

LLOYDS
BANKING GROUP



GREEN HOME FINANCE INNOVATION FUND

PROJECT SUMMARY

PROJECT OVERVIEW¹

Lloyds Banking Group (LBG) is the UK's largest lender, financing one in five mortgages in the UK. The Group recognise that climate change is one of the biggest issues facing society and has set an ambitious goal to help reduce financed emissions by more than 50 per cent by 2030, and to be net zero by 2050 or sooner. LBG's scale means that they are well placed to help the Government achieve its plan for decarbonising the housing stock and reduce carbon emissions.

Customer research into homeowner sentiment conducted by LBG in 2019² showed that homeowners have a limited knowledge of energy efficiency within the home and how to make improvements. The research found that financial institutions have considerable scope to undertake more visible sustainability initiatives, with 47 per cent of respondents claiming institutions should offer products to encourage customers to be more sustainable.

Action is required to raise awareness of the benefits of energy efficiency, supported by the development of services to help homeowners implement and finance energy efficient property improvements.

LBG was awarded £0.3m by the Department for Business, Energy and Industrial Strategy (BEIS) for their pilot, which aimed to reduce key customer barriers, including a lack of awareness on how to act, the cost associated with action and a lack of incentive to take action.

The pilot aimed to cover three key elements:

1. Generate consumer interest in and understanding of home energy efficiency improvements by introducing an engaging home energy saving tool that enables users to create a bespoke plan for their home.
2. Launch a mortgage linked incentive to encourage energy efficient home improvements and to help support with the costs of retrofit solutions.
3. Develop a partnership with Energy Saving Trust to help raise consumer awareness and understanding, whilst providing access to trusted home energy efficiency insight.

AIMS AND OBJECTIVES

LBG has an ambition to support the UK transition to a sustainable future through being a leading UK provider of customer support for energy-efficient, sustainable homes.

¹ *Disclaimer: This document has been prepared by Lloyds Banking Group working independently of the Department for Business, Energy and Industrial Strategy and it is not government guidance or policy. The information contained within this document is the property of Lloyds Banking Group. Any person accessing this document and using it, or any of its contents, is solely responsible for determining the extent to which they rely on it and any data contained within it, and assumes all risks in doing so.*

² LBG customer online research conducted with 3,600 UK adults, Fieldwork: 8th-24th April '19

As a result, reducing the emissions of the mortgage portfolio is of strategic importance to support the Group's ambition to reduce the carbon emissions financed and the UK's net zero commitments.

The proposition looked to address three key barriers to sustainable action;

1. Lack of awareness on how to act
2. The cost associated with action
3. Lack of incentive to take action.

Key objectives the pilot sought to achieve include:

- Increase homeowner awareness of the benefits of energy efficient homes
- Identify and understand behaviour and attitudes of different segments of homeowners and which are most likely to act
- Design and launch a pilot proposition that would incentivise homeowners to act and reduce the emissions generated in their home.

OUTCOMES AND KEY ACHIEVEMENTS

Proposition design

Two fundamental elements within the proposition design required a platform to support consumer education on energy efficient homes and a product that incentivised action to be made by the homeowner.

An online information hub was developed to help customers understand what energy-efficiency improvements they could make to their home, including the launch of an online tool. The tool provides customers with a tailored action plan on home improvements that could make their home more sustainable, built in conjunction with the Energy Savings Trust.

To support customers with the cost of green home improvements, the Green Living Reward (GLR) pilot offered mortgage borrowers a £500 cashback incentive when they made one or more eligible home improvement, using a TrustMark registered supplier.

This was designed to align with and complement the Government's Green Home Grant Scheme to encourage homeowners to make improvements that reduce carbon emissions generated within the home.

The Reward was available to Halifax customers who applied for a mortgage between the 9th November 2020 and 31st March 2021 and who were:

- An existing mortgage customer borrowing more for home improvements
- Switching their mortgage deal from another lender and making eligible home improvements
- Purchasing a home whilst making eligible home improvements

Eligible customers would register for the reward and then make a claim once the improvements were made, with the claims being validated to ensure that emission reduction could be achieved.

Achievements

Strong engagement was seen across the online information hubs, with content that focussed on incentives such as how to fund green home improvements delivering the most traffic. The online hubs were promoted via a range of online marketing channels including existing customer emails and sponsored online campaigns e.g social media.

Over 8,300 home action plans were created³, demonstrating growing consumer interest in home energy efficiency and the role individuals can play in supporting the Government's carbon emission reduction objectives.

Based on the recommended improvements detailed in the home action plans, the estimated average bill saving per household could be c.£306 reducing the average CO2 emissions per year by c.1.6 tonnes with an average payback of 30 years.

