

MARCH 2021

SURVEY REPORT



BUILD FOR THE FUTURE, PERFORM TODAY

ARE YOU READY FOR ESG?

Revealing a glimpse of the market

INTRODUCTION

The crisis triggered by the COVID-19 pandemic has highlighted how ESG investments can play a **crucial role** in economic recovery, in addition to the importance of establishing efficient risk management.

Firms expect some of the greatest areas of change to be around suitability, reporting and generally integrating ESG into a cohesive **risk management framework**, including portfolio management and monitoring. All these areas will rely heavily on digital solutions that will need to be fully integrated to ensure **efficiency** and the best **client outcomes**.

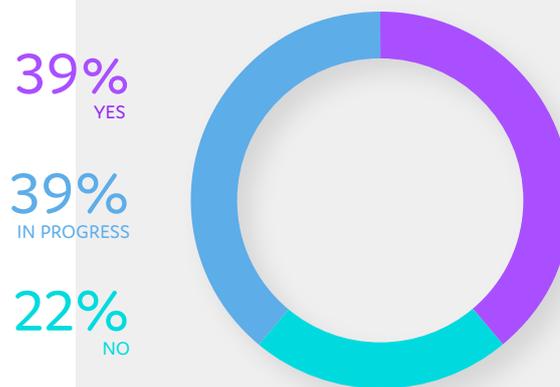
This online survey¹, filled out by the Wealth & Investment Management industry, investigates what stage is reached in terms of ESG integration within a risk aware investment process and its implications on the digital experience.



1 - The survey was conducted across UK and European countries, the sample of opinion leaders is composed by 70% of small-medium business and 30% of large enterprises

QUESTION 01

DOES YOUR COMPANY HAVE A SPECIFIC ESG POLICY?



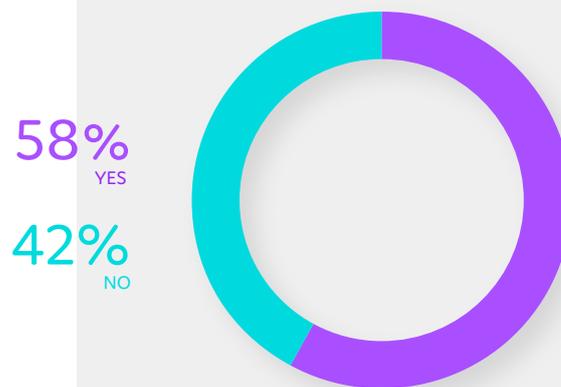
FIRMS SEEM
TO BE NOT
PROPERLY
ESG READY

Although firms expect some of the greatest areas of change to be around suitability, **just a minority** (39%) has already implemented a specific ESG policy. The majority of our interviewees are not ready. With 22% lacking a policy and 39% in progress of developing it.



QUESTION 02

DO YOU INCORPORATE ESG INTO THE FULL INVESTMENT CYCLE?

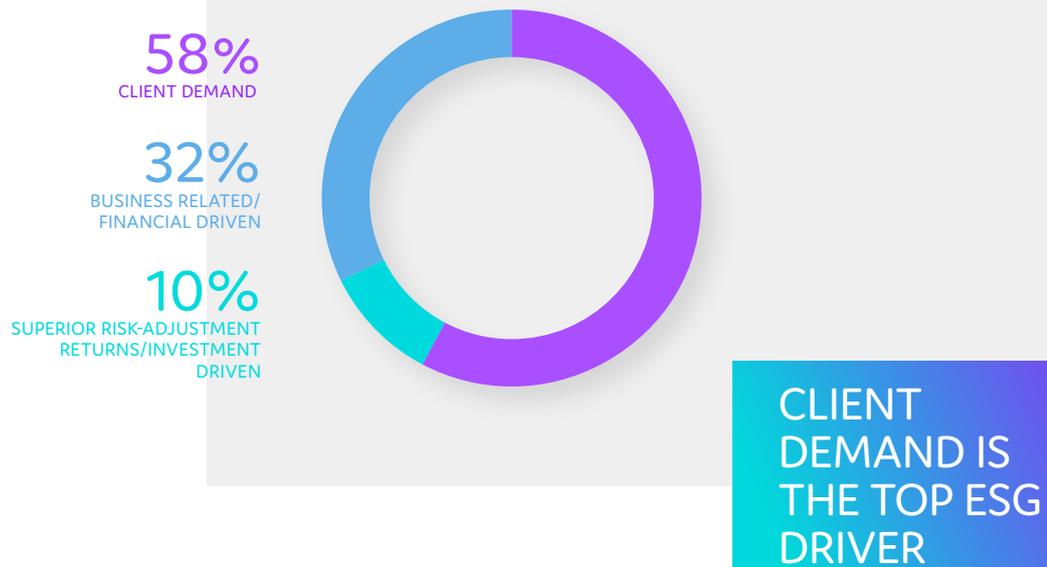


LEADERS
IN ESG
INTEGRATION
WILL HAVE A
COMPETITIVE
ADVANTAGE

Even if not all the firms have developed a specific ESG policy, the majority of them (58%) asserted they are incorporating, or at least taking in consideration, ESG in their investment cycle. This shows that on individual basis, ESG occupies a **relevant role** and it is necessary to satisfy this need. We believe that early adopters of ESG integration will have a competitive advantage.



