



Sustainability in payments

Exploring the current and potential approach to sustainability

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Foreword

Pay.UK is the recognised operator and standards body for the UK's interbank retail payment systems. We provide the payments networks used by the Bacs Payment System, the Faster Payment System, and the Image Clearing System, and operate the Current Account Switch Service, enabling billions of pounds of payments to be made safely and securely, every single day. We combine technology, rules and standards to enable a powerful payments platform thereby reinforcing our position of leadership in the payments market. By continuing to operate a robust, resilient, and cost-effective payments platform for the UK economy, we can deliver greater value for all users of the services we provide, from individuals and businesses through to banks and building societies.

The importance of securing a sustainable future is undisputed across the globe.

Governments are grappling with the changes required to shift their economies to be 'greener', and are using regulation to instruct businesses and consumers to become more sustainable at the same time. Individual sectors are also conducting their own analysis of business operations to understand unique challenges and opportunities in relation to sustainability, and what sustainability specifically means in the context of their operations. The payments sector is no exception.

With this in mind, we commissioned global insight and strategy consultancy, Thinks Insight and Strategy, to provide an independent and holistic view of the approaches and expectations around sustainability across the payments value chain. We hope to use this research to help us better understand what sustainability means in the payments industry and what it is we

need to do, both as an organisation and a member of the wider payments ecosystem, to modernise our infrastructure to become more sustainable. We invite you to engage with us to explore the role payments will play in sustainability in the future.



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Introduction

We commissioned global insight and strategy consultancy, Thinks Insight and Strategy, to conduct a research exercise to help us explore the following questions:

1. **What does sustainability mean in the payments industry?**
2. **What is the payments industry currently doing to move towards a sustainable future?**
3. **What actions and conversations are missing, or are required, to help the payments industry progress in the area of sustainability?**

To answer these strategic research questions, a multi-phased research approach was utilised, which included:

- An **evidence review** exploring existing definitions of sustainability in the payments industry and behaviours of key stakeholders

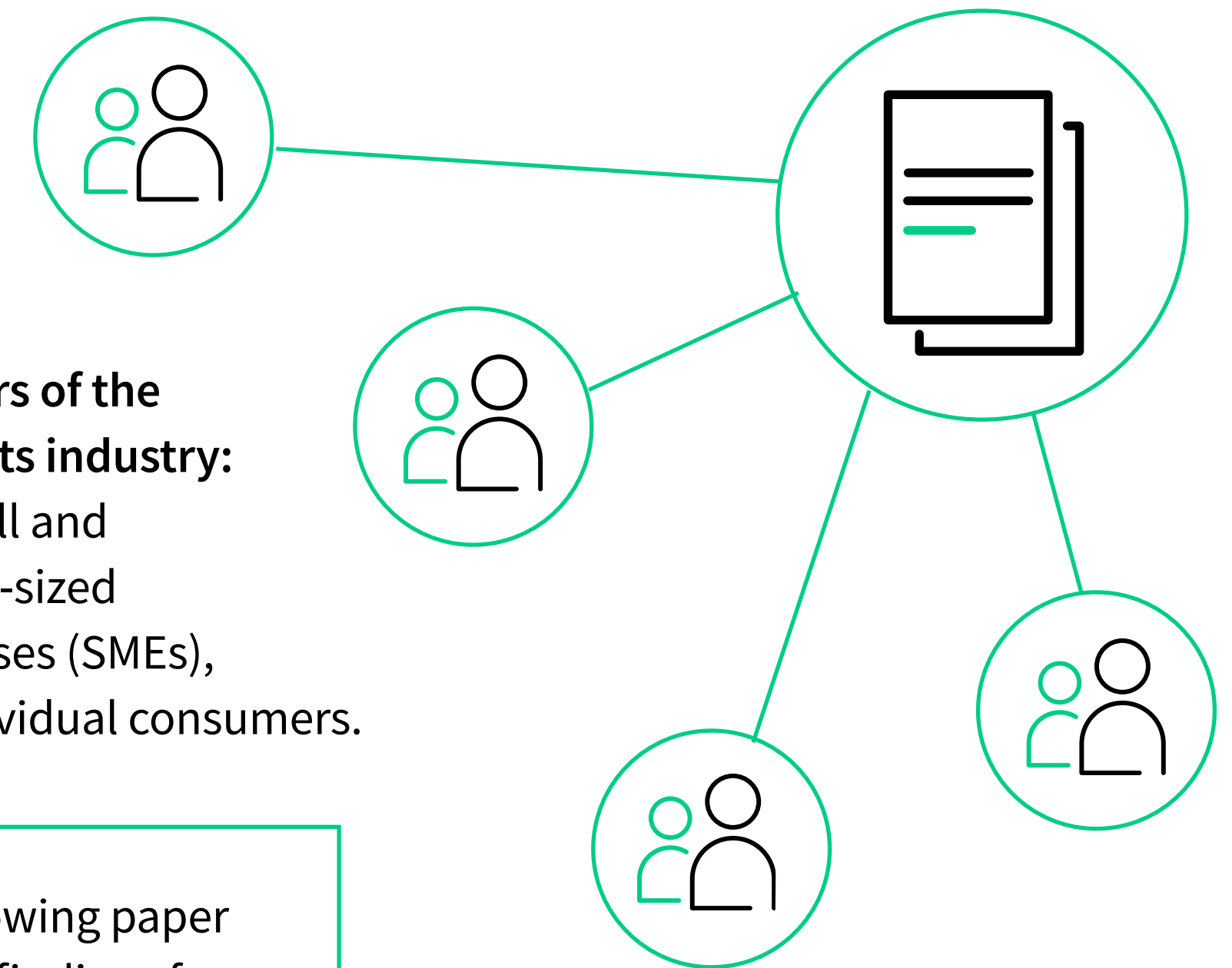
- **Cultural analysis** to examine how the payments industry and other comparable sectors talk about sustainability, and how that is received by customers and end users
- **Primary research** to understand the conversation and actions that different stakeholders are taking in relation to sustainability in the payments industry.

