITIONAL BANKS	
United States			
50%	Mitigating climate risks by assessing client portfolios	45%	Digitalising processes
45%	Reducing the need for branch visits	39%	Mitigating climate risks by assessing portfolios
45%	Offering customers sustainable products	39%	Driving sustainability as part of an ESG strategy
United Kingdom			
38%	Aligning to global standards on sustainability, transparency and CSR	38%	Aligning to global standards on sustainability, transparency and CSR
38%	Reduction and elimination of paper through digital processes	37%	Embracing technology for remote digital services
37%	Driving sustainability as part of an ESG strategy	33%	Empowering customers to embrace sustainability
Netherlands			
40%	Offering customers sustainable products (i.e., offering digital products & services, credit card where tree is planted with purchase)	32%	Mitigating climate change risks through assessing current and future client portfolios
37%	Aligning with global standards on sustainability, transparency and CSR	32%	Articulating sustainability practices to customers
34%	Driving sustainability as part of an Environmental Social Governance (ESG) strategy	28%	Empowering customers to embrace sustainability
Australia			
35%	Mitigating climate risks by assessing portfolios	32%	Embracing technology for remote digital services
31%	Driving sustainability as part of an ESG strategy	29%	Digitalising processes
29%	Driving sustainability as part of a CSR strategy	29%	Offering customers sustainable products

Initiatives employed by banks to be sustainable

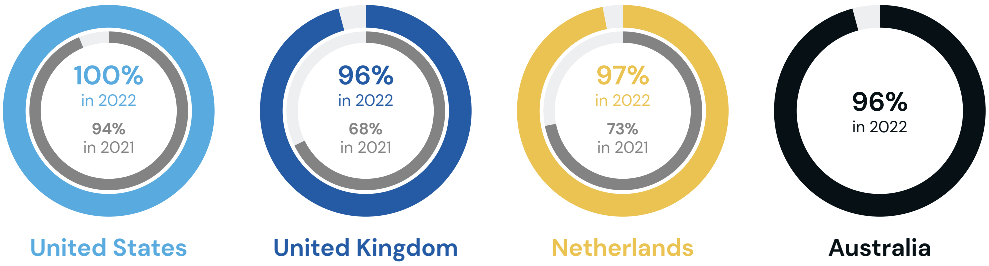
Remote working is a huge commonality – both challenger and traditional banks in the US and Australia, and traditional banks in the UK employed remote working initiatives in 2022 to be more sustainable. These figures have grown substantially in the last year, and the biggest difference is seen in challenger banks in the Netherlands. In 2021, only 27% of challenger banks in the region had remote working initiatives in place to support sustainability, fast-forward to 2022, and that figure has now jumped to 48% – this change is likely driven by the global pandemic.

CHALLENGER BANKS		TRADITIONAL BANKS	
United States			
64%	Remote working	59%	Remote working
59%	Digital solutions to create sustainable outcomes	57%	Reduction and elimination of paper with digital processes
45%	Closing branches	55%	Digital solutions to create sustainable outcomes
United Kingdom			
54%	Reduction and elimination of paper with digital processes	55%	Remote working
51%	Remote working	55%	Reduction and elimination of paper with digital processes
48%	Investing in carbon credits / using digital solutions to create sustainable outcomes	51%	Investing in carbon credits
Netherlands			
63%	Initiatives for digital solutions to create sustainable outcomes was top	53%	Closing branches
62%	Investing in carbon credits	48%	Reduction and elimination of paper with digital processes
48%	Remote working	46%	Encouraging remote working
Australia			
54%	Remote working	55%	Remote working
48%	Digital paperless processes	51%	Using digital solutions to create sustainable outcomes
43%	Investing in carbon credits	44%	Investing in carbon credits

