mobiquity

part of HEXAWARE

A global benchmark for sustainable banking

September 2021

OVERVIEW

Table of contents

CHAPTER 1

Foreword

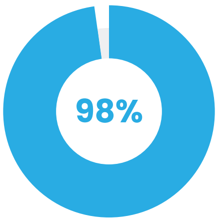
Matthew Williamson,
VP of Global Financial Services, Mobiquity

“The opportunity for sustainable digitization in banking”

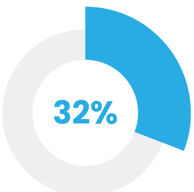
Sustainability is business critical for all industries. In the banking and financial services sector, many traditional banks, financial institutions and challenger banks have started to embrace sustainability by integrating ESG into their business priorities, adopting sustainable initiatives and driving sustainable behaviours and outcomes.

The importance of scaling sustainability initiatives has been accelerated over the course of the pandemic, brought about by changing customer demands, greater transparency and societal pressure.

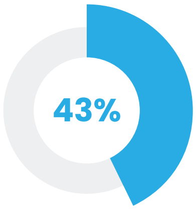
By leveraging digital technologies to drive sustainable outcomes, corporations can create a sustainable future, initially supporting a goal of becoming net zero and, ultimately, reducing the carbon footprint.



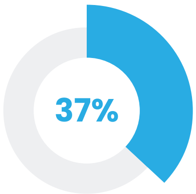
Our Benchmark for Sustainable Banking report highlights a high level of awareness around sustainability challenges among banking executives. Over three quarters of UK (78%) and Dutch (91%) banking executives view sustainability as an important part of their business strategy. **For the US, it is unsurprising that this figure stands at 98%, given the level of exposure around being sustainable among the public and in the media, and the fact the market is a mature one.**



While it is pleasing to see that banks across all territories have some understanding around the importance of sustainability, **the survey finds that less than a third of banking executives in the US (32%), UK (31%), Netherlands (28%) and Germany (24%) believe sustainability is a top concern at board level.**



On top of this, **less than half of banking executives in the US (43%), UK (45%), Germany (40%) and the Netherlands (36%) are planning or implementing sustainable measures as part of their business strategy.**



The challenge that exists for the industry is ensuring banks engage with, and overcome, roadblocks in the implementation of sustainability initiatives. **For the US (37%), the main challenge to adopting sustainable initiatives is shifting cultural legacies that are hindering progress.** In the UK, around a third (31%) of banking executives referenced COVID-19 and industry demands as the main barrier to becoming more sustainable. For the European countries studied, a third (33%) of banking executives in the Netherlands cited a lack of cohesive ESG strategy, while in Germany over a quarter (29%) of banking executives said they had little knowledge of the market and how to drive sustainability. implementation of sustainability.

For banks to overcome these challenges they need to rethink the impact of sustainable measures. Profitability and sustainability aren't mutually exclusive, and there is an opportunity for the industry to look at strategies holistically - ensuring that sustainability is prioritised across all areas of the bank, both internally and externally, while reaping the business benefits that go with it. One way of achieving this is by leveraging digital to drive sustainable outcomes across the business.

There is a golden opportunity to build on existing awareness around digital and its role in creating sustainable banking outcomes. The US is currently acting as a blueprint for other territories to follow in gaining an understanding into how digital can help banks to be more sustainable. Our research shows that 93% of US banking executives are aware of how digital transformation can be used to drive sustainable outcomes.

Overall, using digital to drive sustainability will future-proof businesses as banking continues to change. Indeed, the bank of the future will not only be one that creates a human-centric digital banking experience that bridges the physical and digital. The bank of the future will also be a digital lifestyle enabler that has an eco conscience to retain and grow its customer base.

The report shows that, while the willingness is there, banks are not doing enough to be sustainable. By putting their sustainable plans into action, banks will be able to attract future customers and retain talent. Indeed, US executives cite that talent management and customer retention are key concerns for US banks. The role of the bank in society is changing from a wealth repository to a digital lifestyle enabler. For banks to continue to thrive, they must embrace digital innovation that lays the foundation to achieve an eco-conscience.

By embracing "sustainable digitization", banks and financial institutions will carve out new revenue streams and business opportunities as we enter a connected and socially responsible world post-COVID-19.

CHAPTER 2

Literature review

The COVID-19 pandemic has touched all aspects of life in severe and profound ways, but one could argue that few domains have been as affected as finance. In the early stages of the crisis, there were concerns that paper money might actually help to transmit the virus, which prompted a widespread shift towards contactless payment forms in shops and on public transport.

Whereas COVID prompted many businesses to go cashless, it has been a trend that has been increasingly widespread even before the virus struck. Indeed, cash transactions in Sweden made up just 13% of all purchases in 2018, with plans to become a cashless society by 2023.

SUSTAINABLE FINANCE

The sustainability challenges faced by the financial sector have been well known for some time, with the UN's Sustainable Development Goals in 2015 clearly outlining the key role financial services will play in tackling the SDG both through ensuring that operations are as sustainable as possible but also through supporting sustainability initiatives in their investments and financial instruments.

The sustainability of normal operations was a central cog of the UN's Principles for Responsible Banking, which recruited 220 banks who have each committed to analyse their current impact on the planet; set targets where they have the biggest impact; and report publicly on their progress. Indeed, 43 of these banks have gone one step further and joined the Net-Zero Banking Alliance, which commits to "aligning their lending and investment portfolios with net-zero emissions by 2050".

Recent years have seen a groundswell of activity in the sector, with some staggering numbers being bandied about by banks committing to a more sustainable future. For instance, Lloyds Banking Group is pledging to cut the amount of carbon emissions they finance by more than 50% by 2030, Citi has pledged to invest $1 trillion towards sustainable finance by 2030, with JP Morgan going even further when pledging $2.5 trillion towards climate change over the next decade.

The sustainability mandate is not only confined to the banks themselves, with a report from sustainability organisation Ceres highlighting the importance of financial regulators addressing the climate risk and ensuring that banks and insurers are held to the highest sustainability standards.

REPORTING PROGRESS

This trend is also reflected in the clamour for greater accountability and transparency in terms of Environmental, Social and Governance (ESG). What was perhaps previously regarded as a sideline activity has now become a fundamental part of how the financial community does business. For instance, BlackRock, the world's largest institutional investor, recently threatened to use its voting power to punish any company that doesn't conform to its carbon reporting standards.

They have been joined by a newly formed team at Lloyds Bank, who are tasked with helping clients to meet both their own sustainability targets and also those of the bank itself. The team will specialise in products and services designed around ESG and reflects the growing consensus that the financial sector can play a key role in supporting the green agenda ahead of the COP26 conference in Glasgow 2021.

These measures are underpinned by an increasingly robust regulatory regime. For instance, in Europe, ESG disclosure has been a requirement for organisations for several years. There have been plans to encourage universal disclosure, with the World Economic Forum recently joining a working group on ESG standards being convened by the International Financial Reporting Standards Foundation.

While the IFRS are attempting to drive a degree of convergence internationally around a single accepted reporting standard, the reality, for the time being, is likely to remain regional divergence. For instance, both Europe and China are working on their own set of ESG reporting standards.

EXPECTED COMPLIANCE

While the ESG playbook is a rapidly changing one, what is increasingly clear is the societal and business costs of non-compliance. For instance, a recent report from the Rainforest Action Network highlighted the $3.8 trillion that banks have provided to fossil fuels in the five years since the Paris Climate Accord was signed in 2015. The report highlights how despite the four biggest American banks making up a small proportion of the 60 banks analysed, they nonetheless represent almost half of all fossil fuel financing globally, with JP Morgan cited as the worst offender, followed by Citi, Wells Fargo, and Bank of America.

The juxtaposition between this enormous financial support for fossil fuels and the pledges identified earlier by both JP Morgan and Citi to support sustainable initiatives underlines the fine line banks tread in terms of the authenticity of their efforts. For instance, HSBC was recently accused of greenwashing by ShareAction, which strives to improve corporate behaviour on ESG issues. They demanded the bank reduce its financial support for fossil fuel assets to ensure the bank met its own targets in line with the Paris climate agreement. The letter highlights the seemingly irreconcilable position of supporting sustainability while also backing fossil fuel assets.

Such scrutiny of the actions as well as the words of financial institutions is growing, with Reclaim Finance examining the ESG performance of French financial institutions in regards to coal investments. The report has played a role in the decision of French financial institutions to phase out support for coal by the end of 2021, which has in itself contributed to the decision by the French government to phase out coal power by 2022.

DIGITAL SUSTAINABILITY

Research from 2020 found that nearly 40% of consumers would switch banks to a more sustainable alternative, so there is a clear desire for sustainable finance among the public. The new wave of challenger banks are helping to provide this greener and more sustainable finance. For instance, Aspiration has been founded with green principles in mind and allows consumers to plant trees for each purchase they make.