We heard from a broad range of audiences and the following definitions are used throughout this paper:

- **Experts** on the subject of sustainability and payments:
Academics and thought leaders
- **Peers:** Payment System Operators (PSOs) working in payments across the globe
- **Customers:** Include Payment Service Providers (PSPs), such as banks

- **End users of the payments industry:** e.g. small and medium-sized enterprises (SMEs), and individual consumers.

The following paper sets out findings from the research as well as future considerations and implications for the payments industry, as a whole.



Key findings

The key findings from the research are summarised, below.



Sustainability in payments is not clearly defined.

There is space for everyone within the payments industry to shape and refine its meaning.



There are some early ideas about what it means to be sustainable in the payments industry.

These include the use of digitalisation to reduce waste, assessing individual energy consumption, advocacy and narrative shaping, and allowing consumers to become more data-driven in their payment choices.



Sustainability is not only environmental - those in payments are also exploring the importance of social sustainability.

This ensures that the payments industry works for everyone in the long term, through prioritising financial inclusion and financial education.



There is a perceived tension between social sustainability and environmental sustainability in payments.

The environmental benefits of digitalisation in payments must not come at the expense of financial inclusion.

Research findings in detail:

What does sustainability mean in payments?

Sustainability has a clear definition in the financial services sector, but goals and definitions are less well-developed when it comes to the payments industry, specifically.

According to the experts and end users who took part in this research, different sectors can be seen to have unique roles in contributing to the sustainability conversation. Research participants pointed to the wider financial services sector as providing noteworthy examples. For instance, the financial sector is seen to have a unique role in reorienting investment portfolios and educating consumers about the green credentials of investments.

In contrast, responses indicated that our research participants find it hard to identify the clear path and actions required of the payments industry to contribute to a sustainable future. There's no single

issue, initiative or concept that epitomises sustainability efforts in the payments industry to the same degree as in other sectors.

This points to a real opportunity for those of us in the payments industry to think critically about our role in sustainability, the unique responsibilities that might exist in our ecosystem, and how we can work across organisations to achieve a shared goal.

“I can’t think of one definition for what it means to be sustainable in payments right now. We’re still exploring best practise.” – Customer

“My bank is quite proactive in bringing up its actions on sustainability. It wants its customers to take action to be more sustainable and tell us more information on this. I’ve never really thought about this in the context of payments.” – End user, Business



There is no one group 'owning' the conversations and taking centre stage.

End users

The role of payments isn't top of mind for end users when it comes to sustainability. However business users who are thinking about their own environment record are moving quickly in this area.

Customers

Customers have primarily been focused on 'getting their own house in order' and analysing their own supply chains. They are increasingly confident about moving beyond this introspective phase of their journey.

PSOs

PSOs feel like they should be leaders with their own markets. They feel that more could be done but are not sure exactly what - so they focus on the benefits of continued collaboration and knowledge sharing.



Stakeholders in the payments industry are on a journey to behaving more sustainably.