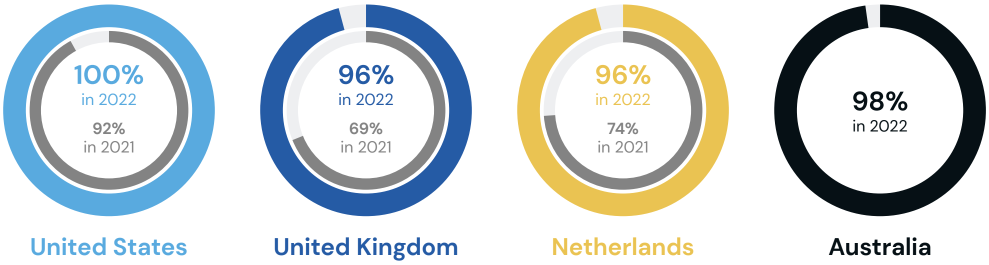
Banks using digital transformation iniatives to drive sustainable outcomes

Technology is a major driver for banks' sustainability efforts worldwide. Regardless of region or type of bank, there has been an increase in leveraging digital transformation to support sustainable outcomes.

CHALLENGER BANKS



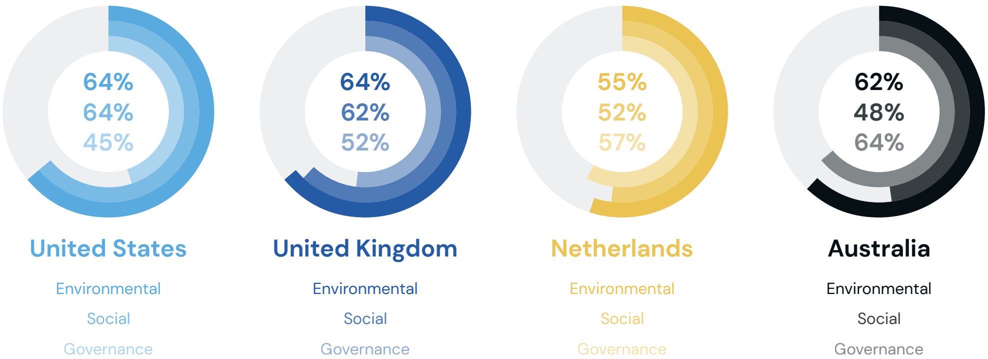
TRADITIONAL BANKS



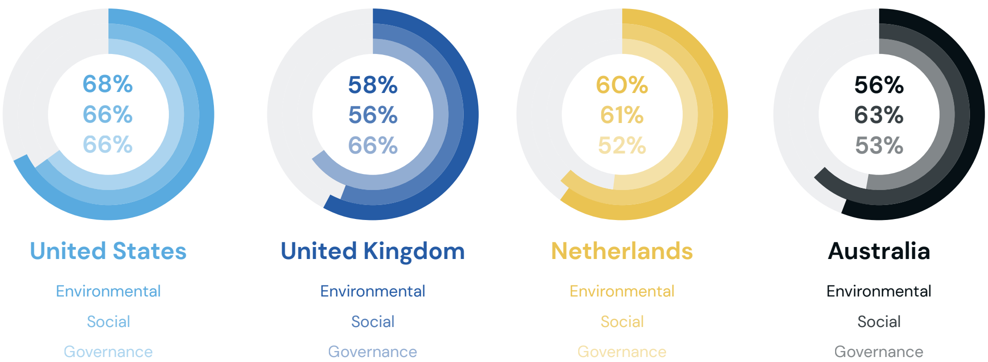
Measuring ESG impact as part of sustainability targets

While most ESG impact is focused on environmental and governance for challenger banks globally, traditional banks exhibit more of an even split across the three, with Australia and the Netherlands placing more emphasis on the social aspect of ESG for their sustainability targets.

CHALLENGER BANKS



TRADITIONAL BANKS



Main barriers to adopting sustainable behaviours

For both challenger and traditional banks in the UK, lack of regulation is preventing many from adopting more sustainable behaviours in 2022, with 36% of challengers citing it as a key barrier, and 29% for traditional banks. This is a different outlook when compared to 2021, where industry demands, and COVID-19 were cited as the top barriers stopping challenger and traditional banks in the region from adopting more sustainable measures.