Equally, Stripe's climate removal purchase tool empowers business customers to invest in technologies that reduce their carbon footprint. The tool was expanded into Europe in February and has already recruited over 100 businesses. Other Fintechs offering green services to banks include Cloverly, which provides a carbon offset API, and Meniga, whose Carbon Insights tool allows banks to upgrade their mobile apps to show the carbon footprint of transactions to users.

These kinds of digital innovation are powering what the World Economic Forum (WEF) refers to as sustainable digital finance, which sees technologies such as big data, AI, and mobile to help banks deliver on their ESG goals. For instance, WEF highlights how the ESG data market is booming, with AI being increasingly used to help make sense of this data and drive meaningful actions. This can help both banks and activists alike gauge the "greenness" of investment decisions and activities more broadly.

NEEDING A UNIFIED APPROACH

The abundance of ESG-related data is both a blessing and a curse, as the sheer diversity is also evident in the tools and metrics used to measure ESG performance. DZ Bank's Cornelius Riese believes that the general lack of a uniform approach from ESG rating agencies makes it difficult for financial institutions to make meaningful progress towards what are often moving goalposts.

The desire for sustainability in banking also has to be achieved alongside social requirements to retain a physical banking presence to ensure that vulnerable sections of society don't fall through the cracks. For instance, during the pandemic, UK bank TSB created a number of pop-up banks to fulfill that purpose.

The relatively new nature of ESG also poses problems from a managerial perspective, as few organisations have structures designed to integrate sustainability into their business units. If ESG is to become central to how the organisation functions then a strategy unit is likely to be a more effective home.

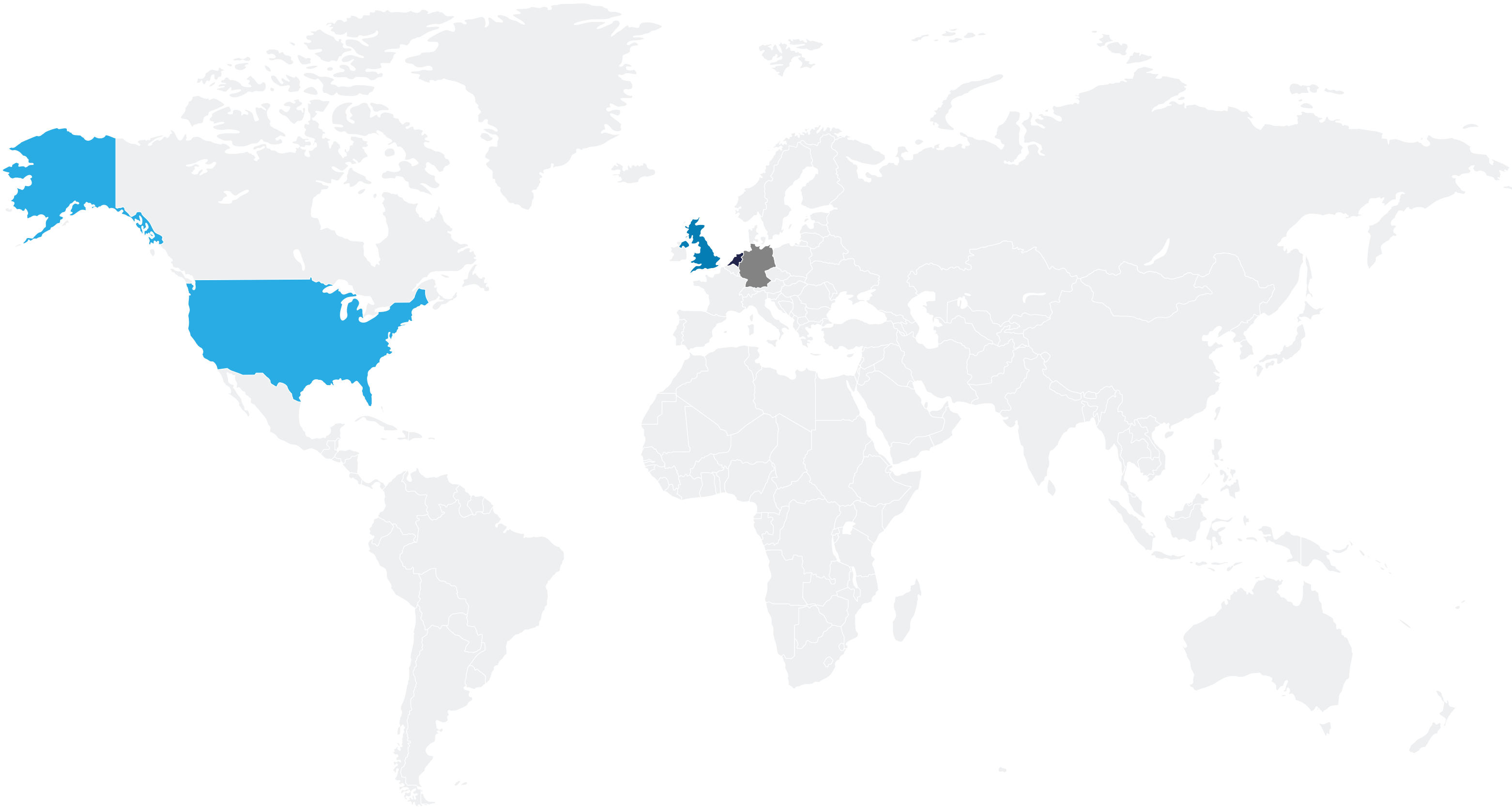
Banks will undoubtedly play a crucial role in the sustainability agenda, whether it's investing in sustainability initiatives, insuring against the threats posed by climate change, or improving the sustainability of both their own and their customers' operations. This breadth of possible involvement can also result in a lack of meaningful focus on any one area, especially if ESG is not a core part of the organisation's DNA.

Not only are consumers increasingly more demanding of the ESG credentials of banks, but there are also a growing number of innovative digital solutions emerging from the fintech space to help banks have a lighter footprint and more positive impact on the world at large.

CHAPTER 3

Main findings

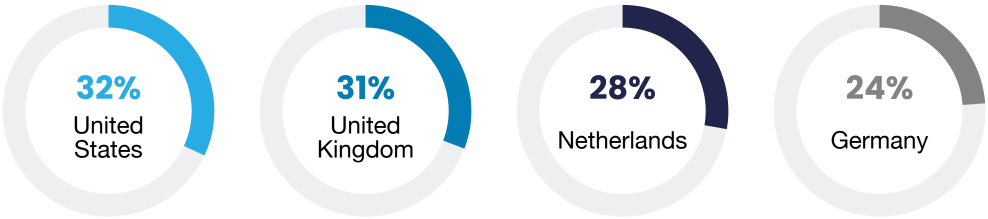
Mobiquity surveyed 400 banking executives at challenger and traditional banks across the United States, United Kingdom, Germany and Netherlands.



Mobiquity surveyed 400 banking executives at challenger and traditional banks across the United States, United Kingdom, Germany and Netherlands.

The survey found that sustainability is a relatively low concern, relative to other issues that banks are facing.

How concerned are bank executives about sustainability?



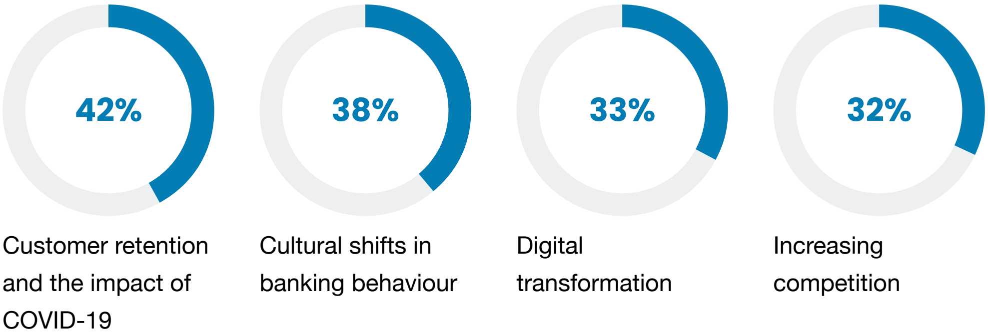
Instead, the following concerns were the focus of bank executives across all regions.

Top concerns at board level across all regions

Customer retention and COVID-19 were found to be the main concerns across the US, UK and Germany. Whilst in the Netherlands, digital transformation appeared to be the primary focus.