According to this research, debate and behaviours towards sustainable futures are still taking place in payments, despite an absence of one clear narrative or goal for the industry.

Stakeholders we heard from across the payments industry (including ourselves) indicated that they are proactively examining how they can make a positive contribution to green efforts. This is a journey, with key stakeholders at different stages of progress.

This research found that whilst consumers are thinking about sustainability as a growing priority in general, actions are typically focused on personal activities, such as recycling their waste and thinking about what they are spending their money on. Consumers are the least likely audience to be thinking about the role of payments in sustainability. This is likely because they are rarely thinking about their payments in general, despite their ubiquity. To them, payments are a slick process that happen quickly in the background of their everyday lives.



“I’m doing small changes to look after the environment, reducing my carbon footprint and things, recycling... it’s about doing our bit for the future.” – End user, Consumer

SMEs are likely to be thinking about their own sustainability metrics. This is often driven by concerns over ensuring they can win business with new clients, given that the demonstration of sustainable practice is an ever-increasing demand in procurement processes. Like consumers, they haven’t thought so much about the role of payments in the context of sustainability, but they imagine that firms in the industry are taking similar actions to them.

“Being sustainable as a business owner is about reducing waste and using less energy.” – End user, Business

Like businesses, customers (such as PSPs) are focused on getting their own sustainability matters in order. This is often on a larger scale than the small businesses we heard from in the research, with customers having to analyse their supply chains and work towards net zero goals. That said, customers recognise they have been in an introspective stage, and are keen to think strategically about sustainability in payments going forward.

“At the moment, for many firms, achieving sustainability has been about following the regulation that’s in place and having internal conversations about strategic goals.” – Customer

The research also found that PSO across the globe are one step further than any other group we heard from in terms of thinking about what sustainability looks like for payments. This group is proactively looking for opportunities to shape the conversation on sustainability, and feels more could be done to set expectations for stakeholders in the payments ecosystem. That said, this group is less confident

about what this looks like, and is therefore open to conversation and collaboration.

“Sustainability is obviously a huge issue, and in payments we’re not in competition to find the solution. If it’s good for one country, it’ll likely be good for us all so it’s about working together.” – Peer

No one group of stakeholders is leading the way when it comes to the conversation on sustainability.

Stakeholders, who are further on in the sustainability journey (i.e. customers of PSOs and PSOs in other countries, such as banks) are excited about the opportunity to contribute to the debate about what sustainability in payments means, although none are leading the way, yet. The research points to an appetite amongst stakeholders, including us, for shaping, sharing and joint learning in the payments ecosystem, and to work together and build change.



No matter what the next steps are, this research uncovers clear guidance on how best to communicate and engage consumers on the issue of sustainability, including behaviours and actions to avoid.

Accusations about ‘greenwashing’ (the use of marketing spin to mislead the public that an organisation’s products, aims, and policies are environmentally friendly) are ever present and increasingly newsworthy. It can be assumed that those of us in the payments industry are keen to avoid these accusations as we continue to develop our stance and practises.

The cultural analysis in this research explores key themes which are likely to reduce engagement from consumers and businesses, and in the worst case, trigger concerns about greenwashing. The following recommendations have been developed through cultural analysis, examining public facing communications about sustainability from financial institutions.

The payments industry should avoid the following communications elements when engaging with stakeholders, especially if we want to stay away from greenwashing:

○ **Cliches:** The use of generic and commonplace language and images, can sometimes lose their meaning, and will prevent organisations from standing out as authentic and impactful.

- Examples of **language** considered cliched include, ‘sustainable lifestyle’ and ‘inclusion’. Whilst this language can be used, organisations should be wary of overuse.

- **Images** focused on plants and landscapes are associated with inauthenticity.

○ **Vagueness:** Talking about prioritising sustainability without demonstrating action and/or evidence, can lead consumers and businesses to perceive that an organisation isn’t following through with appropriate action.



○ **Images and text that feel ‘disconnected’ from consumers and businesses:** Using images and language that do not showcase people, their own communities, and the impact of sustainable practises will make consumers and businesses feel disregarded and irrelevant. Positively, this same cultural analysis also pointed to sustainability communications practises that build consumer trust and engagement:

- **Build energy and show activism.** This demonstrates a sense of dynamism and morality around the subject of sustainability, increasing agency and leading on the enthusiasm for the topic
- **Easy to digest language, where commitments are communicated using direct and clear words.** This avoids jargon and gives a simple explanation about efforts and what their impacts may be. This counteracts vagueness

- **Human texture.** Personal stories and experiences engage consumers and businesses with topics that matter most to them.