CHALLENGER BANKS		TRADITIONAL BANKS	
United States			
40%	Budget implications	30%	Limited access to talent and expertise
36%	Lack of universally recognised regulation and enforcement	30%	Lack of a cohesive ESG strategy
32%	COVID-19	30%	Lack of universally recognised regulation and enforcement
United Kingdom			
32%	Lack of universally recognised regulation and enforcement	29%	Lack of universally recognised regulation and enforcement
29%	Cultural legacies needing to be shifted	25%	Little knowledge of the market and how to drive sustainability
29%	Lack of demand from customers / budget implications / cultural legacies needing to be shifted / industry demands	24%	Lack of demand from customers / budget implications / cultural legacies needing to be shifted / industry demands
Netherlands			
35%	Long term commitment to execution	33%	Long term commitment to execution
34%	Stakeholders	26%	Budget implications
31%	Lack of demand from customers	26%	Lack of a cohesive ESG strategy
Australia			
30%	Long term commitment to execution	33%	Lack of universally recognised regulation
29%	Budget implications	29%	Lack of demand from customers
27%	Stakeholders / limited access to talent and expertise / limited knowledge of the market and how to drive sustainability	28%	Stakeholders

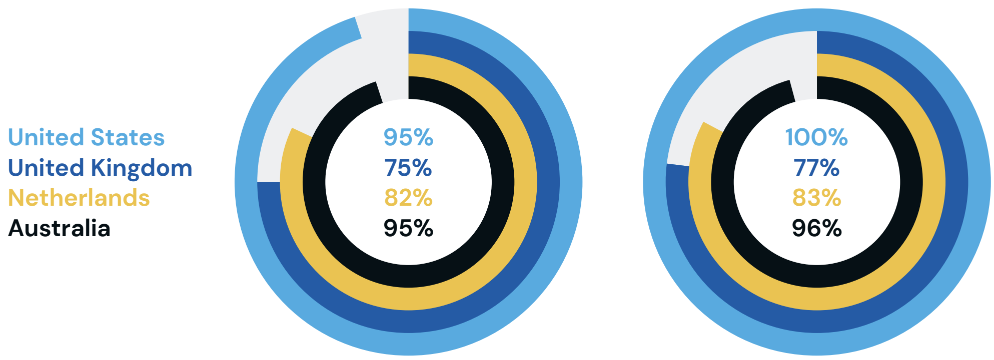
Benefits of sustainable banking

Increased brand awareness and operational efficiencies were two of the main benefits of sustainable banking for challenger banks in 2021. However, in 2022, increased customer loyalty and profitability were the core benefits. For traditional banks – that were otherwise focused on customer retention and challenging the competition in 2021. In 2022, attracting long-term investors is the greatest benefit for around a third of banks in the UK, Australia and the Netherlands.

CHALLENGER BANKS		TRADITIONAL BANKS	
United States			
41%	Increased operational efficiency	42%	Increased profitability
41%	Increased customer loyalty	35%	Increased customer loyalty
41%	Maintaining practices against business competition / increased profitability	34%	Improved brand reputation
United Kingdom			
41%	Increased operational efficiency	36%	Creating more value for stakeholders
37%	Creating more value for stakeholders	31%	Increased operational efficiency
30%	Increased profitability	29%	Attracting dedicated long-term inventors
Netherlands			
37%	Accelerated innovation	33%	Attracting dedicated long-term investors
37%	Developing increased customer loyalty and trust	28%	Acquiring and retaining top talent
37%	Improved brand reputation / increased customer loyalty and trust	28%	Mitigating risk
Australia			
30%	Cost savings through digital products	31%	Contributing to a positive societal impact
29%	Maintaining practices against business competition	28%	Attracting dedicated long-term investors
27%	Increased profitability	27%	Increased operational efficiency

Importance in making sure customers are sustainable as part of the client onboarding process