United States

United Kingdom

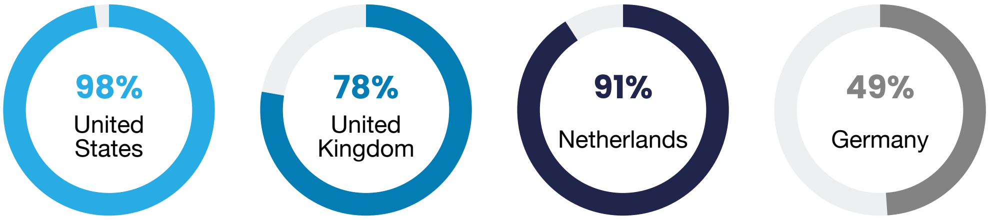


Netherlands

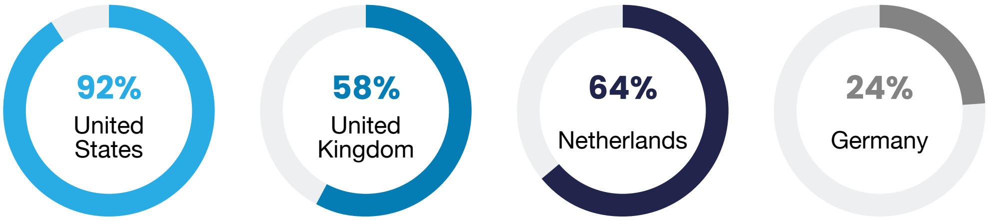
Germany

US, UK and Dutch banks are prioritising sustainability more than German banks, although this willingness has yet to materialise in real terms. When it comes to execution and delivery of sustainable banking initiatives there remains room for improvement:

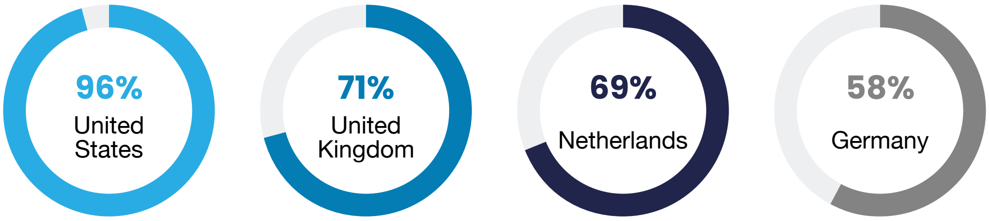
Banks that prioritize sustainability as part of their business strategy



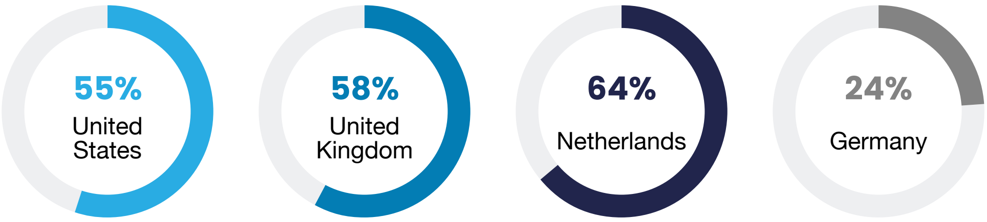
Banks with sustainability representative at board level



Reporting on sustainability at board level

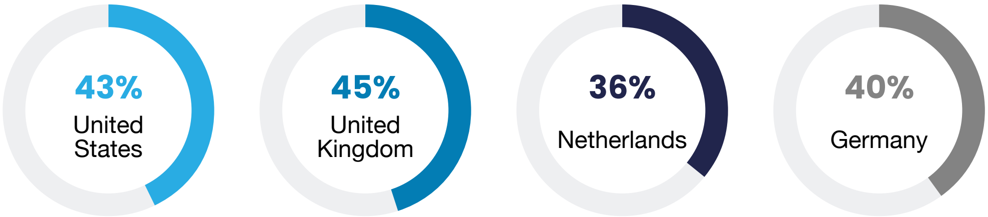


Banks taking steps to foster sustainable behaviours and outcomes



Despite the high level of willingness among banks to engage with sustainability challenges, less than half of banking executives are planning sustainable measures as part of their business strategy.

Under half of banks planning for sustainable initiatives



United States: Aligning to global standards reporting on sustainability

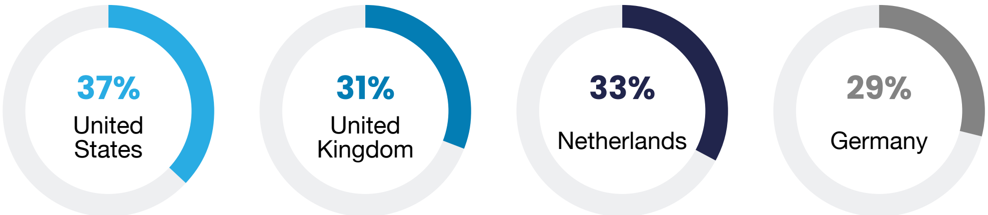
United Kingdom: Mitigating climate change risks through assessing their current and future client portfolio

Netherlands: Implementing sustainability practices and driving sustainability as part of CSR strategy

Germany: Driving sustainability as part of CSR strategy

So, why are some banks not taking steps to be more sustainable? The main barrier to adoption of sustainable behaviours for all regions were:

Main barriers to adopting sustainable behaviours



United States: Cultural legacies need to be shifted

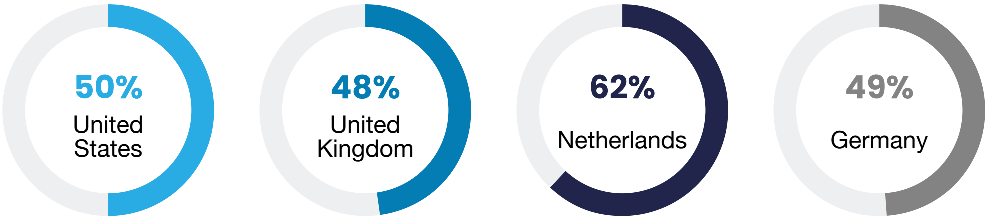
United Kingdom: COVID-19 and Industry demands

Netherlands: Lack of cohesive ESG strategy

Germany: Little knowledge of the market and how to drive sustainability

Among the banks being sustainable, the most widely implemented initiatives were digital solutions in Germany and the Netherlands, while the UK favours carbon credits and the US is encouraging remote working to reduce travel among customers and staff.

Most favoured sustainable initiative being implemented



United States: Encouraging remote working among employees to reduce customer/staff travel

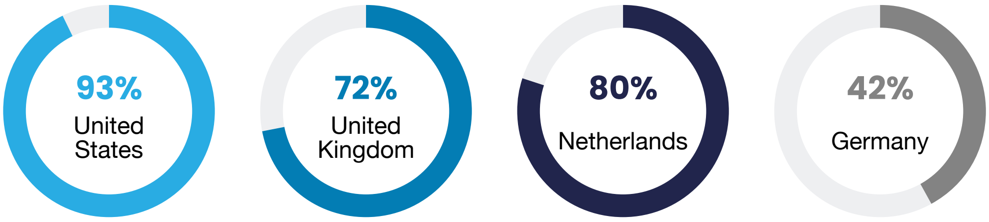
United Kingdom: Investing in carbon credits as a business to be sustainable

Netherlands: Using digital solutions to create sustainable outcomes

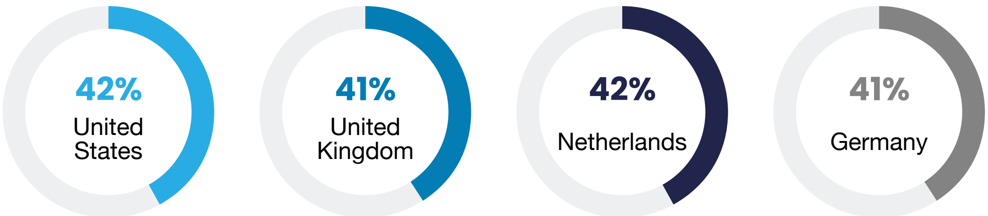
Germany: Using digital solutions to create sustainable outcomes

Clear opportunity exists for banks to use digital transformation to create sustainable outcomes, most notable within US, UK and Dutch banks.

