



# Innovating The Customer Journey Around ESG

Financial Services customers will each have their own ideas as to how ESG should be factored into the service they receive. Standard customer journeys cannot accommodate this. We address what needs to change.

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# Integrating ESG Preferences into Financial Services Customer Journeys

Capturing ESG Preferences is the first step Financial Institutions (FIs) need to offer products and services that directly meet the needs of ESG conscious customers.

'ESG' is shaping Financial Services. Firms across the sector have jumped onboard to offer products that meet the needs of a sustainability minded customer. Meanwhile, regulatory pressure is mounting and pushing Financial Institutions (FIs) to treat Environmental, Social and Governance (ESG) considerations more seriously across their offerings.

No area of the Financial Services industry has gone untouched with new products emerging from ESG Index Funds to Green Mortgages. The European ESG bond and loan market has been on an upward trajectory since 2015, and its issuances soared by 58.8% from EUR 245 billion in 2019 to EUR 389 billion in 2020<sup>1</sup>.

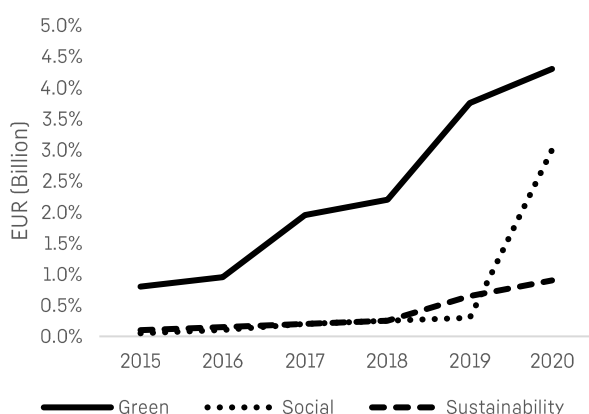


Figure 1: EUR amount of European ESG Bond Issuances as % of Total European Bond Issuances

With increased demand for ESG-focused products, FIs are forced to innovate the ways

they interact with customers. By addressing the customer journey they need to identify key touchpoints at which they can spot ESG focussed consumers and mobilise to meet their needs.

Whilst this creates several challenges it also highlights the opportunity to bring the customer closer by eliciting and recording their ESG preferences. Preference data could provide valuable insights for FIs to suggest personalised products that align with their customer's views on sustainability.

This article highlights the importance of incorporating ESG preferences throughout customer journeys, the challenges facing FIs, and how they can overcome these challenges effectively.

## Understanding customers' ESG preferences positions FIs for success

By understanding and addressing the client's specific ESG values and goals, FIs can provide a better customer experience and enjoy the commercial success that comes with it.

### Address the unserved market

Growth in demand for ESG products has been well publicised. But growth in supply has been largely tactical. See other articles in this series for limitations in ESG data, approaches to product and responses to regulation. There is a growing, unserved customer segment who want to put their money to work on ESG and want to know

<sup>1</sup> AFME European ESG Finance Quarterly Data Report

that the services that are provided to them by FS businesses align with their view of the World.

Effectively gathering ESG preferences from new and existing customers is a critical component in understanding the market. ESG Preference data will enable FIs to explore new opportunities within the Financial Services landscape, creating new ESG products that directly suit their client base and increase customer retention.

### *Treat customers as individuals*

In the digital economy customers are used to being commoditised. For all but a select few, digital journeys are one-size-fits-all, built for efficiency and relatively impersonal. ESG, sustainability and ethics are not. These are strongly held beliefs that are unique to individuals. Collecting ESG preferences allows FIs to customise their product and service offerings to meet customers' specific ESG goals.

There will inevitably be cost considerations to factor in. Not all customers will have the means to pay for a fully personalised service. However, by matching the data gathered to the level of personalisation achievable, FIs can tailor the customer journey to offer everything from basic segmentation to a fully personalised portfolio solution.

Gathering preferences for new customers is one thing, but transitioning existing customers to a more tailored service may be more challenging. The touchpoints where ESG preference data can be gathered for existing customers will be different to those for new customers.

For example, a Wealth Manager onboarding a new client today and discovering they have ESG interests would immediately align that customer to well-ESG-rated funds. However, a 20-year customer who has never been asked about their ESG preferences now needs to be asked such that they can be moved from their legacy allocations to a more ESG friendly set of vehicles. Finding the right 'moment' to ask those questions is pivotal to getting useful data.