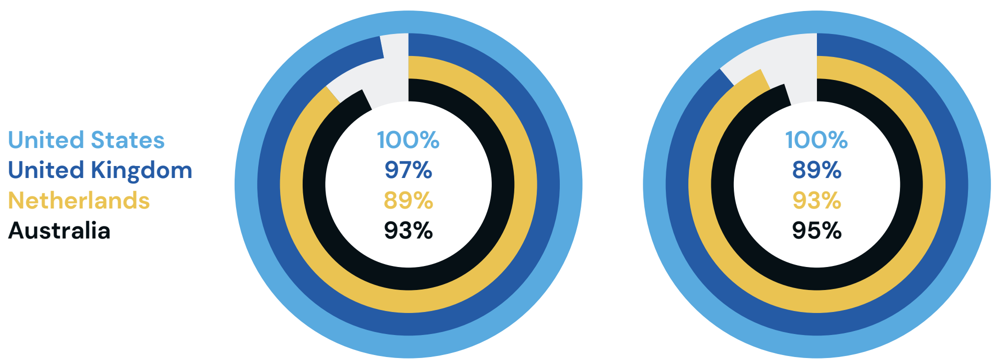
More than three-quarters of traditional and challenger banks in every region want sustainable customers and know how important they are to the overall client onboarding process. However, banks in the UK are falling behind other regions with the US leading the way.



CHALLENGER BANKS TRADITIONAL BANKS

Importance of ensuring suppliers are sustainable

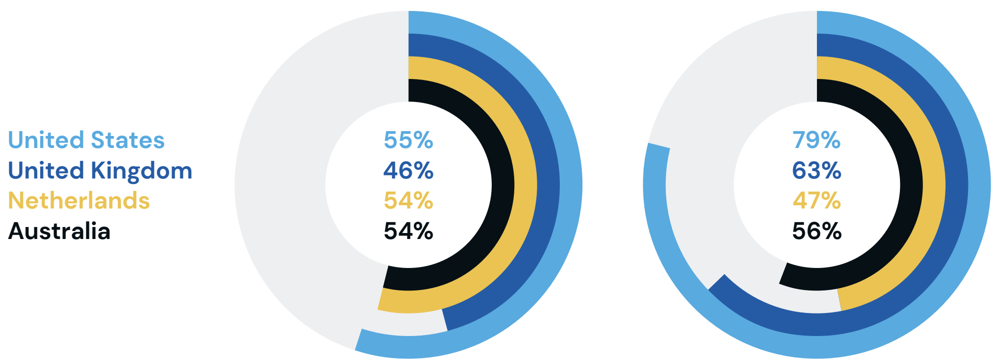
All regions are closing the gap in securing a sustainable supply chain. Traditional banks in the UK still have a way to go to catch up with the US challenger banks, of which 100% place great importance on how sustainable their suppliers are.



CHALLENGER BANKS TRADITIONAL BANKS

Banks engaging with metaverse technologies

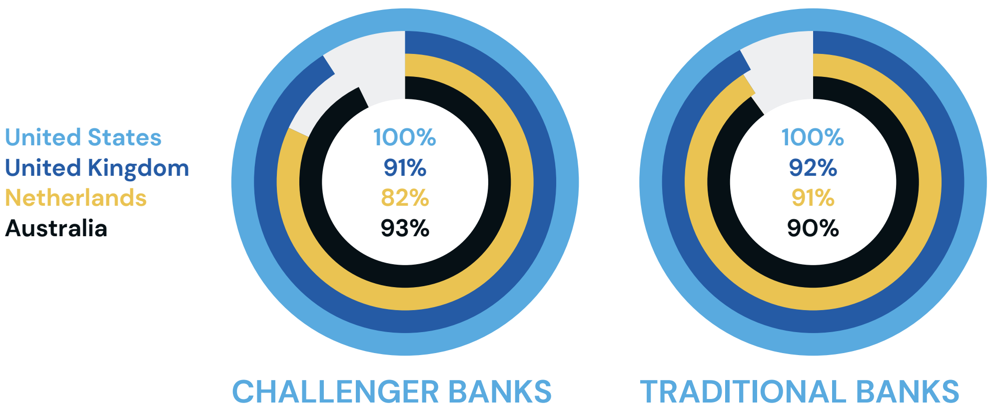
Surprisingly, traditional banks are engaging the most with Metaverse technologies overall. This could be due to challenger banks tending to be smaller with perhaps less budget to test out innovative technologies than more traditional and larger banks.