Awareness of digital transformation to drive sustainable outcomes



Most common digital transformation being used by banks to drive sustainability



United States: Collaborating with suppliers and partners for extracting maximum value across the global supply chain e.g. data centres

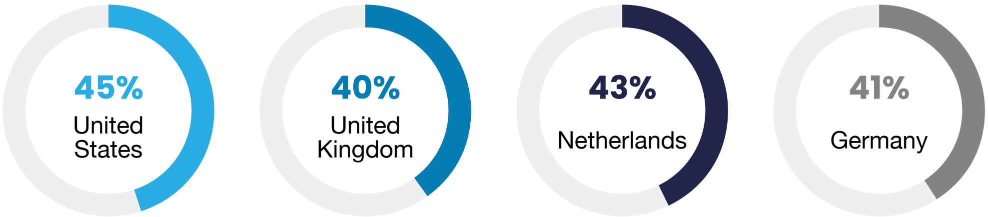
United Kingdom: Intelligent automation

Netherlands: Collaborating with suppliers and partners for extracting maximum value across the global supply chain e.g. data centres

Germany: Intelligent automation

The main benefits of sustainable banking experienced by banking executives across all regions were:

Benefits of sustainable banking



United States: Maintain practices against business competition

United Kingdom: Cost savings, customer retention and growth

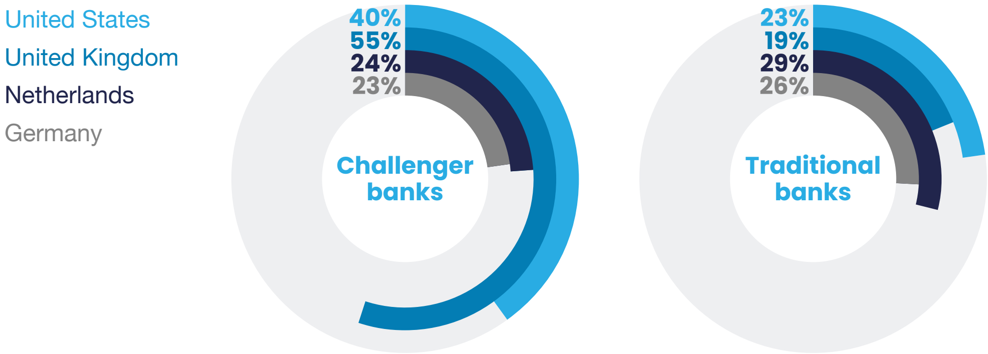
Netherlands: Customer retention and growth

Germany: Improved brand reputation, increased operational efficiency across the business

Challenger vs traditional

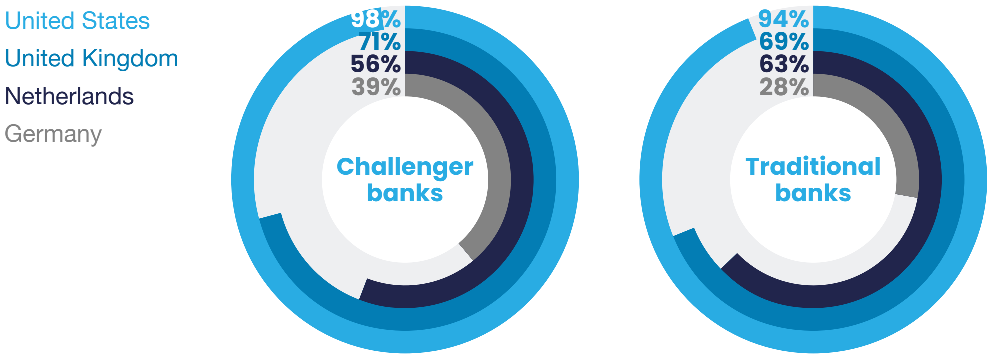
The survey also explored attitudes and behaviours of banking executives across challenger and traditional banks including retail and corporate.

Percent of banks concerned about sustainability



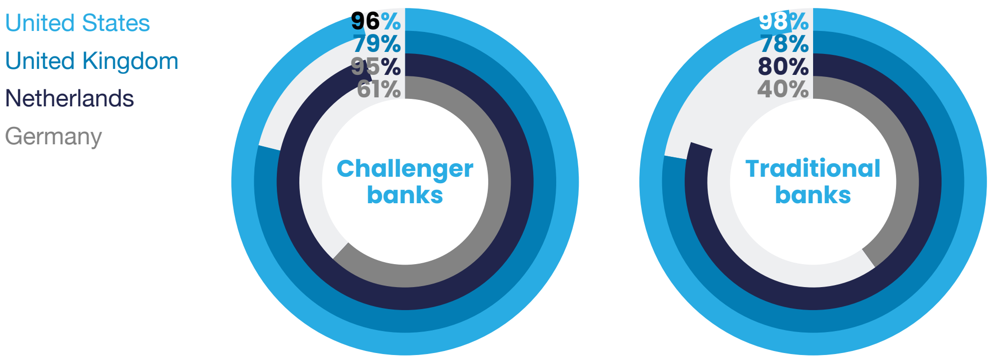
Challenger banks in the US, UK and Germany are reporting on sustainability at board level more than traditional banks. Meanwhile, in the Netherlands traditional banks are reporting sustainability challenges more.

Reporting on sustainability at board level across all regions



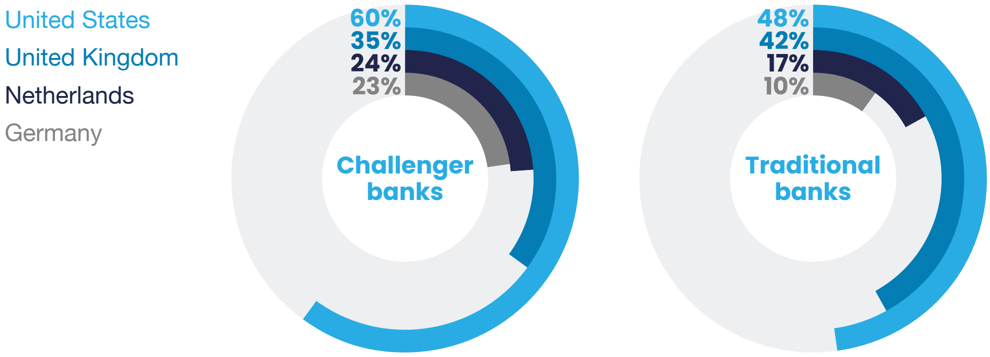
Challengers across all four regions view sustainability as important to their business strategy, while traditional banks don't see this as much of a priority.

The number of banks that prioritize the importance of sustainability as part of their business strategy

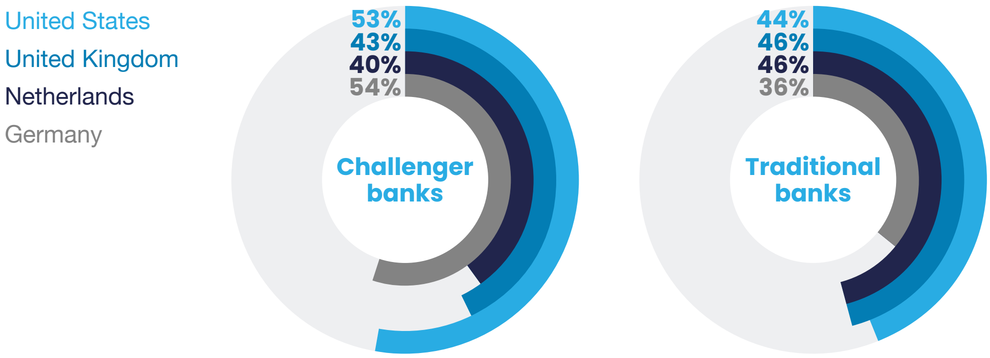


In attitudes towards sustainability, traditional banks in the US and UK say they are taking equal or more steps to foster sustainable behaviours compared to challenger banks. In Germany and the Netherlands we see the opposite.

Banks taking steps to foster sustainable behaviours and outcomes



Under half of traditional banks planning sustainable initiatives

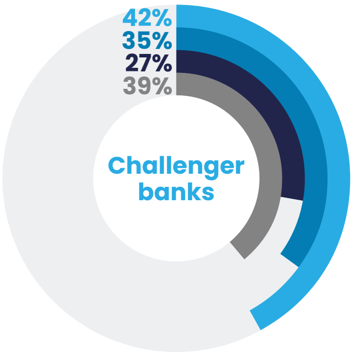


United States: Aligning to global standards reporting on sustainability
United Kingdom: Mitigating climate change risks through assessing current and future client portfolio
Netherlands: Reduction in carbon footprint
Germany: Driving sustainability as part of CSR

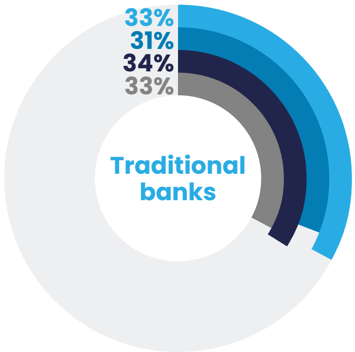
United States: Reduction in the carbon footprint
United Kingdom: Mitigating climate change risks through assessing current and future client portfolio
Netherlands: Articulating and implementing sustainability practices
Germany: Mitigating climate risks through client portfolio, driving sustainability as part of CSR, reduction in carbon footprint

Main barriers to adopting sustainable behaviours

United States
United Kingdom
Netherlands
Germany



United States: Cultural legacies need to be shifted
United Kingdom: Industry demands
Netherlands: Cultural legacies need to be shifted
Germany: Lack of cohesive ESG