### *Create the springboard for future ESG innovation*

Whilst relatively new, it's clear that ESG is here to stay. As regulators join customers in demanding more, FIs will need to respond with iterative changes to normalise sustainability as a factor in every service delivered. By moving now,

FIs can position themselves to enable future ESG related change at lower incremental cost.

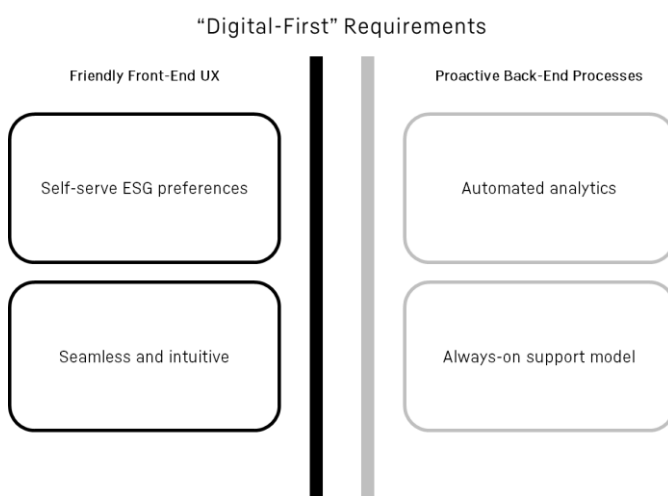
Creating the means to capture and update customers' ESG Preferences efficiently will reduce the work needed to introduce new products, 'clean up' existing products and market effectively. Rather than shooting in the dark the business will rely on data to make informed decisions. This removes the need for risk taking in innovation and creates a springboard for future growth.

### *Stay on the right side of regulation*

Early regulation of retail-focussed ESG propositions in the UK and Europe focusses on not misleading customers (SDR & SFDR). Meanwhile governments and regulators have made a concerted push to increase the availability and fidelity of ESG related data. The TCFD, UNGC, SASB and ISSB standards all ensure that ESG data is becoming more readily available and more granular in nature.

As ESG regulations evolve in tandem with increased duty of care for FIs towards their customers we expect to see an increased burden on matching customers with the ESG products they demand. If a customer expresses concern for the climate they ought to be matched to climate focussed products, if they are concerned about equality then there are different indices that really matter. Irrespective of what they tell you, having the means to find out what your customer cares about will pay dividends as regulation, and consumer expectations evolve.

### **"Digital First" is the recipe for success**



For the vast majority of FIs the most effective and efficient way to understand customers' ESG

preferences is to ask them in a digitally intermediated setting. Digital processes are convenient, intuitive, and easily scalable. Even for those businesses with a strong face-to-face component, digitally enabling this interaction will reduce the operational overhead of processing the data produced.

Irrespective of whether data gathering is intermediated or direct FIs must ensure that processes are seamless. Building around a digital core allows these (semi) automated processes to run efficiently, effectively, and be used smartly. A great deal of time and effort has gone into ensuring that financial services customer journeys flow smoothly. Introducing ESG should not add road-bumps.

To achieve a smooth flow through the customer journey FIs must focus initially on identifying those customers who are interested in engaging with ESG products of any kind. Customers can either self-identify or be identified by spotting patterns in interactions, spending, in-app searches or other sources of customer behaviour data.

### ***Ask customers to self-select***

The simplest way to understand if a customer wants to access the ESG preference gathering sub-journey is to ask them. The addition of a single question to the onboarding journey may be enough to elicit a yes or no answer that would allow the FI to send the customer down the ESG sub-journey, or not as the case may be.

Although simple and apparently effective this approach is a blunt instrument and may lead to mis-understandings from the customer. The choice to engage with the ESG journey should be voluntary and reversible at any time. FIs cannot face the situation where a customer decides not to onboard at all because they are frustrated by being asked ESG related questions.

### ***Identify customers from their behaviours***

As data and analytics capabilities in Banks have evolved, so too has their ability to infer information about their customers. For instance, a customer regularly making payments in sustainability shops, switching to electric charging from petrol and giving donations to sustainability charities from their current account is more likely to be interested in ESG. By analysing data such as these FIs are able to identify a population of customers who may be

interested in engaging more closely on ESG. Given the appropriate permissions to do so, these customers could be targeted with in-app prompts to undertake the ESG preferences journey and get support in tailoring their financial affairs to match the rest of their life.