What does sustainability currently look like in payments?

As explored, this research has identified that there is no one-stop-shop for defining sustainability in payments. However, the research does uncover key themes and actions that are emerging as part of the sustainability conversation.

Across the payments industry, sustainability in payments is being seen to involve.

- **Digitalisation:** For example, switching to digital payment methods from physical methods, i.e. cash to contactless card payment
- **Waste reduction:** In the payments industry, this can include designing cards that can be recycled and made of recycled material as well as reducing paper-based communication to end users
- **Energy consumption:** This focuses on reducing energy use in the transition to net zero, and those switching to cloud providers, who are considered to be 'greener' with efficiency through scale

- **Social sustainability:** Specifically, this is the condition needed to ensure the payments industry works for everyone, well into the future. Typically, discussions on this subject centre on financial inclusion and education
- **Advocacy and narrative shaping:** This includes putting sustainability as a key priority on the payments industry's agenda, and stakeholders suggesting new leading ideas for what payments can achieve when it comes to sustainability
- **Data-driven empowerment:** This is about allowing consumers and businesses to see their carbon footprint through the lens of what they spend, and the payments they make.

Each of these key themes are set out in the following section, where we have indicated how they are shaping definitions of sustainability in payments.



Digitalisation is seen as a particularly important conversation in payments, but it's not the 'green golden ticket' it was once thought to be.

Our research participants see digitalisation and online payment mechanisms as the industry's leading point of impact when it comes to environmental sustainability. Whilst perceived stronger sustainability is a key positive of digitalisation, many stakeholders recognise it is not the sole driver to achieving sustainability goals. Reducing costs and saving time are often seen as more important factors.

Our research participants furthermore reflected how new debates challenge the green associations with digitalisation. Specifically, online payment processing can be considered energy intensive, reducing the impact of digitalisation on the green agenda, overall.

“When you come to 100% digital you have to analyse your emissions in terms of cloud processing. We really do have to understand the impacts of digital.”

- Peer

Like businesses across the economy, those in payments are seeing the benefits of waste reduction and energy consumption.

The new world of digital payments brings with it substantial reductions in environmental harm. However, it also opens the door to new questions about the energy consumption of processing digital payments. Switching to renewable energy in operations, or even self-producing renewables, are at the forefront in this area. The switch towards cloud-based systems is thought to be a step in the right direction, particularly when environmental considerations are made when evaluating suppliers.

Generic waste reduction behaviours are also cited as important for all stakeholders in payments. This includes switching to paperless communication internally and externally. Specifically, recycling cards is an obvious solution when associating payments with waste reduction.

“To me, best practice is everything digital – no paper, cash, cheques. Then, a movement from cards. The more sustainable way is account-to-account payments.”

- Peer



Social sustainability is an important conversation in payments.

Those we heard from in this research report that organisations' actions on sustainability are increasingly thought to be closely interlinked with their social impact. Often, these goals are spoken about in terms of social sustainability as part of a wider environmental, social and governance (ESG) policy.

The payments industry's unique core responsibility is overwhelmingly considered to be financial inclusion, typically included in the social component of ESG. Many believe that the payments industry is well placed to deliver or contribute to financial education programmes. Beyond this, contributions to community and charity programmes are also felt to have value, even if this is not specific to the industry.

“Socially, sustainability involves promoting financial inclusion and access to payment systems. It also means ensuring payments are safe, secure and protect privacy.”

- Peer

“We’ve paid a lot of attention to environmental sustainability, but it’s not the only thing to look at, and social sustainability — like financial inclusion — is becoming an increased focus for us.”

- Customer





The industry’s efforts to drive positive social impact are not new. However, some within the payments ecosystem report that they find it difficult to gauge exactly what ‘good looks like’ and how to talk about their social sustainability efforts. In recent years, there has been an explosion of environmental sustainability metrics allowing for firms to benchmark their achievements and compare them to others in their sector. When it comes to social sustainability, metrics for measuring success are further behind.

In this context, some are cautious to heavily publicise their social sustainability records. This means that discussion on social sustainability has perhaps taken more of a back seat in recent years. However, there is a feeling that change may be on the horizon with the anticipated global rollout of further regulation in this area, and an increase in metrics. Across payments, organisations are reflecting on how they can drive the social sustainability agenda forwards in order to contribute genuinely to socially sustainable outcomes.

“I think they need to understand what they want to do with social impact, how it aligns with their goals, and action on it to provide support in what they’ve identified as vulnerable communities in their mission or strategy.”