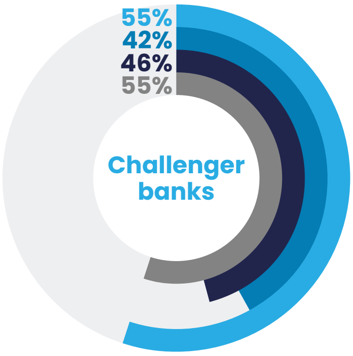


United States: Little knowledge of the market and how to drive sustainability AND lack of universally recognised regulation and enforcement
United Kingdom: COVID-19
Netherlands: Lack of cohesive ESG
Germany: Little knowledge of the market and how to drive sustainability

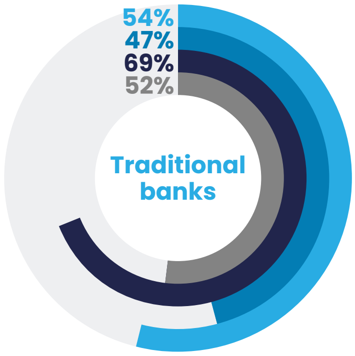
Traditional banks are using digital solutions more than challengers across Germany and the Netherlands. Traditional and challenger banks in the UK are investing in carbon credits, while the US is embracing digital solutions alongside an initiative to encourage remote working among employees.

Most favoured sustainable initiative being implemented

United States
United Kingdom
Netherlands
Germany



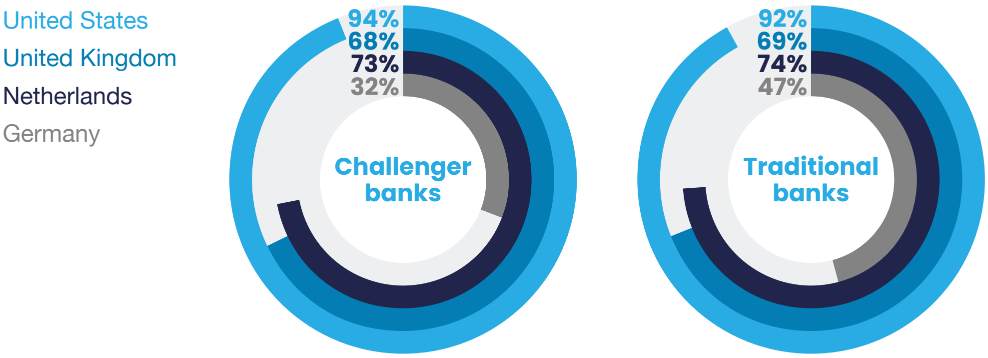
United States: Digital solutions to create sustainable outcomes
United Kingdom: Investing in carbon credits
Netherlands: Investing in carbon credits, digital solutions to create sustainable outcomes
Germany: Reduction of paper with digital



United States: Encouraging remote working among employees to reduce customer/staff travel
United Kingdom: Investing in carbon credits
Netherlands: Digital solutions to create sustainable outcomes
Germany: Digital solutions to create sustainable outcomes

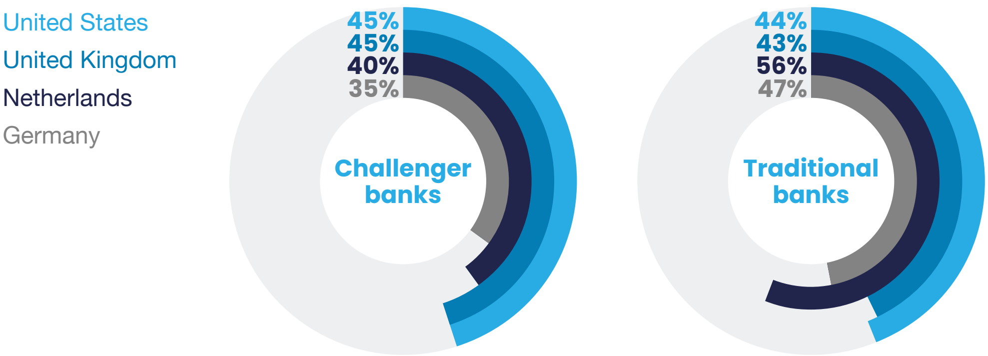
Awareness of using digital transformation to create sustainable outcomes is higher among traditional in comparison to challenger banks across all three regions:

Awareness of digital transformation to drive sustainable outcomes



Challenger banks in the US are leading the way in diversifying their digital transformation initiatives to be sustainable.

Most common digital transformation being used by banks to drive sustainability

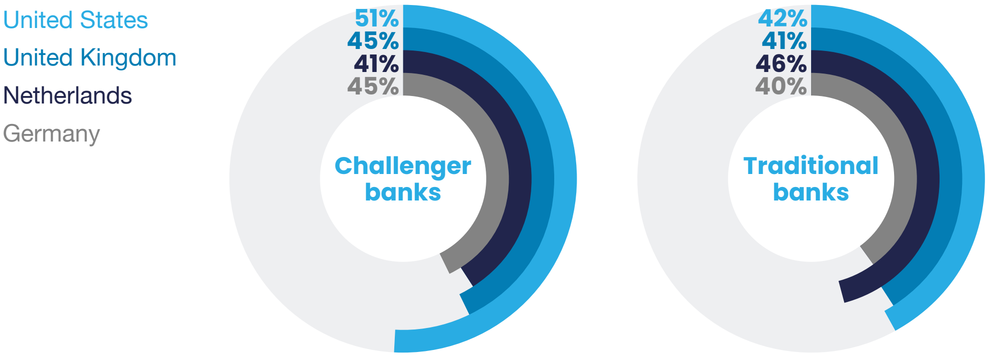


United States & United Kingdom: Collaborating with suppliers and partners for extracting maximum value across the global supply chain e.g. data centres
Netherlands: Digitising all paper processes
Germany: Digitising all paper processes, investing in sustainable IT, investing in IoT, intelligent automation, helping customers to be greener by encouraging paperless digital transactions for all their banking services

United States: Helping customers to be greener by encouraging less travel to the branch
United Kingdom: Digitising all paper process
Netherlands: Collaborating with suppliers and partners for extracting maximum value across the global supply chain e.g. data centres
Germany: Intelligent automation

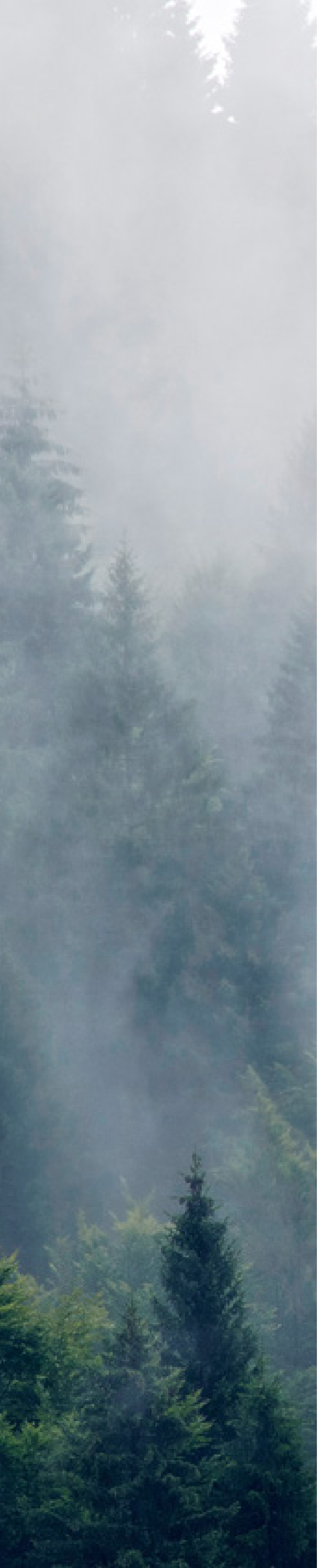
The main benefits of sustainable banking experienced by banking executives for challenges and traditional banks were:

Key benefits of sustainable banking



United States: Improved brand reputation
United Kingdom: Cost savings and increased operational efficiency across the business
Netherlands: Customer retention and growth, accelerated innovation
Germany: Improved brand reputation and increased operational efficiency across the business

United States: Maintain practices against business competition AND cost savings
United Kingdom: Customer retention and growth, cost savings
Netherlands: Cost savings, increased operational efficiency across the business
Germany: Increased operational efficiency

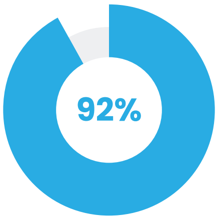


CHAPTER 4

Conclusions

A high level of awareness of sustainability at board level reveals a major opportunity to improve business performance

Sustainability has become an imperative for the banking and financial services sector, with traditional banks, financial institutions and challenger banks integrating ESG into their business strategies.