The GLR resonated well with customers, reaching 230 percent of the pilot registration forecast. Based on improvements registered for the GLR, from average CO2 and financial savings data provided by Energy Saving Trust it is estimated that the average yearly CO2 reduction per customer is c.0.60 tonnes and the average estimated yearly financial saving is c.£320 based on the improvements outlined at registration.

BARRIERS AND CHALLENGES OVERCOME

The GLR was designed to complement the Government Green Homes Grant scheme, with aligned energy efficiency measures, as well as the requirement for customers to utilise a TrustMark registered supplier.

In order to deliver the scale of decarbonisation needed in the UK housing market, a sufficient workforce and an efficient supply chain must be created. Given the Green Homes Grant was closed to new applicants in March 2021 and the limited impact of previous energy efficiency schemes such as the Green Deal, further direction from government is required to scale up the retrofit market and supply chain sufficiently so that the UK housing market will be better equipped to achieve current and potential future targets at speed.

Longer term incentives may drive TrustMark supplier growth through confidence for suppliers to invest in scaling workforce capacity, whilst simultaneously protecting consumers against rogue suppliers.

Covid-19 impacts have meant that the pilot launched during a challenging period where homeowners may be less willing to have trades people in their homes. The pilot was therefore designed to give customers a long period across which to register for the reward (up to 6 months) and to make their home improvements and claim the reward (up to 13 months), however this has as a result limited the speed of learnings.

In addition, the environment factor meant that original plans to support customers with a pre and post improvement Energy Performance Certificate assessment were withdrawn, to remove the requirement for extra home visitors, which our customers may not have felt

³ Action plans that were created up to 31 July 21

comfortable with. This therefore means that learnings generated from the pilot have been based on estimates using data provided by Energy Saving Trust. As Lloyds Banking Group continues to evolve its propositions to support customers with retrofit home improvements we will look to work with the broader housing eco-system to find efficient ways to accurately capture the impacts of energy efficiency home improvements homeowners are making.

KEY LEARNINGS AND FINDINGS

Online information hub

LBG research⁴ found that 64% of respondents cited lack of awareness and cost (53%) as being key barriers to act in a more sustainable way. The launch of online information hubs across the Halifax and Lloyds brands has supported customers to understand more about ways in which they can make their home more sustainable and energy efficient.

There has been strong engagement with the online hubs, with a particular focus on content related to financial incentives and ways to fund energy efficient home improvements driving the most traffic.

Home energy saving tools: Supporting customers to understand what action they can take

The average EPC of consumers using the Energy Saving Tool is estimated to be EPC D, in-line with the national housing stock average. Unsurprisingly there were fewer EPC A and B customers that engage with the Energy Savings Tool compared to the national average, as there is less opportunity for these customers to make retrofit home improvements.

The top three recommended measures from the online tools were moving to low energy lightbulbs, loft insulation top-up and new insulated UPVC external doors. These results were similar for both brands. However, for Lloyds tool users solar panels (photovoltaic cells) replaced UPVC external doors as one of the top three most popular measures, which could be related to the demographic of the target audience for the brand. Observations across both brand audiences showed that improvements that are less intrusive and that use more established technologies e.g. improving loft insulation, received the most interest versus low carbon heating or wall insulations.

Based on the recommended improvements detailed in consumer action plans, the estimated average bill saving per household would be c. £306 and the average CO2 saving per year c.1.6 tonnes. However, this comes at an estimated cost of £9,300 with associated payback period of 30 years. This demonstrates that the customer business case to make retrofit home improvements is challenging. Research has found that 18% of homeowners would be willing to spend more than £10,000 and only 19% willing to spend between £5,000-£10,000 on green home improvements, indicating that there is a challenge in customers' appetite to invest. Whilst banks can support the Government's ambition to improve the energy efficiency of

⁴ LBG customer online research conducted with 876 UK homeowners, Fieldwork: 8th-24th April '19

homes through finance, ongoing Government support will be required, to make the support the economics appeal to incentivise consumers to act and reduce upfront costs.

Green Living Reward: Incentive to encourage action

Under the Green Living Reward, existing customers taking additional borrowing on their mortgage had the strongest propensity across the eligible customer segments to register for the reward and represent a significant proportion of customers who have claimed to date (note customers had until the end of the year 2021 to claim).

This supports the hypothesis that homeowners are more likely to consider retrofit home improvements when already considering broader home improvement activity. Helping homeowners think about practical steps they can take to improve their homes and build a plan that fits around changes, such as a loft conversion or replacing a boiler, would mean that energy efficiency is less likely to be viewed as an incremental cost and is instead completed at a time when other work is underway.