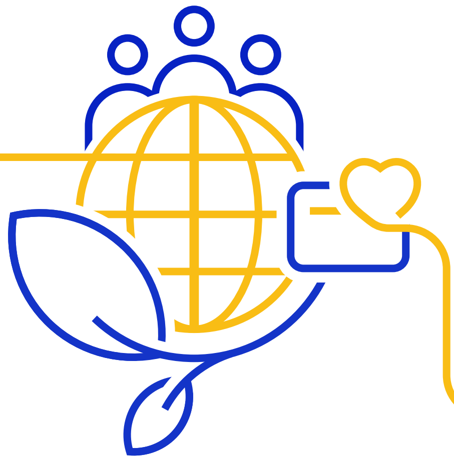


Trend #2

Sustainable spending: How financial institutions can prepare for green spenders

In January, our Visa Consulting & Analytics (VCA) global advisors used VisaNet data, expert interviews, and in-house research to identify ten trends that are set to shape the payments landscape over 2023.

Each month, we're delving into each of the ten trends (if you missed February's highlight, see Trend #1, Generation Z sets to work).

In this paper, based on our experience working with clients, VCA expands on the second trend on consumers' adoption of sustainable spending practices – by looking at how it is impacting payments, how financial institutions (FIs) can best prepare, and the types of responses they should be considering.

We'll highlight the remaining eight trends month-by-month, so stay tuned for the following insights: B2B goes 3.0, Web3 technologies matter, Guarding against fraud, Mobile wallets are becoming universal, Open banking picks up the pace, Embedded finance transformation, Gig economy boom, and a BNPL shift is underway.

How does sustainable spending affect the payments landscape?

Consumers around the world are united in adopting the goal of addressing climate change. Part of this global effort involves looking at how consumer purchases and spending practices affect the environment. In a recent U.S.-based Visa survey, **72 percent of respondents indicated that sustainability was very important to them.**[1] In addition, in a separate survey, **85 percent of global consumers indicated they have altered their purchasing behaviors in the last five years to become more sustainable.**[2] This shift in perspective and behavior is true across demographic profiles and is particularly pronounced among millennials and Gen-Z consumers.

The ever-increasing adoption of and advocacy for "green" products and services presents a growth opportunity for any business. But, until now, merchants have generally been leading the charge on meeting this demand and introducing creative ways to be sustainable and reduce their carbon footprints.

Examples include retailers using refillable containers instead of single-use plastics (e.g., zero-waste grocery stores and refill shops like Lush, The Body Shop, and L'Occitane), or reselling or renting out used goods (e.g., thredUP, Preloved, or Rent the Runway). Other merchants share with their customers the carbon footprint associated with their purchases. Wherever you look in the world of retail, you can generally see examples of merchants mirroring and catering to consumers' sustainable behaviors.

Meanwhile, there is pressure among other stakeholder groups, such as institutional investors, special interest groups and regulators. Increasingly, they expect all organizations – irrespective of sector – to understand, enhance and demonstrate the sustainability-related impacts of their operations.

While many merchants have excelled in meeting this demand for eco-friendly business practices, FIs are not far behind. Small FIs and fintechs have begun developing and deploying sustainable products and services with successes in niche markets, which has laid the groundwork for more mainstream adoption.

72%

of respondents indicated that **sustainability was very important** to them[1]

How financial institutions can respond

As efforts to address climate change continue to accelerate and sustainability becomes increasingly top-of-mind for consumers, sustainability-first products and services represent a tremendous opportunity for FIs to increase customer loyalty and acquire new customers.

In a recent Visa survey, 53 percent of U.S. consumers said they would be motivated to continue an existing banking relationship if the bank offered a sustainable credit card, and 49 percent said a sustainable card would even convince them to begin a new banking relationship.[3]

These percentages jump to 66 percent and 68 percent, respectively, when segmenting for millennials, Gen-Z, and more affluent consumers, offering FIs a unique opportunity to engage and retain these high-value segments.[4] The top sustainability-related features that customers are interested in are earning additional points or rewards for sustainable behaviors and redeeming rewards for environmentally friendly products.

