McKinsey Sustainability

Green growth: Unlocking sustainability opportunities for retail banks

A recent McKinsey survey shows broad, unmet consumer demand for climate-linked financial products—but will financial institutions provide the education consumers require and the differentiated offerings needed to win this space?

This article is a collaborative effort by William Edwards, Ritesh Jain, Marie-Claude Nadeau, Charlotte Soehner, and Daniel Stephens, representing views from McKinsey's Global Banking and Sustainability Practices.

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A recent survey by McKinsey shows there is a meaningful and growing appetite among American consumers for climate-linked financial products—but consumers need further education and advice to make informed buying decisions, and providers need to differentiate themselves from the pack. Generic environmental, social, and governance (ESG) offers will not be enough to win in this changing landscape (see sidebar, "About the survey").

Here are five insights from the survey and their implications for financial institutions:

1. Demand for green financial products is both strong and broad—and is not limited to a niche segment

Nearly 40 percent of US consumers report interest in enrolling in a climate-linked financial product (Exhibit 1). The survey referred to these products specifically (for example, a green checking account

Almost 40 percent of US consumers say they would enroll in a climate-linked financial product.

About the survey

We conducted an extensive survey in late 2022 of a representative sample of 3,000 American consumers aged 25 and older to gather their perspectives on consumer financial products with sustainability features, with a specific focus on climate-linked products.

The survey garnered responses on consumer appetite for financial products, consumer willingness to pay for financial products, and consumer attitudes toward their financial institutions.

We measured consumer interest in and willingness to pay for five climate-linked financial products or service offerings:

1. *Savings and checking accounts,* such as green deposit accounts that use ring-fenced deposits to support green lending

2. *Green credit cards,* with rewards points based on shopping behaviors or carbon footprint tracking features

3. *Lending programs,* such as residential-solar lending and electric-vehicle lending

4. *Investment products,* such as climate-screened index funds

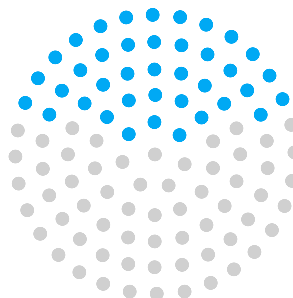
5. *Advisory services,* for example, in such areas as home efficiency improvement

For the purposes of this article, eligible respondents are defined as those with at least one of the following: personal checking account, personal savings account, personal credit card, or personal investment fund. Interested respondents are consumers who report interest in a climate-linked financial product.

Exhibit 1

Nearly two in five US consumers report interest in enrolling in a climate-linked financial product.

Eligible respondents likely to enroll in at least one green financial product in the next 12 months,[1]
% of respondents



[1]Question: How likely are you to enroll? Eligible respondents have at least 1 of the following: personal checking account, personal savings account, personal credit card, personal investment fund (n = 2,501). "Likely" is defined as the aggregate of "somewhat likely" and "very likely."
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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or a climate-screened index fund), not as generic sustainability or ESG products. Of the interested consumers, the majority see this as a potentially major change in behavior, rather than a passing curiosity; two in three would allocate more than 40 percent of their savings or monthly credit card spending to a green retail banking product.

The segment of interested consumers went well beyond high-earning city dwellers—in fact, consumer interest is not highly correlated with geography or income. For example, 24 percent of these interested customers live in rural areas, which is roughly equal to the share of the total US population living in rural areas, according to the US Census Bureau (Exhibit 2).[1] Likewise, interested consumers were not limited to the top end of the market—for instance, the balance size of savings accounts was roughly the same among consumers interested in green savings accounts as it was among those who weren't interested in the accounts (Exhibit 3).

2. Green offerings are a business opportunity for financial institutions, not a concession

Many green financial products are designed and sold as "concessionary" offerings—for example, discounts on borrowing for electric vehicles or enhanced rewards on a credit card. One side effect of this approach is that concessionary products, because they are less financially accretive, tend not to scale into attractive businesses.

