How banks can prioritize the "S" in ESG

When focusing on the facets of their social performance, financial institutions can develop interventions and deliver services that help customers when they really need it.

Financial institutions are doubling down on their environmental, social and governance efforts – and the "S" at the center of the ESG acronym especially needs to be defined, prioritized and measured. Social performance evaluates the relationship a company has with its employees, customers, suppliers, investors and community.

These past few years have seen individuals across the United States demand equality, equitable solutions and financial stability, and have led to a reckoning for organizations to meet their needs. Customers demand that their voices be heard and that their needs be met. Prioritizing the social component of ESG begins with protecting customers and empowering them to raise their voices. Banks have the opportunity to develop interventions and deliver resources and services that provide customers with the help they need when they need it.

The need for open communication

Banks play an integral role in their customers' lives, and it has become increasingly clear that consumers want banks to play an even larger role. For example, families by and large want trusted organizations to help them through financial difficulties. A 2020 survey found that, while only a small percentage of low- and moderate- income households knew about available resources that could help them save on household expenses, the vast majority were interested in getting such resources from their bank.

AI-powered technology that turns customer complaints into data sources reveals customers' positive feelings about their banks, even amid personal and financial crises. This can be seen in a recent excerpted complaint to the Consumer Financial Protection Bureau (X marks specifics redacted from the complaint):

"I have been banking with X for quite a while now and have had absolutely zero issues with them. Their general customer support is always very fast and courteous which makes this current situation even worse overall. On the night of X, I had X unauthorized transaction to a website totaling X dollars and completely wiping my bank account of any funds. I immediately disputed every charge and was in a frequent chat with the dispute support team with my claims…. I love this bank, it's easily the best I've ever used, but this is awful and has destroyed my family's mental state."

One raised issue does not need to be the end of the relationship. Banks have the opportunity to nurture a positive relationship with their customers and to establish themselves as a positive partner. This begins with banks demonstrating that they want to listen to their customers, provide empathy, and invite their input – whether it's positive or negative. Institutions that empower their customers develop transparency and trust.

Social impact takes a village

Banks can proactively use technology through partnerships with fintechs or nonprofits to listen to customers' voices and develop products, policies, and practices that solve their pain points.

With the "S" in ESG firmly baked into banks' business models, banks can apply metrics to their social interactions. This will lead them to invest in their larger role of assisting customers more deeply as they traverse their daily lives and develop interventions that provide overall positive experiences, such as sharing financial wellness resources. In turn, customers will be much more likely to pay on time and stick with the institution that helped them.

When banks understand their customers' challenges, they can update or revise policies and practices that lead to these issues. When customers share their challenges, banks have the opportunity to respond in a way that is empathetic and nurtures positive relationships. Technology enables banks to listen and respond seamlessly and efficiently.

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As Daniel Kahneman writes in his book, *Noise*, "System noise, that is, unwanted variability in judgments that should ideally be identical, can create rampant injustice, high economic costs and errors of many kinds."

There is noise all around. There is variability in customers' voices – and banks should elevate the different ways that customers express their experiences. Institutions can strive to be more uniform and fair and continue to listen to and act upon what customers tell them.

Customer empowerment – the strategies that give voice to customer concerns – should be core to banks' ESG goals and reporting. Customers can be invited to share their voices, making it possible for banks to turn negatives into positives. This work leads to a bounty of benefits, including improved risk management, profitable growth and services that meet customer needs and help them improve their financial health.

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