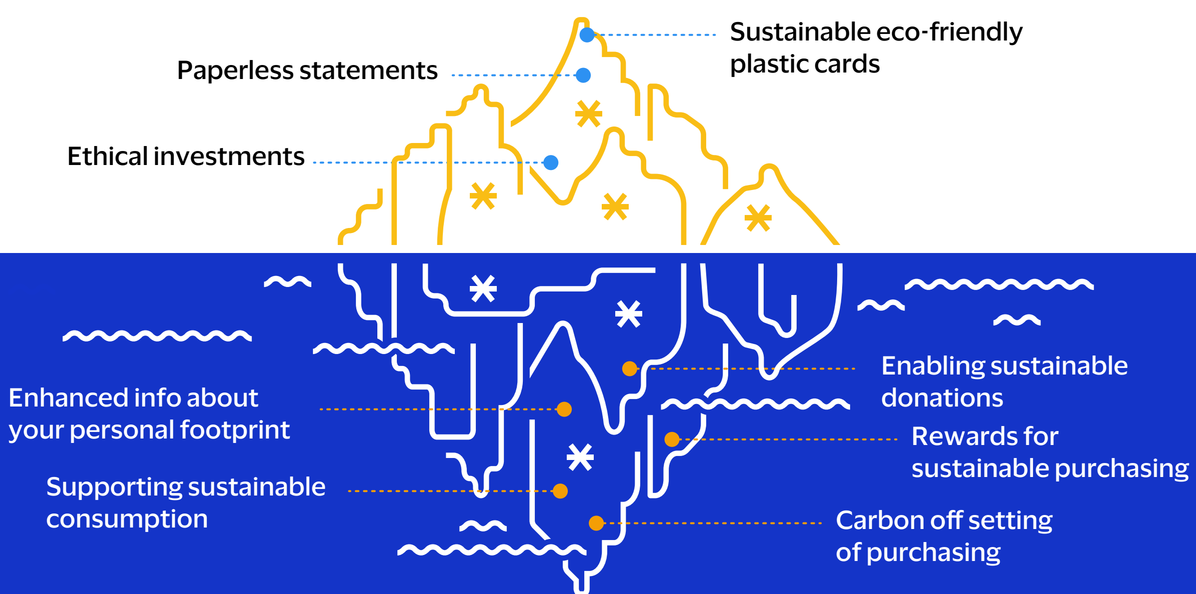
Another opportunity for FIs to meet the growing demand for sustainability is providing access to and education on sustainable investing options, such as environmental, social, and governance (ESG) integrated funds within their wealth management solutions.

99% of millennials have expressed at least some interest in sustainable investing, up 15 percentage points in six years.[5]

Sustainable assets have almost doubled in the past three years, reaching $255 billion by the end of 2022[6], and sustainable investing allows participants to use their capital to create a more sustainable world that aligns with their values – while building wealth. So, in addition to helping the planet, participating FIs can increase stickiness with investors by becoming a trusted and like-minded partner that helps them accomplish their ecological and financial objectives.

There is also tremendous scope for FIs to exceed consumer expectations, by going beyond sustainable rewards, sustainable materials, and sustainable investing.

Consumer perception of what sustainability looks like in banking…



… significant potential for FIs to exceed consumer expectations

Source: STRAT7: Bonamy Finch, STRAT7: Incite

The fact is, an FI’s payment-related data has the potential to provide a direct line-of-sight to a consumer’s everyday spending and its sustainability characteristics. This unique data asset can be used to help consumers understand and optimize the environmental impact of their own behaviors.

With the help of open banking technology, FIs can show their customers the climate impact of every purchase they make, benchmark these figures against national and peer-group averages, and even provide suggestions on how to reduce the impact.

Meanwhile, on the acceptance side of the business, there is potential for acquirers to support and promote sustainability-related spending, such as electric-vehicle charging services or re-commerce solutions. They can also enable merchants to support and promote charitable donations – perhaps by encouraging consumers to round-up their purchase amount and donate the “spare change” to a good cause.