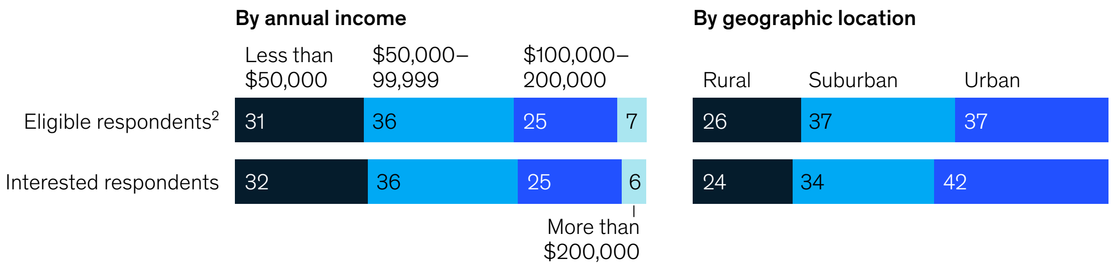
However, our research shows that in many instances, consumers are willing to pay more for climate-linked financial products, especially in the context of savings, investing, and personal advice, if those products create measurable or demonstrable impact in exchange—but that can be a big "if."

[1] "Nation's urban and rural populations shift following 2020 Census," US Census Bureau, March 10, 2023.

Exhibit 2

Green banking products are attractive to consumers across income levels and community types.

Respondents likely to enroll in at least one green financial product in the next 12 months,[1]
% of respondents



Note: Figures may not sum to 100%, because of rounding.
[1]Values aggregated from the following questions: How likely are you to enroll in a "green" savings or checking account in the next 12 months? How likely are you to enroll in a climate change–related or "green" credit card in the next 12 months? How likely are you to invest in any of the following types of climate change–related or "green" products: climate change–driven products, such as investments with climate resiliency in the face of volatility or risk caused by climate change; green-growth-driven investment products, such as investments in clean tech and transition businesses; sustainable investment products, such as investments that avoid pollution or climate change?; "Likely" is defined as the aggregate of "somewhat likely" and "very likely."
[2]Eligible respondents have at least 1 of the following: personal checking account, personal savings account, personal credit card, personal investment fund, n = 2,501.
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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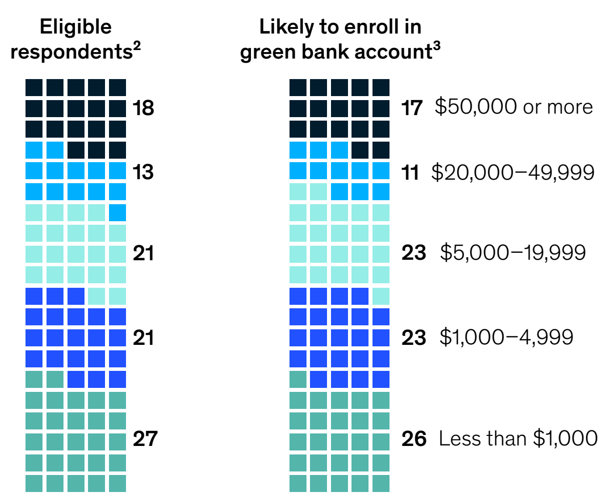
Exhibit 3

Consumer interest in green deposit products appears mostly consistent across levels of household savings.

Balance of primary savings account,[1] % of respondents



[1]Question: How likely are you to enroll in a "green" savings or checking account in the next 12 months?
[2]Eligible respondents currently have a savings account, n = 1,507.
[3]"Likely" is defined as the aggregate of "somewhat likely" and "very likely."
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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We observed this in the case of a green savings offering, where consumer deposits are ring-fenced for lending activity to sustainable borrowers. Up to 40 percent of consumers said they would choose a green savings account with an annual percentage yield (APY) that was 20 percent lower than a traditional savings account. A quarter of consumers said they would take an account with a 60 percent lower APY. This research was carried out in late 2022, when national savings rates had already increased, and these impacts therefore implied relatively meaningful financial trade-offs.

We saw the same phenomenon with respect to climate-linked investments. ESG funds have for years charged higher-than-average fees. However, the emerging opportunity is not for derivative ESG offerings. The opportunity would seem to be to create more specific, actionable, climate-linked products that connect to both an investment thesis and a thesis of societal benefit (Exhibit 4).

