Attracting New Customers With ESG

by Steve Brown customer acquisition millennials ESG

Summary: Financial institutions are increasingly under pressure from stakeholders to demonstrate their commitment to addressing environmental, social, and governance (ESG) issues. We look at four ways in which ESG initiatives could result in benefits for community financial institutions, such as attracting new customers, as well as contributing to a more sustainable future for their communities and beyond.

The expression “to kill two birds with one stone” is thought to originate in Greek mythology. Daedalus, father of Icarus and an accomplished architect, inventor, and artist, is said to have killed two birds with one stone to make wings that would allow him and Icarus to escape the labyrinth of Crete, where they were held prisoners. Once free, Icarus failed to heed his father’s advice about staying away from the sun, which ultimately melted the wax holding his wings in place, causing him to fall into the sea.

Community financial institutions (CFIs) may want to learn from the ingenious Daedalus by adopting environmental, social, and governance (ESG) practices to not only meet the expectations of stakeholders, but also to attract more customers — thereby theoretically hitting two birds with one stone.

Building a more sustainable future — one customer at a time

Increased awareness of climate changes and social inequality, as well as the impact of the pandemic, has resulted in more pressure on businesses to embrace sustainability. Indeed, improving ESG performance is now a core strategic objective for 87% of business leaders, according to a 2021 survey by PwC.

But the need to pursue ESG initiatives goes beyond meeting changing stakeholder expectations and societal needs. CFIs can also reap financial and reputational benefits by appealing to and attracting new customers. Here are **four ways to embed ESG programs** into your institution.

1. **Support financial inclusion**

The pandemic shined a spotlight on the “S” of ESG — social impact. In particular, it highlighted the need to give all individuals and businesses fair access to affordable financial products to meet their needs. As CFIs scrambled to provide loans to some of the smallest businesses through the PPP, they also automated processes and then upgraded systems for more people to use digital banking services.

With a more robust digital banking platform, CFIs can better support customers that otherwise could have been difficult to reach, including rural businesses and the underbanked. With about 16% of Americans still underbanked and 5.4% unbanked, millions of customers lack the banking services that they may need.

While many financial institutions have traditionally viewed these consumers as unprofitable, that may not always be the case. Low to moderate income and rural consumers are older when they start to have a credit history, since they are less likely to open credit cards early in life, when credit tracking often begins. In fact, according to a Congressional Research Service report, the "*highest rates of credit invisibility for consumers over 25Ys old are in rural areas.*" A better understanding of individual needs and credit worthiness — driven by data and artificial intelligence — together with digital access could provide them with needed services, such as payment solutions, at a lower cost.

2. **Provide sustainable debt products**

Sustainable debt, such as green bonds, social bonds, sustainability-linked bonds, and sustainability-linked loans (SLLs), is also booming, having doubled YoY to $1.6T in 2021. Green bonds account for the greatest share of debt, but sustainability-linked debt — holding companies accountable for their ESG efforts — has more than quadrupled YoY to reach $530B.

As an example, a $3B asset TX-based CFI offers such loans to finance projects such as energy waste disposal facilities. Commenting on such a loan, it said: "*The distinctive structure of SLL allows the company to leverage its environmental stewardship and ESG performance by linking its financing costs to execution of its sustainability strategy.*"

Another CFI, based in NY with $6B in assets, has nearly a quarter of its loan portfolio directed toward climate solutions. "*We are blessed to be in a situation where clients with similar values and outlooks come to us because of our alignment. We have a bounty of clients looking to solve the world's problems and looking to partner with us,*" says one of its executives.

There are many more of these types of offerings today than ever before and they will likely continue to grow in availability and size.

3. **Research ESG funds for wealth offerings**

ESG investing is gaining momentum globally. Bloomberg Intelligence predicts that total ESG assets will reach $41T by the end of 2022, and $50T by 2025. Although Europe has dominated the market, US ESG investments have grown by over 40% in the last 2Y. Morningstar reports that, contrary to common perception, in terms of total and risk-adjusted returns, sustainable US large-blend funds outperform their traditional peers.

CFIs that provide wealth management services should consider the range of ESG funds they offer. This is likely to play particularly well with millennials and the younger generations, who are widely acknowledged as being more socially and environmentally conscious in their investment decisions. With over $68T in generational wealth expected to find its way into the hands of these generations over the next 25Ys, it could be financially lucrative to add ESG offerings.

4. **Promote ESG efforts**

Although difficult to quantify, a CFI's reputation has a direct impact on the bottom line. In a survey by PwC, an overwhelming majority of both consumers and employees said they're more likely to buy from or work for companies that invest in addressing ESG issues.

What's more, almost three-quarters of respondents praise businesses for greater care for the environment compared to 10Ys ago. To benefit from potential ESG-related reputational gains, CFIs should not only continue to increase their ESG efforts, but also formalize, record, and promote what they are doing and the difference this is making.

Embracing the ESG agenda is no longer just for the few, bold, and brave. It has become interwoven into practices and offerings by several CFIs. For good reason, a Harvard Business School study shows that companies implementing sustainability policies outperform those which do not, suggesting it is a source of long-term competitive advantage. We all need a good competitive advantage!

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ECONOMY & RATES

Rates As Of: 05/12/2022 06:56AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.91	0.06	0.85
6M	1.43	0.02	1.24
1Y	1.94	-0.15	1.55
2Y	2.56	-0.16	1.83
5Y	2.80	-0.16	1.53
10Y	2.83	-0.11	1.31
30Y	2.98	-0.02	1.07

FF Market	FF Disc	IOER (Interest on Excess Reserves)
0.83	1.00	0.90

SOFR	Prime	OBFR (Overnight Bank Funding Rate)
0.78	4.00	0.82