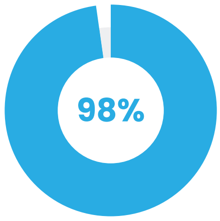
The US shows strong representation and reporting of sustainable initiatives at board level. **92% have a sustainable representative at board level. The Netherlands (64%) and the UK (58%) also demonstrate high representation at board level.**

Meanwhile, 98% of US banks and more than two thirds of Dutch (69%) and UK banks (71%) are reporting sustainable initiatives to the boardroom.

In Germany, there is an opportunity to drive representation with just over a quarter (29%) citing a sustainable representative and just over half (58%) reporting sustainable initiatives to the board.

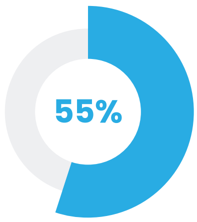
Across all markets, banks that implement sustainable initiatives are experiencing benefits in the form of increased customer retention, business growth opportunities, and improved brand reputation. In the UK (40%) and Netherlands (43%), around 2 in 5 banking executives reported customer retention and growth as the main benefit of sustainable banking; while in the US sustainable measures were found to maintain practices against business competition. 2 in 5 (41%) German banking executives cited improved brand reputation and operational efficiency as benefits of sustainable banking.

When exploring differences in banking models, nearly half (45%) of challenger banks in the UK reported cost savings and increased operational efficiency as the main benefits of sustainable banking experienced by executives. Meanwhile, the survey found that over half (51%) of challenger banks in the US reported improved brand reputation as the primary benefit. For traditional banks in the UK(41%) and US (42%), executives cited cost savings and customer retention and growth as the main benefit, with the US also finding benefits of maintaining practices against business competition.



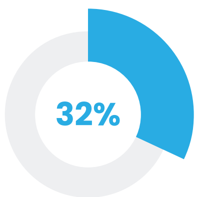
Dutch and UK banks also understood the importance of including sustainability as part of their business strategy. **In the Netherlands, over 9 in 10 (91%) of banking executives said sustainability was an important part of their business strategy, while the US leads the way in terms of awareness with 98% of executives stating the importance of adopting a more sustainable approach . In the UK, over three quarters (78%) of banking executives recognised its importance as part of their business strategy.**

Remote working, investing in digital solutions and carbon credits are the most favoured sustainable initiatives



The most widely implemented sustainable initiatives were digital solutions in Germany and the Netherlands, while both challenger banks and traditional banks in the UK favour investing in carbon credits. **3 in 5 (62%) Dutch banks and almost half (49%) of German banks are using digital tools to create sustainable outcomes. In contrast, while over half of challenger (55%) banks in the US are shown to be embracing digital solutions, traditional banks are favouring remote working to reduce staff and customer travel requirements.**

Banks failing to capitalize on sustainable banking



Despite awareness of sustainable banking, our research highlights that sustainability is a relatively low concern at board level for corporate and retail banks across the UK and Europe. **Under a third of banking executives in the US (32%), UK (31%) and the Netherlands (28%) said sustainable banking was a top concern, while less than a quarter (24%) of German banking executives highlighted it as a concern at board level.**

Interestingly, the research demonstrates the differing levels of concern around sustainability among challenger and traditional banks. For challenger banks in the UK, sustainable banking was the top concern at board level, with more than half (55%) of banking executives at challenger banks referencing sustainability when surveyed on their top concerns. In contrast, less than 1 in 5 (19%) executives at traditional banks in the UK said sustainability was a top concern at board level. Meanwhile, in the US, less than half of bank executives at challenger banks (40%) cited sustainability as a top concern, with less than a third (23%) of those at traditional banks reporting it as a priority.

Banks clearly understand the importance of sustainability. However, despite the high level of willingness to engage with sustainability challenges, under half of banks across all regions are planning for sustainable initiatives.

Barriers to sustainable banking: COVID-19; cultural legacies; lack of cohesion; market knowledge

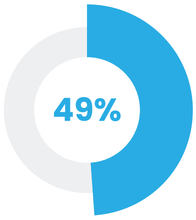
Our research demonstrates a variety of reasons why banks in the US, UK, Germany and the Netherlands are failing to take steps to be more sustainable.

In the US, more than a third (37%) of banking executives cited the resistance to shift cultural legacies as an obstacle; while in the Netherlands, a third (33%) of banking executives reported lack of a cohesive ESG strategy as the main reason they are not being more sustainable.

In the UK, the main barrier to adoption was COVID-19 and industry demands, which was reported by just under a third (31%) of banking executives.

For German banks, little knowledge of the market and how to drive sustainability was the main barrier to the adoption of sustainability initiatives, with under a third (29%) of banking executives highlighting this area.

Opportunity to integrate sustainable practices as part of the business strategy in Germany



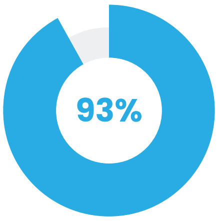
For Germany, our research shows that there is a lack of market maturity. **Less than half (49%) of banking executives citing sustainability as an important part of their business strategy.**

Our data shows that Germany is lagging behind in reporting sustainability challenges at board level and having a representative overseeing sustainability strategies. Less than a quarter (24%) of German banks have a representative at board level who oversees a sustainability strategy.

In terms of sustainability reporting at board level, Germany is also falling behind the Netherlands and the UK, with just over half of German banks (58%) reporting sustainability challenges.

Sustainable digitisation presents a golden opportunity for the banking sector

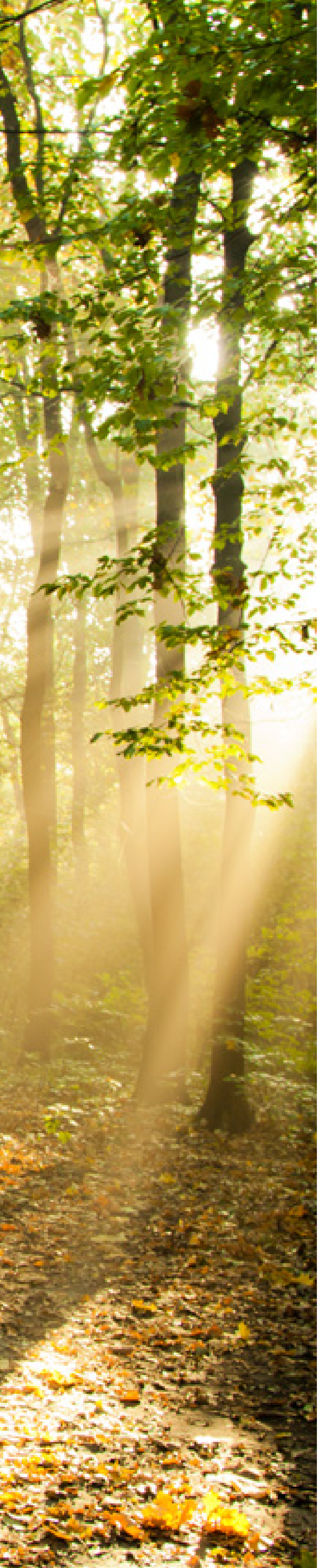
Awareness of using digital transformation to create a sustainable future in banking is high among US, UK and Dutch banking executives, highlighting the opportunity for banks to build on awareness by using digital to drive sustainable outcomes. The US is outpacing Europe in this field.



In the US 9 out of 10 (93%), and in the Netherlands 4 in 5 (80%), banking executives are aware that digital can have a positive contribution to sustainable banking. For UK banks, awareness is similar, with just under three quarters (72%) of banking executives aware that digital has a positive role in driving sustainable outcomes.

Among banks using digital technologies to drive sustainability, our research finds that intelligent automation is the most common initiative being implemented across the UK and Germany.

In the US and the Netherlands, banks are collaborating with suppliers and partners to extract maximum value across the global supply chain, for example in data centres.



CHAPTER 5

Recommendations

SUSTAINABLE BANKING TO DRIVE BUSINESS PERFORMANCE

As the importance of sustainability continues to accelerate in the banking and financial services sector, there is an opportunity for banks and financial institutions to build on growing awareness around sustainability by scaling digital solutions that drive sustainable outcomes. It's encouraging to see banks reaping the benefits of a sustainable approach, illustrating that operational efficiencies, improved brand reputation, cost savings and staying competitive are among the advantages of taking a strategy such as this.

Our research highlights that while sustainability is not a top concern at board level for banks in the US, UK, Germany and the Netherlands, adopting a digital strategy to drive sustainability will help to overcome the challenges highlighted by banking executives, most notably around customer retention and the impact of COVID-19. Meanwhile, the advanced level of awareness and representation of sustainability in the US serves as an opportunity for banks to take action and experience the business benefits associated with being sustainable. The findings suggest that other banks will follow suit, once sustainability and profitability are not viewed as mutually exclusive.