CHALLENGER BANKS TRADITIONAL BANKS

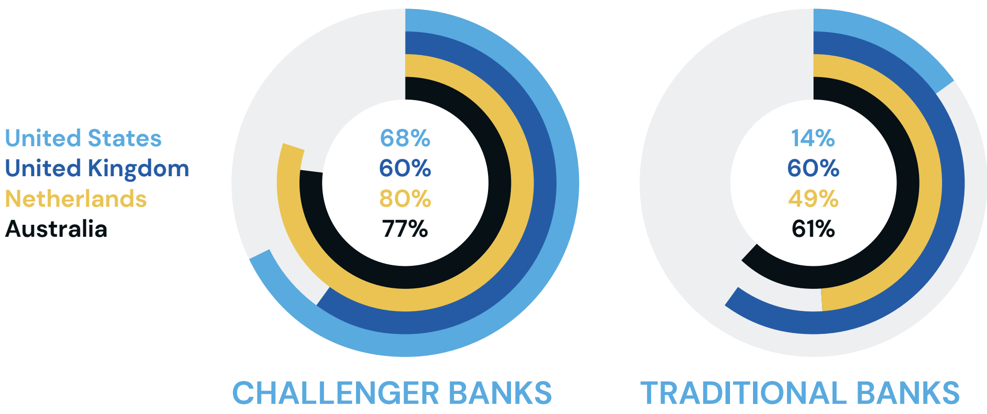
Banks holding the belief that 'the metaverse will be an important tool in helping customers engage virtually with banks and lower their carbon footprint'

The majority of challenger and traditional banks worldwide hold the belief that the Metaverse will lower their carbon footprint.



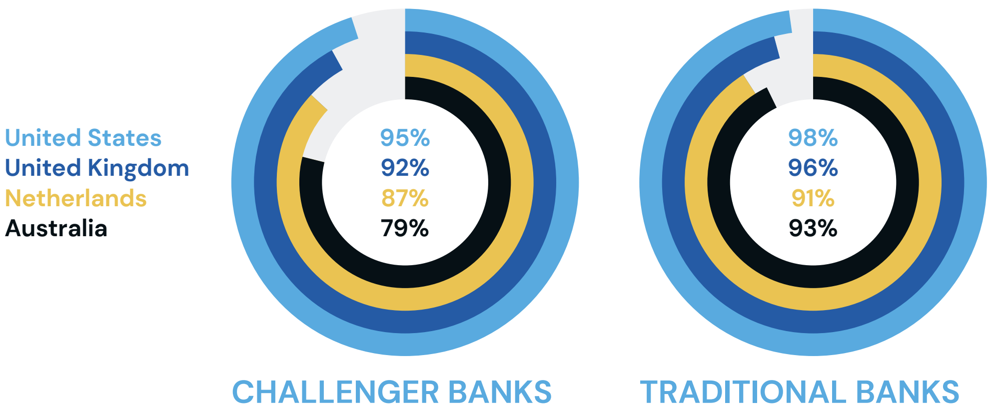
Banks holding the belief that 'the energy needed to power the metaverse will have negative consequences on our carbon footprint'

When it comes to the energy required to power Metaverse technologies, fewer challenger and traditional banks think this will have a negative impact.



Banks planning to address the environmental impact of the metaverse's energy needs

Traditional banks place emphasis on addressing the environmental impact of the Metaverse's energy requirements than challenger banks. This could be due to pressure on traditional banks to reduce their carbon footprint and ongoing green-washing reputational issues.



CHAPTER 4

Conclusions

Sustainability integral to the bank of the future

Sustainability efforts have now become an integral part of the business strategy for banks across all regions within this report, regardless of whether they are a challenger or traditional bank. While in part, this is likely to have been driven by the global pandemic, customer demand is also changing. Traditionally, consumers placed less emphasis on sustainability measures from the services they use, but that's changed in recent years. Now, customers are conducting more research into who they buy their goods and services from, and banks are taking note of this.