When inferring anything about customers it is of paramount importance not to assume that your inference is correct. Using this type of analytics to tailor the options given to customers will be effective, using it to pigeon-hole them will not. Remember, it's very rare for one FI to see the whole picture of a customer's financial life so not all conclusions are good ones. When acting on this sort of analysis, give the customer options, but never force them into a course of action they haven't chosen themselves.

### ***Make expressing preferences seamless***

Once customers have chosen to enter an ESG sub-journey it should be simple and straightforward for them to express their preferences. Slick digital interactions, minimising the number of clicks required and using simple, accessible language are all important. Most important though is simplifying the choices that a customer must make.

On 'green' WealthTech are an interesting case-study in how easy a firm can make it to communicate very complex and personal information. The start-up aims to provide customers with tailored investment portfolios that directly address their specific ESG concerns.

In ascertaining what customers are interested in the WealthTech doesn't ask a mountain of questions, it simply provides the customer with a digital interface and asks them to rank a small number (10-20) statements in order of importance. The customer can choose to rank all of the statements or leave some out. This ranking, alongside digital onboarding and needs assessment tells the firm everything they need to know to construct a bespoke portfolio. This results in a simple, partially-gamified journey that allows customers to go into detail on their preferences without bamboozling them with jargon or minutiae.

### ***Support is critical***

Customers encountering an ESG-sub-journey for the first time are likely to have questions and uncertainties. However simple the interface has been made, to assure the customer journey FIs

should ensure that support is continuously available. This empowers customers to make informed decisions confidently. ESG support should be integrated into the general support mechanisms available to customers. If these are automated channels then these should be expanded, or if human support is available through chat or phone then staff training will be required.

## Barriers and potential challenges

While incorporating ESG preferences can enhance customer satisfaction and loyalty, organizations face two main types of challenges in incorporating these preferences throughout the customer journey.

### The GDPR challenge

Gathering data on or from customers requires the customer's consent as to how that data will be used. Matching customers to appropriate products and marketing products to that customer are likely to be considered different uses of the same data.

Ensuring that ESG preference data is correctly handled and that customers give the appropriate consents on the use of that data is an important consideration in the design of the ESG journey. Implementing an ESG Preference collection mechanism without safeguards in place will result in more manual work for the teams involved and expose the FI to greater non-compliance and potential regulatory fines.

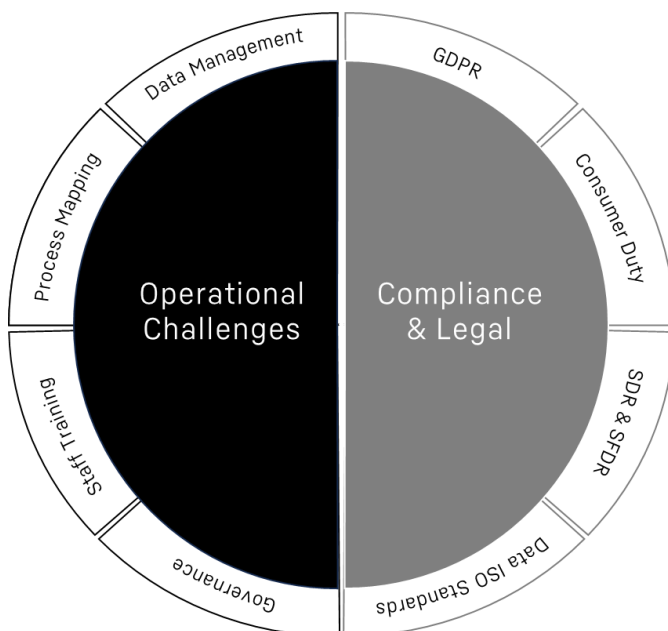
### Operational challenges

We have acknowledged that the ESG Preference gathering mechanism must fit into the customer journey in a way that is seamless and well-integrated. For many organisations it will be a challenge to bend rigid legacy technologies to this use-case and may result in architectural compromise. For some it would be wise to hold off implementing this use-case until up-to-date technologies can be easily leveraged. For others the ESG journey design will be profoundly influenced by the technologies available to support it.

When designing the data gathering mechanism FIs should be conscious of the discretionary nature of this data. Customers may choose to provide answers to every question or just some, and may, in the self-serve example provide answers that don't exactly describe their true attitudes.