In addition, differences between challenger and traditional banks demonstrate contrasting maturity levels towards sustainable banking. In the US and UK, sustainability was a top concern at board level for challenger banks, while it was the lowest concern for traditional banks.

As challenger banks are digital by default, many are therefore already alert to sustainability challenges, and understand how digital can be leveraged to achieve sustainable outcomes. Despite this awareness, they are not making the practical connection to reach the full digital and sustainable potential. For traditional banks, who are slower in reporting on sustainability and implementing it as part of their business strategy, learning how to remain competitive in an ever changing banking and financial services landscape will involve embracing sustainable and digital transformation more widely. Accelerating customer-centric digital solutions, from clear strategy and vision and creative design through to flawless engineering, will be all-important in sustaining a competitive advantage.

GOING BEYOND FIRST GENERATION SUSTAINABLE INITIATIVES

Our research demonstrates a friction in sustainable banking around 'saying and doing'. There is great awareness and willingness to engage in sustainability among corporate and retail banks, but more needs to be done to plan and implement sustainability initiatives across all four regions for the second wave of sustainability.

Indeed, banks need to go beyond carbon emissions offsetting. This is most pertinent in the US and UK, with our research showing that banks are investing in carbon credits or encouraging remote working as priority initiatives. There needs to be a shift towards exploring the wider supply chain as part of a 360 ecosystem, to include the behaviours of customers, suppliers and partners.

A sustainable bank is one that has an eco-conscience and a long term view. Banks need to identify the barriers that are preventing them from becoming sustainable and incorporate sustainability into their planning and execution - to positively impact the environment and drive business value. In addition, by saying and doing, banks will improve their reputation and avoid speculation around greenwashing.

NAVIGATING THE MULTI-STAKEHOLDER JOURNEY TO REMOVE BARRIERS

Banks need to combine their digital and sustainability leadership roles as one business practice to gain clear and purposeful alignment for their ESG strategy. Navigating the multi-stakeholder journey to secure internal buy-in from across the organisation is the key to a sustainable banking future. Essentially, a more unified approach and perspective will pave the way for a cleaner and more efficient business practice where profitability and sustainability are not in competition with each other. Breaking down cultural legacies, such as those hindering progress in the US, are areas identified for attention by our research.

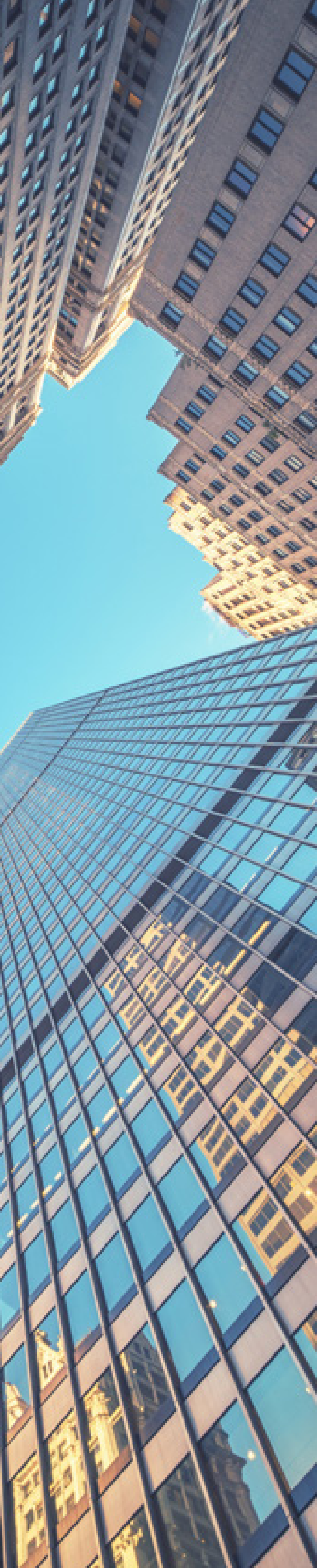
By identifying the gaps in existing business strategies at banks in the US, UK, Germany and the Netherlands, our research highlights the opportunity for corporate and retail banks to drive sustainability by implementing digital transformation initiatives - a win-win for banks and financial institutions across all regions.

As the banking industry changes, banks that embrace sustainability as a business priority will be the ones that thrive in the future. Indeed, by listening to customer demands and giving all stakeholders a voice, sustainable banks will future-proof customer retention and acquisition while attracting and retaining A-list talent.

TAKING ADVANTAGE OF A 360 DEGREE SUSTAINABLE ECOSYSTEM

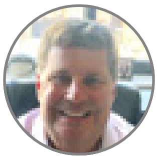
By embracing "sustainable digitization," banks and financial institutions will carve out new revenue streams and business opportunities as we enter a connected and socially responsible world post-COVID-19.

As more banks digitize their processes, they get the added benefits of sustainability that follow as a result of these efficiencies. This development is something that can be incorporated into their marketing strategy to appeal to an increasingly eco-conscious world. The future is a circular one, where recycling byproducts from banking in a 360 sustainable ecosystem brings benefits for banking and the planet. Known as Europe's "unicorn factory," Stockholm is leading the way with unparalleled sustainability. The Stockholm data parks project, where green data centers of the future will source sustainable electricity to minimize their environmental impact, can be used as a blueprint for sustainable banking. Banks can ensure that the byproducts of digital banking, such as the energy generated from data storage, will be used to power and heat the homes and offices of the future.



CHAPTER 6

Expert view



David Callaway,
Founder and Editor-in-Chief of Callaway Climate Insights. David is the former president of the World Editors Forum, Editor-in-Chief of USA Today and MarketWatch, and CEO of TheStreet Inc

Against a backdrop of summer climate disasters this year, ranging from deadly floods in Germany and Japan, to wildfires in Greece, California and Canada, and unprecedented heat in Europe and the northwest of the U.S., the case for sustainable reform of the financial industry is no longer a marketing opportunity or regulatory chore. It is a business imperative.

The banking industry is both under rising systemic threat from global warming disasters and uniquely positioned to lead the dramatic international effort to help the world adapt.

The findings in this Mobiquity report present a stark set of challenges to banking boards and management teams as we approach the COP26 global climate summit in November. Not just in financing the biggest economic transition since the Industrial Age, but in creating the cultural and governance structures to position the financial world to avoid an economic meltdown in parallel with the climate emergency.

It's clear from the data that the vast majority of banking executives – well over 75% and in the case of the U.S. almost 100% — see sustainability as a key part of business strategy. What is surprising is that less than a third in the U.S. and Europe see it as a board level priority. While it's tempting to say Covid has sucked all the air out of the room, the drumbeat of climate disasters this year should be a wake-up call to banking boards worldwide.

Confusion over ESG metrics, outdated cultural structures, and a legacy of fossil-fuel lending that ties many banks to the oil and gas companies in uncomfortable but unavoidable ways were all cited as reasons for hesitancy. While all true, the digital transition of many banks, particularly in Europe, is a big advantage they should all take to drive sustainable outcomes across products, staffs and borrowers.

The banking sector is a leader in digital transitions. Most of us bank online or on our phone apps these days. Credit and debit cards can be tapped instead of swiped; privacy gains in particular have given banks a leg up on other industries. The lending books of many banks are rapidly changing as well, with green bonds, green loans and other green financings rising rapidly around the world, particularly again in Europe, where even the European Central Bank is evolving a green lending policy.

One of the surprising aspects of the Mobiquity report is the level of importance granted to ESG and sustainable practices in U.S. banks, which are far behind levels of green business and digitization being done by their counterparts in the UK, Germany, and the Netherlands, as well as France. It is attributed to more exposure to climate media and public discussion, which may be true, but it is surprising nonetheless given the fact that Europe is driving the climate finance discussion.

Of all the challenges facing the banking industry this report points out, however, none are greater than reconciling promises of net-zero emissions at Scope 1, 2 and 3 levels with the fossil fuel assets on loan books. Those assets represent not just a hindrance to greater shareholder approval and staff retention, but a dangerous climate timebomb on loan books should they be stranded as climate conditions deteriorate rapidly (which they are).

To address the systemic challenges these assets represent, the digital opportunities to improve underlying businesses, and the overall responsibility of the banking system toward driving the economic transition to a renewable, sustainable economies, banks must prioritize climate change and ESG in their boardrooms, across their management teams, and in every department and geographic location.

This report makes it clear both where the early successes lie and the hard work that is to come, country by country, bank by bank. It is a useful guidepost on a crowded trail to a sustainable financial system.