- Peer

Some are concerned about potential tensions between digitalisation, its benefits, and financial inclusion.

Whilst digitalisation is broadly accepted as a success story in this research, it can also be seen at odds with social sustainability, potentially sidelining physical payments methods and those that rely on them.

Some research participants believe a potential lack of social inclusion is an inevitable by-product of progress, whilst

others would see payments as failing consumers if they did not address financial inclusion. This is an area for essential debate for the payments industry.

“The Nordics and Netherlands have moved very fast from cash to digital. The Americas, they use a lot of cash and cheques which is probably the worst case scenario. The more digital a country is, the better for the environment.”

- Peer



“There’s a lot more carbon in cash or cheques. But what I’m seeing right now is a need to support society and how we prevent digitally vulnerable customers being put in a worse position.”

- Customer

Experts and international PSOs see knowledge sharing and advocacy as an important avenue for those who want to make a difference when it comes to sustainability in payments.

While, in recent years, the payments industry’s sustainability journey has well and truly taken off, many feel that future developments could further open the door to transformative changes for the payments ecosystem. In the meantime, as organisations across the industry pursue their own sustainability journeys, new ideas and expertise will continue to develop.

In this environment, many stakeholders (particularly international PSOs and experts) feel that knowledge sharing and collaboration can be a key component of the industry’s sustainability efforts going forward.

“Facilitate the industry-wide debate [...] taking a very proactive role in sharing thought leadership and facilitating the collaborative discussions, debat[ing] with members, clients, partners.”

- Expert

International PSOs also feel that their unique position within national payment ecosystems creates an opportunity, or even a responsibility, to help drive the conversation on sustainability forward, and keep it on the agenda in industry-wide conversations.





“We can take [some] action as a company. But we can take very large, important steps by working sectorally and having a conversation.”

- Peer

Empowering consumers and businesses through data-driven insights is a key future-facing debate.

Experts in sustainability suggest that the payments industry has a unique position of holding large numbers of consumer data about spending habits and, crucially, who consumers spend their money with. They feel that this demonstrates untapped potential in how payments can make a difference to consumers’ sustainable practices.

In recent years, organisations like Doconomy (a market leader in impact technology, dedicated to driving global climate change) have emerged, which see a role for the payments industry to share information about individual consumers’ spending carbon footprint. This could empower consumers to pivot their spending elsewhere and reduce their own payments footprints.

Looking to the future, one expert suggested that payments could have an even more powerful impact by delivering data-driven insights to businesses in order to help them evaluate their supply chains. In a world where business is motivated to fully understand its environmental impact, and where sustainability is increasingly incorporated into procurement processes, this area of data-driven insights is certainly worth exploring in the future. With this in mind, we have recently begun discussions with Icebreaker One (a non-profit organisation that works on data sharing and sustainability) to investigate possibilities in this space.

“If there is a way in which payment companies in the sector can contribute to supply chain visibility on a need-to-know basis, that would solve massive challenges – even if there would be barriers that would need to be overcome.”

- Expert



Implications for the payments industry

This research provides robust, evidence-based insight to shape the current debate about sustainability in payments. It captures current and potential actions that we, in collaboration with the wider payments industry, can take to strengthen our sustainability position.

The research also points to some tangible considerations for the industry, as a whole:

1. The payments industry should build on the momentum of the sustainability conversation to develop clear goals, and to focus on what sustainability in payments means
2. No one group in the industry has taken the lead, which means there is opportunity to work together to make a difference

3. Appetite to make a difference is global, and collaboration should include stakeholders from across international markets.

Over the past two years, we have been working on our own operations to address ESG principles, in order to protect both people and planet. Sustainability is a key element of this approach, which we continue to progress in parallel with our growth as a business.

As much as we have made great strides in this area internally, we are conscious of the outcomes of this research and are keen to collaborate with members of the payments industry to achieve one common sustainability goal. We are already in the early stages of this collaboration and so far have joined as a member of the Payments

Association’s ESG working group, and have started conversations with a number of consultant organisations in the sustainability space (as previously mentioned in this report) to obtain a better understanding of the things we can do better as an industry. However, our aim is to work, not only with our own stakeholders in the domestic market but also to build on the relationships we have developed with our international peers and equivalents.

It is great to see that, like ourselves, so many of our stakeholders in the payments industry have initiated the journey towards building a sustainable future. Collaboration with the payments community, both at home and internationally, is instrumental in achieving this, and we look forward to developing these relationships further.



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