3. Consumers are eager for advice and support from their financial partners

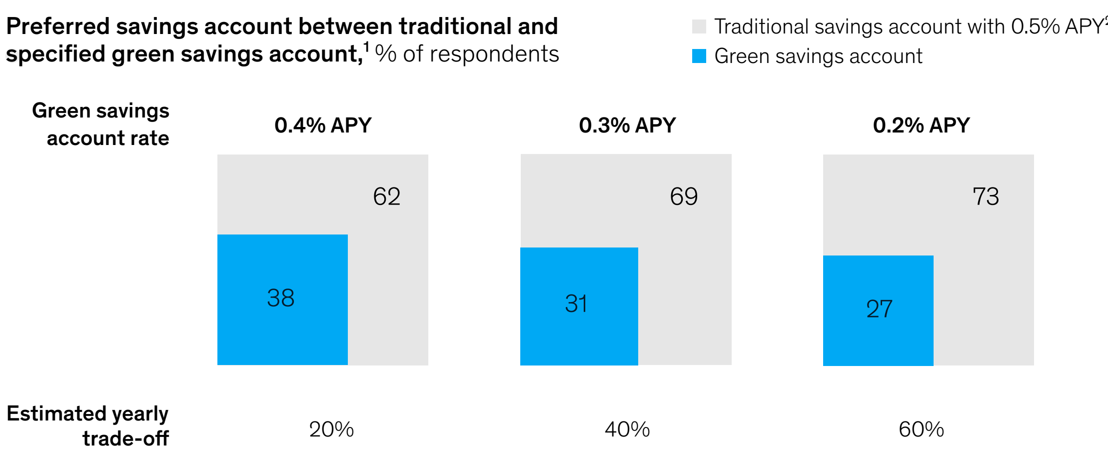
Consumers are often overwhelmed and confused by the transition to more sustainable ways of living. They are inundated with offers—such as rooftop solar systems, electric vehicles, electric heat pumps, insulation upgrades, sustainable investment products, and personal carbon calculators—but they do not have easy access to quality technical and financial advice on how, or whether, to incorporate these offers into their lives.

This is a space where banks are well positioned to serve their customers; for instance, two in three consumers would rather partner with their bank on financing a solar panel purchase than work directly with a solar panel installation company. Consumers may prefer banks because of perceived trustworthiness, perceived expertise, existing relationships, and the perception that many of these decisions—whether investing in a 401(k), buying an electric vehicle, or replacing an old furnace—

Exhibit 4

Many consumers are willing to give up yield in savings accounts in exchange for credible promises to use those funds for green lending.

Preferred savings account between traditional and specified green savings account,[1] % of respondents



[1]Question: Which of the following savings accounts would you be most likely to sign up for?
[2]Annual percentage yield.
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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will fundamentally be investment decisions that naturally require a thoughtful financial analysis (Exhibit 5).

4. Consumers need to be educated—they may not yet have strong perspectives about which green offerings best suit their needs

While consumer interest in climate-linked financial products is genuine, consumer understanding of those products—the types of products, their impact, their benefits, etcetera—is quite low. Financial institutions will need to educate customers on the climate and financial-value proposition of their offerings, both to frame the appeal of those offerings and to direct consumers toward products that suit their needs.

In our survey, we showed consumers four different value propositions associated with a green savings account (Exhibit 6). The consumer response to the four different product offers was almost evenly split. This might indicate truly even preferences across all four types, but often such a result is consistent with consumers not understanding the product offer deeply enough to express a real preference. This same phenomenon of even distribution across three very different product offers repeated itself with respect to investment products.

As financial institutions create more offers in this space, it will be critical that they educate customers on those offers. But it is also critical that these product offers be robust in their claims on climate impact—risk modeling and reputational risk for these products must be tightly managed. To ensure the development of a sustainable and inclusive economy, sustainability-related claims need to be backed by genuine actions.

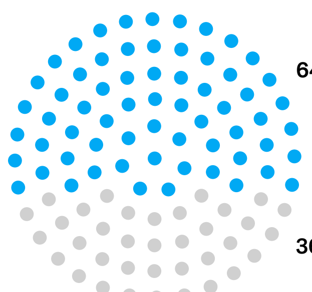
5. Consumers do not yet differentiate between banks on climate topics, leaving an opportunity for banks to stake a claim as credible, innovative, and leading in this emerging market

Across banks, there is almost no separation in how consumers perceive climate offerings and a bank's performance on climate commitments. According to multiple indicators of consumer confidence,

Exhibit 5

Consumers want banks to serve as advisers and enablers of their own personal sustainability transitions.