CHAPTER 7

Expert view

Dr. Ben Caldecott,
Director of the Oxford Sustainable Finance Programme,
University of Oxford

Dr Ben Caldecott is the founding Director of the Oxford Sustainable Finance Programme and the inaugural Lombard Odier Associate Professor and Senior Research Fellow of Sustainable Finance at the University of Oxford, the first ever endowed professorship of sustainable finance. Ben is also the founding Director and Principal Investigator of the UK Centre for Greening Finance & Investment (CGFI), established by UK Research and Innovation in 2021 as the national centre to accelerate the adoption and use of climate and environmental data and analytics by financial institutions internationally. Since 2019, he has also been seconded to the UK Cabinet Office as the COP26 Strategy Advisor for Finance.

Sustainable Banking: A mission critical task facing humanity

Sustainable finance is a structural change in the demand and provision of financial products and services with wide ranging implications for financial institutions and the financial system. It is also mission critical for tackling the profound environmental and social challenges facing humanity.

Risks related to physical climate change impacts and societal responses to climate change, as well as other environment-related factors, are increasingly stranding assets and disrupting sectors of the global economy. Asset stranding can affect the performance of loans and investments, and as central banks and financial supervisors increasingly recognise, also has implications for the solvency of financial institutions and wider financial stability. This has resulted in new and comprehensive changes to the supervisory expectations facing regulated banks, investors, and insurers around the world.

The corollary and mirror image of stranded assets are the unprecedented opportunities created by the transition to global environmental sustainability. We have entered the most capital-intensive period of human history, as the technologies and infrastructure we need to deploy have large upfront capital costs.

The scale of the investment required creates opportunities for the owners and organisers of capital. In the energy sector alone, meeting the well-below 2°C objective of the Paris Agreement could require US$1.5 trillion of additional investment per year from now until 2050 (McCollum et al., 2018). This is a story replicated in other sectors.

Asset owners and banking clients, from the largest institutional investors to the smallest millennial retail savers, also increasingly want to align their investments with environmental and social sustainability. This includes portfolio alignment with net zero emissions, tackling the destruction of habitats and ecosystems, and contributing to the wider societal objectives captured by the UN Sustainable Development Goals (SDGs).

These drivers of sustainable finance create huge opportunities for the banking sector. It has implications for the scale and type of products and services provided to clients. For example, how banks can engage with retail clients and provide them with solutions is a big opportunity for winning business, as well as for accelerating systemic change. This extends from green mortgages enabling energy efficiency retrofits through to empowering individuals to engage constructively with companies. These efforts can help normalise and mainstream behaviours necessary for tackling climate change.

Growing regulatory and social pressure will also require banks to align their loan books and activities with net zero and other environmental objectives. In addition to supporting clients to transition towards sustainability, banks will also need to become much more sustainable and themselves achieve net zero, not only for their financed emissions, but for their own activities and operations. Measuring and managing risks and opportunities across myriad client relationships across different sectors and geographies will also require new ways of tracking exposures.

All of these require changes in practices and enabling investments in digital capabilities, including but not limited to: the greater use of geospatial data and analytics to support lending decisions, new modelling capabilities to undertake climate stress tests, transaction enabling infrastructure to support transition finance including new sustainability-linked loans, and platforms that enable new forms of client engagement with sustainability and impact investing.

The banking sector is where the financial system and the real economy meet. The real economy cannot transition in time to meet the SDGs and the Paris Agreement without the banking sector providing the capital and services needed. It is in the interests of banks to move quickly given the scale of the opportunities and the risks that are already materialising. Banks need to develop comprehensive strategies, together with detailed plans for implementation tied to appropriate resourcing and levels of accountability to ensure implementation. Arguably this is already a supervisory requirement in many jurisdictions, but banks should be responsible and act sooner rather than later. Critically it is also in their own commercial interests to do so and they should not wait for regulation or the enforcement of recently updated regulations.

CHAPTER 8

Expert view

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

The ethical imperative to leave a healthy planet to future generations makes it necessary to look at banks' sustainability efforts against a broad canvas of how banking products and services, customer lifestyles and expectations, and technology are evolving.

For over 500 years, retail banking followed a model of building branches in high foot-traffic areas and waiting for customers to show up. That model worked when alternatives to in-person services were fewer, customers had different expectations, and environmental concerns were minimal or not even a consideration.

The new digital lifestyle, where smartphones act as a "remote control" to everyday experiences, has changed customers' expectations about how banks should serve them. Customers now prefer to access banking services where and when it's most convenient for them; that could be at home, in the doctor's waiting room, or any place when they have a few minutes of time. When they do this, customers are essentially serving themselves.

The "self-serve" model has many benefits; customers find it quicker and more convenient and banks need less staff in branches and call centers to attend to customers. Because the self-serve model particularly applies to simpler transactional activity like paying bills and checking balances, it frees up bank staff to help customers with more complex, higher value services. It reduces the environmental impact; customers don't have to travel to branches and banks can reduce the size and number of branches. And it reduces a bank's operating cost.

Customers are also increasingly adopting newly invented digital products like robo-advisors and BNPL financing that technology enabled in recent years. When a bank, historically a consumer's primary financial services provider, doesn't offer such products, customers adopt offerings from competitors. Oftentimes, that's a fintech startup or a large technology company that's eager to get into financial services. These technology-enabled products are usually more environmentally friendly; an obvious example is Venmo versus paper-based checks.

This narrative has focused on Consumer Banking, but these same paradigm shifts are taking place in other customer segments. The same technologies that are enabling new capabilities and efficiencies in Consumer Banking are doing it at scale in Corporate Banking, Wealth Management, Brokerage, etc. And they are achieving the same benefits of customer convenience, competitive advantage, and cost savings, along with improved sustainability.

Sustainability related initiatives have often failed to attract sufficient boardroom support, in all sectors, not just banking, because their benefits are seen by some as unproven, intangible, or far off in the future. Even if the benefits to future generations seem distant, the immediate benefits of meeting contemporary customer expectations, competing effectively with non-traditional technology-based competitors, and lowering current operating costs should be evident and compelling to banks.

CHAPTER 9

Expert view

Howard Moore,
Senior Director Digital Banking, Mobiquity

"Sustainability: a by-product of better decision making"

The report highlights the difficulties faced by senior executives in the Financial Services industry. A landscape that was changing at an increasingly rapid pace has, along with the customers it serves, faced a massive challenge during the COVID-19 pandemic. Therefore, it is to be expected that many banking executives saw COVID-19 as their largest challenge to date, while other concerns were pushed into the background - to accommodate immediate short- and medium-term challenges.

As different markets mature in their sustainability efforts at varying speeds, senior banking executives are faced with similar decisions to make, but with different factors influencing those decisions. A bank's relationship with society - and specifically the impact on society's resources - is becoming a key factor in how it is planning and implementing its day to day operations.

Employee welfare, operational efficiency, overheads, and a financial institution's relationship with its customers and by extension society, are not new decisions. What has changed and continues to evolve are factors that influence these decisions, and the methods with which to solve these frictions. As all senior decision makers are all too aware, it is not possible to look at any of these decisions in isolation. A move to increase or decrease one factor will influence at least one, if not all of the others.

The methods by which we are now able to find solutions to these decisions have changed in such a way that it does enable us to look at 'win-win' scenarios. Implementing digital, composable solutions, will not only help banks drive tangible operational efficiency and cost reductions, they also lead to more sustainable outcomes. In addition, by providing flexible and mobile solutions to accelerate connectivity with customers and employees, these digital solutions enable greater control over banking interactions and how customers access banking services.

Our report shows that banks are becoming aware of the importance of digital technologies to solve environmental concerns. Meanwhile, smart data is central to informed, sustainable decision making. As digital transformation provides greater information flows to the frequency and type of services being used, we are able to not only improve our ESG efforts but provide better information on measuring and monitoring their relative impact.

By combining smart data to the regional standards highlighted above, a bank is able to actively demonstrate how its decision making is impacting sustainability, and its understanding of the changing landscape of consumer and employee concerns. The future of banking is one where a sustainable outcome is the by-product of better decision making.

CHAPTER 10

Methodology

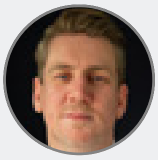
The research was conducted by the independent market research company Censuswide, with 400 C-suite exectives at a mix of challenger and traditional banks in the UK, Germany, Netherlands and the US in 2021. Censuswide abide by and employ members of the Market Research Society, which is based on the ESOMAR principles.

mobiquity

part of HEXAWARE

CONTACT

Get in touch



Matthew Williamson,
VP of Global Financial Services, Mobiquity

+44 7785 614623
mwilliamson@mobiquityinc.com
/in/matthewwilliamson

Howard Moore,
Senior Director Digital Banking, Mobiquity

+44 7811 848952
hmoore@mobiquityinc.com
/in/howard-moore

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

rwalia@mobiquityinc.com
/in/rubywalia

Any inquiries: marketinginfo@mobiquityinc.com