By now, traditional and challenger banks already know the benefits associated with sustainable banking. For example, most challenger banks in 2021 cited cost savings as a key benefit, but fast-forward to 2022 and that's mostly shifted to other components, such as operational efficiencies and accelerated innovation. This could mean that banks are already reaping the rewards of the cost savings from previous years of sustainability efforts, and are now moving on to other areas, or the sustainability focus is shifting towards how much profit banks can make.

The digital mindset

Data from our report shows that traditional banks are increasing their focus and investment in digital solutions to support their sustainability initiatives and outcomes. While challenger banks are inherently 'more digital' by nature, it's easy to see why traditional banks are placing greater emphasis on implementing paperless processes, and digital transformation strategies, to keep pace with the competition and customer demand.

For challenger banks, digital transformation (DX) is still a concern that reaches the board level, but many likely already have sufficient DX initiatives in place and never had paper-based processes in the first place. However, due to their digital foundations, challenger banks were expected to place more of their digital and technology focus in the Metaverse. Traditional banks tip the scale in terms of Metaverse technology engagement, but it doesn't mean that challengers aren't thinking about it. Challenger banks are aware that the Metaverse will be an important tool in helping customers engage virtually with them and lower their carbon footprint – they just aren't quite there yet, perhaps due to the high upfront costs and volume of resources required.

CHAPTER 5
Recommendations

The benefits of becoming sustainable

Remote working and closing branches are key initiatives that banks globally are – or already have – adopted to become more sustainable and boost profitability. Logically, it makes complete sense, especially for challenger banks with a digital-first set-up, but for traditional banks, this has taken more time to implement.

However, while it is encouraging to see that steps are being taken to be more sustainable, remote working and closing branches are only short-term measures for banks. To fully optimise their ESG strategies, financial institutions need to implement long-term changes to their existing infrastructure. Part of that long-term change is digital transformation, implemented not only across a bank's internal infrastructure but driven across its entire supply chain.

Investing in digital solutions

Based on the findings within the Mobiquity report, digital solutions are a key driver for banks adopting and implementing sustainable initiatives. For traditional banks, in particular, embracing technology is part of their overall sustainability agenda. However, merely investing in digital isn't enough. Banks need to explore how and why they are using technology to aid their sustainability efforts – and they can only answer these questions by measuring the outcomes of their ESG initiatives effectively.

The role of the Metaverse in sustainable banking

With both traditional and challenger banks exploring the Metaverse, it's important to consider the business case. While innovative technology such as the Metaverse has many practical applications in the banking sector, financial institutions must be careful not to simply jump on board the metaverse hype for hype's sake. While engagement with Metaverse technology is growing, financial institutions need to ensure that the business outcomes associated with the technology align with their ESG goals, rather than looking at it to reduce their overall physical footprint. Banks need to carefully consider why they're investing – is it to reduce the digital footprint, increase server capacity, or is something else on the agenda entirely? Both the physical and digital banking ecosystems need to be taken into consideration, and how investing in Metaverse technologies will impact ESG for both.

CHAPTER 6

Methodology

The research was conducted by the independent market research company Censuswide, with 602 C-suite banking executives 18+ across the UK, the Netherlands, the US and Australia during 29.04.2022 - 16.05.2022. Censuswide abides by and employs members of the Market Research Society, which is based on the ESOMAR principles.

mobiquity

part of **HEXAWARE**

CONTACT

Get in touch

Peter-Jan van de Venn,
VP Global Digital Banking, Mobiquity

+31 6 4328 4093
pjvandevenn@mobiquityinc.com
/in/pjvdvenn

Ruby Walia,
Senior Digital Banking Advisor for North America, Mobiquity

+1 917 225 5546
rwalia@mobiquityinc.com
/in/rubywalia

Gustavo Quiroga,
VP Mobiquity - APAC

+61 425 310 010
gquiroga@mobiquityinc.com
/in/gusq