Type of solar-panel advertisement that consumers are most likely to respond to,[1] % of respondents



[1]Question: Which of the following solar-panel advertisements are you most likely to respond to? Among respondents who are likely to purchase solar panels in the next 3 years, n = 358.
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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Exhibit 6

There is no clear winner among types of green bank accounts and green index funds.

Preference for savings account,[1] % of respondents likely to sign up

Preference for green index fund,[2] % of respondents likely to sign up

[1]Question: Which of the following savings accounts are you most likely to sign up for? "Likely" is defined as the aggregate of "somewhat likely" and "very likely." Among respondents who opted for a green deposit account, n = 950.
[2]Question: How likely are you to invest in any of the following types of climate change–related or "green" products? "Likely" is defined as the aggregate of "somewhat likely" and "very likely." Among respondents who opted for a green investment account, n = 577.
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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few if any players truly stand out as a green leader (Exhibit 7).

We asked consumers four questions about their financial partners' green credentials. No bank scored higher than 59 percent across any of the questions, and the average scores are all well below 50 percent, ranging from 24 percent to 42 percent.

Even after five-plus years of green efforts, including paperless billing and social responsibility pushes, financial institutions have yet to establish themselves as credible partners on the climate transition.

Firms can start working now on defining and communicating an engaging, accessible climate brand to support their product and service ambitions, or risk remaining in the middle of the pack.

Capturing the green opportunity

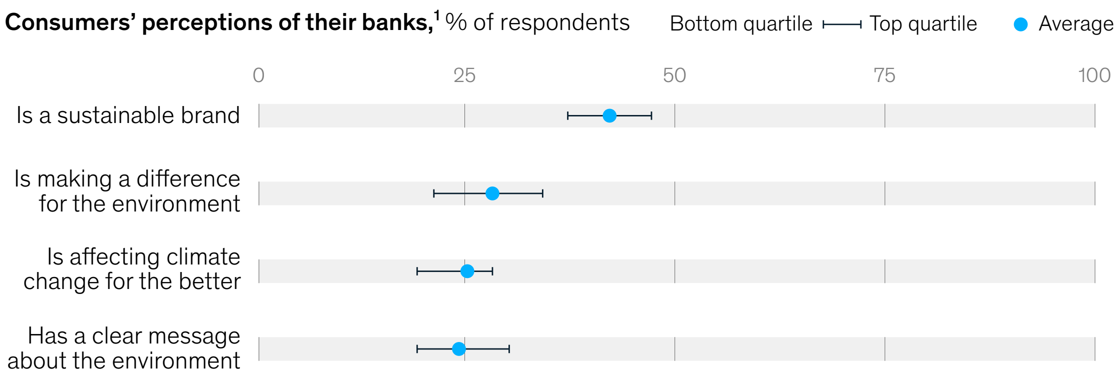
Some financial institutions are already thinking creatively about capturing the green opportunity. For example, one mortgage lender has included an option for rooftop solar installation and financing as a standard part of its home purchase package. One wealth management firm has developed targeted investment products focused on specific value-creation hypotheses for the climate transition, rather than generic ESG or impact investment products. Another wealth manager is conducting personal balance sheet risk assessments for clients that incorporate climate risk into personal property and assets.

There are a few steps we believe financial institutions can take right away to begin to capture the opportunities:

Exhibit 7

Banks today are not yet able to stand out based on their green pledges or credentials.

Consumers' perceptions of their banks,[1] % of respondents



[1]Question: Do you agree with the following statements about your financial institution? Among respondents who have a personal checking/savings account at a financial institution, n = 2,380. "Agree" is defined as the aggregate of "agree" and "strongly agree."
Source: McKinsey Climate Banking Survey, 2022, n = 2,931

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— *Find product market fit* by identifying a real customer need that can be served in a unique way with a financial product—and quickly conduct tests to understand discrepancies between consumers' stated interest and actual behavior.

— *Identify the steps needed* to build, launch, and scale climate products—including data, technology, operations, underwriting, risk, marketing, and sales considerations.

— *Design the organizational operating model* to support the new product, including dependencies on the "core" (for example, technology, distribution, and risk).

— *Determine the markers of success* in the first two to three years (before most new products break even).

Changing policies, expanding incentives, and rapidly decreasing technology costs have the potential to transform the way Americans live. Now, more than ever, financial institutions are well positioned to partner with consumers on their decarbonization journeys and could reap the strategic and financial benefits.

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