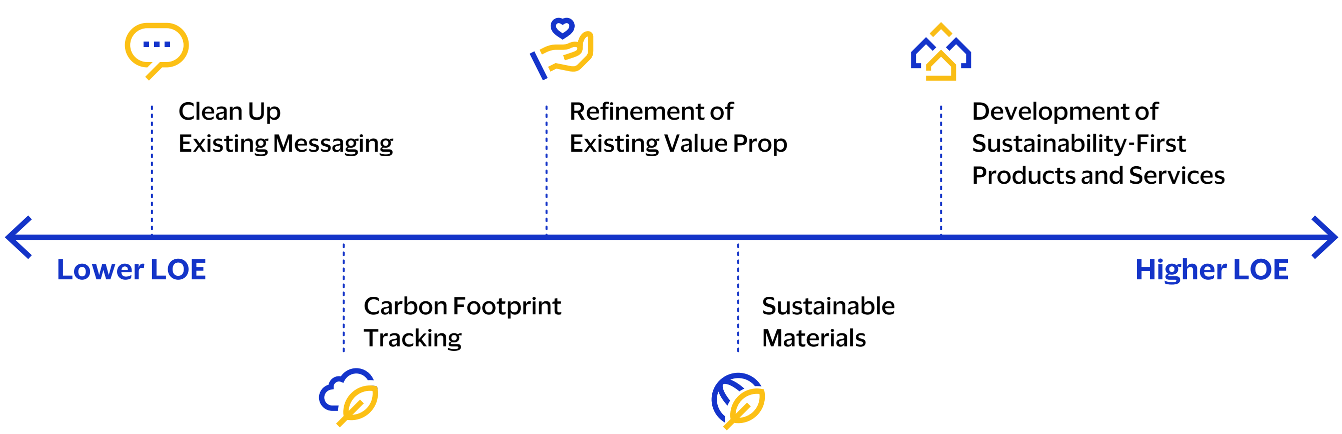
The bottom line is that, because most consumers haven’t thought too much about sustainable banking and payment solutions, there is an opportunity for FIs to move ahead – increasing the loyalty of existing customers, attracting the attention a new cohort of consumers, and clearly differentiating their brand from competitors.

How some forward-thinking financial institutions are responding

There are many ways financial institutions can respond to the sustainability-related expectations of current and future clients. At VCA, we think of sustainability efforts as belonging on a continuum. At the low end of the spectrum, which requires a lower level of effort (LOE), companies can complete simpler objectives, like auditing and refining their ESG-related messaging and amplifying their marketing internally and externally. Towards the high LOE end of the spectrum, companies can take an industry-impacting role by restructuring business strategies and objectives to center on sustainable products, processes, and propositions.

The continuum also acts as a useful planning tool, against which FIs can benchmark their own operations and identify which initiatives are best suited to their organizational characteristics, targeted clientele, and strategic ambitions.

Sustainable finance continuum for FIs to benchmark themselves



Across the continuum, we are seeing some interesting initiatives from forward-thinking FIs and, as sustainable-spending trends become increasingly entrenched, we expect to see many more examples emerge and proliferate, including the following:

Clean-up existing messaging

Consumers want transparency on sustainability, and some FIs are responding by ensuring their customers can easily find information about their sustainability practices and offerings in clear, concise language free from technical jargon.[7]

Carbon footprint tracking

With the help of open banking technology providers like Tink and fintechs like ecolytiq, FIs across the globe are offering their customers the ability to calculate the carbon footprint associated with their purchases.[8] Customers can also compare their footprint with various benchmarks and can get helpful tips to help them improve their performances.[9]

Refinement of existing value propositions

Many FIs are coming up with new approaches. For example, U.S. Bank refreshed the value propositions of its existing card products so the reward rate on electric-vehicle charging is equal to the reward rate on gas station spend, a popular category among consumers.[10] Additionally, several banks in the Asia Pacific region have begun offering interest rate discounts on mortgage loans to borrowers who meet certain criteria (e.g., those who have installed solar panels).[11]

Sustainable materials

An increasing number of FIs have either begun or have announced a plan to begin issuing cards made of recycled plastics or other eco-friendly materials.[12] Additionally, some consumers may be willing to forego a physical card and rely solely on a virtual card through their smartphones to avoid a material card entirely.

Development of sustainability-first products and services

Fintechs like Future, Tomorrow Bank, and others have developed products and services with sustainability at the forefront of the value proposition – typically including an end-to-end package of sustainability-related rewards programs, carbon tracking, and benchmarking capabilities, sustainable materials, and an overt sustainability positioning.

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

We have expertise working with clients to support their sustainability efforts. If you'd like more information on sustainable spending and learn about growth opportunities for your business, please contact your Visa account executive or email VCA@Visa.com

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