Data management will be critical to ensuring that analytics are sound and well-reasoned, and that all data used in analytics is sufficiently complete, relevant and integral. There must also be mechanisms in place to allow customers to update their preferences as and when they please as, after all, attitudes change.

Achieving a cohesive, comprehensive ESG preference gathering sub-journey will require the coming together of a number of skillsets and technologies. Key individuals within a delivery team will need expertise in ESG itself, data analysis, workflow design, UX/UI and regulatory compliance. Businesses may find themselves wishing to supplement delivery teams with specialists in these areas to deliver effectively.



## Understand your customer

“Know Your Customer” is an expression that has a very rigidly defined meaning in Financial Services and it is not understanding customer's ESG preferences. However, the ESG challenge is undoubtedly one of getting to understand your customer.

It's about knowing more than where they live and how they make their money. It's about understanding what they want for the World and how much they want to participate in bringing it about. We believe that FIs finding ways to better know their customer position themselves to better serve their customer.

Irrespective of whether you provide Investments, Loans, Advice, Planning or Savings solutions, understanding how the customer wants to consume them can only help to better meet their needs.

## “Thought to Execution”

Valentia Partners’ approach to the Customer Journey is one that recognises the unbreakable link between the customer’s experience and the data that is gathered. Financial Services businesses, irrespective of their product, need to create good experiences for customers, and gather the data that they need to continue to do so in perpetuity.

Our experience in Financial Services Digital Transformation and Project Delivery is available to support FS businesses in delivering the innovation to their Customer Journey that ESG demands.

### *Thought: Strategic Assessment*

The existing Customer Journey and Customer Data sets need to be starting point. Understand the data that’s already gathered, and the existing touch points will be fundamental in establishing what’s possible for the ESG journey. Assessing current state and working out the jumping off points for this new capability is critical.

### *Thought: Journey Design*

Having understood the number and type of journeys required to fill the gap left by current state customer data, to that required for ESG services, the FI can start designing how they want those journeys to look. This should be done with best in class digital design and customer feedback as direct inputs.

### *Thought: Technical Design*

Before the solution can be brought to life it’s important to understand how it will be delivered. The technical architecture will vary according to the type of solution delivered and whether it will be built in house or bought as-a-service. Regardless, both the internal technical designs and the wider integration design are critical to achieving a seamless experience for the customer.

## *Thought to Execution: Roadmap Creation*

The critical link between great ‘thinking’ and successful ‘execution’ is the Roadmap. Establishing the expected resource requirements, timelines, and features to be delivered up front is crucial to managing their delivery. The Roadmap sets a benchmark for delivery against which progress can be tracked and funding can be agreed – without it, you’re guessing.

### *Execution: Project Delivery*

Teams made up of the appropriate skillsets and insights should be prepared to constantly iterate and be versatile to work around unexpected blockers. They should also be enabled by robust governance that enables progress reporting and issue escalation. Testing and Operational Readiness should also be a key part of the Implementation phase alongside continuous communication with the intended end users and important stakeholders.

### *Execution: Day 2 and Iteration*

Once working software is delivered and integrated into the customer journey for even a small Beta-cohort, it’s important to have one eye on what you’ll do next. In the case of adding this ESG-sub-journey Data and Analytics will be important in identifying next-steps. Working with Data Analysts to identify whether the data is as expected or whether it’s pointing to unforeseen opportunities or constraints will open up new opportunities behind the initial implementation.

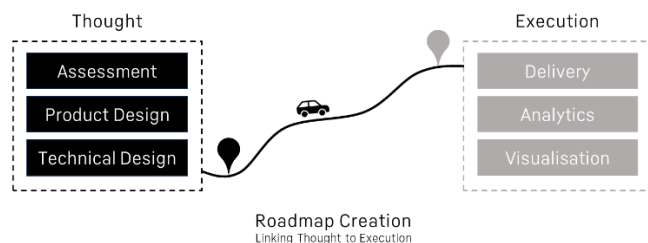


Figure 2: Even with a proper roadmap, there will be challenges on the journey to turn ideas into reality.

At every stage along this framework, it is crucial to have a positive feedback loop that captures new blockers, potential solutions, and continuous iterations. Plans can always change along the journey, but it is key to stay on course to ensure that one’s strategic goals are being met.

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