QUESTION 03

WHICH ARE THE MAIN MOTIVATIONS FOR YOUR COMPANY TO INTEGRATE ESG IN THE INVESTMENT PROCESS?

A slight majority, 58%, answered that the main motivation for firms to integrate ESG into their investment process is to respond to **clients' demand**, highlighting how ESG is more and more a specific client request. However, 32% still see that ESG is business or financially driven.

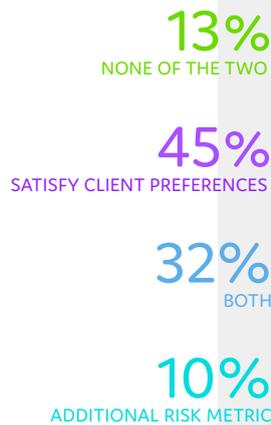
Client demand is the main driver of ESG integration at wealth management firms. Indeed, clients increasingly want their investments to align with their values to 'do good while doing well'.

We are of the opinion that integrating ESG into a risk management framework across the client lifecycle is a challenge for investment firms. An integrated ESG ready solution will increase the probability of delivering **operational efficiency** and increasing **client engagement**.



QUESTION 04

AFTER THE COVID-19 OUTBREAK, ARE ESG PRIMARILY ADOPTED AS AN ADDITIONAL RISK METRIC OR TO SATISFY CLIENT SUSTAINABILITY PREFERENCES?



ESG IS A
GOLDEN
OPPORTUNITY
TO ENGAGE
WITH CLIENTS

The COVID-19 pandemic has shaken both our lives and the finance industry. Only 13% of our interviewees disagree when asked if the pandemic has modified the adoption of ESG by firms to satisfy client preferences or to be used as an additional risk metric. The majority affirms that ESG are primarily adopted to satisfy clients' requests (45%), proving that now more than ever ESG is at the top of their priorities.

Clients see ESG as a **real differentiator** between firms. Many are willing to leave or choose a firm (2/3rd in the case of millennials according to Cerulli research 2020), based on the quality of their ESG offering and how it is delivered to them. ESG is therefore a golden **opportunity to engage** with clients.



QUESTION 05

WHEN ASSESSING CREDIT RISK, FROM WHERE DO YOU SOURCE ESG DATA AND ANALYSIS?



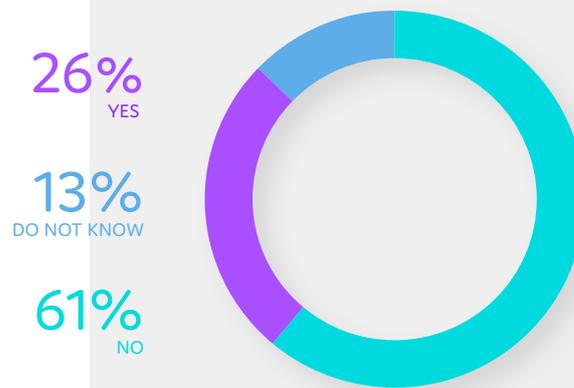
ESG AND DATA ANALYSIS COME BOTH FROM INTERNAL AND EXTERNAL RESOURCES

A large number of respondents (46%) assert that ESG data and analysis are gathered and performed in house (internal research or sell-side research) while about half of the participants state that data are gathered from external sources, such as ESG rating providers. Interestingly, nearly half of the companies have developed an internal credit risk assessment model, and not just for ESG purposes.



QUESTION 06

DO YOU PRESENT IN REPORTS AND THROUGH THE INVESTOR PORTAL THE FULFILMENT OF ESG PREFERENCES?



CLIENTS WANT
A RICH DIGITAL
EXPERIENCE
AND TAILORED
ESG REPORTS

While it has clearly emerged the interest of clients in ESG, the majority of firms (61%) do not report the fulfilment of ESG preferences expressed by clients in reports or via a client portal.

As clients were found to be the main driver to integrate ESG in the investment process, firms will have to take account of these demands.

Clients want a rich digital experience and expect to be able to see **tailored ESG reports** on-the-go, with information such as individual ESG scores as well as their carbon footprint and what impact their portfolio has had on the environment.



QUESTION 07

IS YOUR INVESTMENT PROCESS SUPPORTED BY A FULLY INTEGRATED PLATFORM ALLOWING TO ALIGN EX-ANTE DECISIONS AND EX-POST ACTIONS?



A TOTAL PORTFOLIO APPROACH GENERATES HIGHER RETURNS

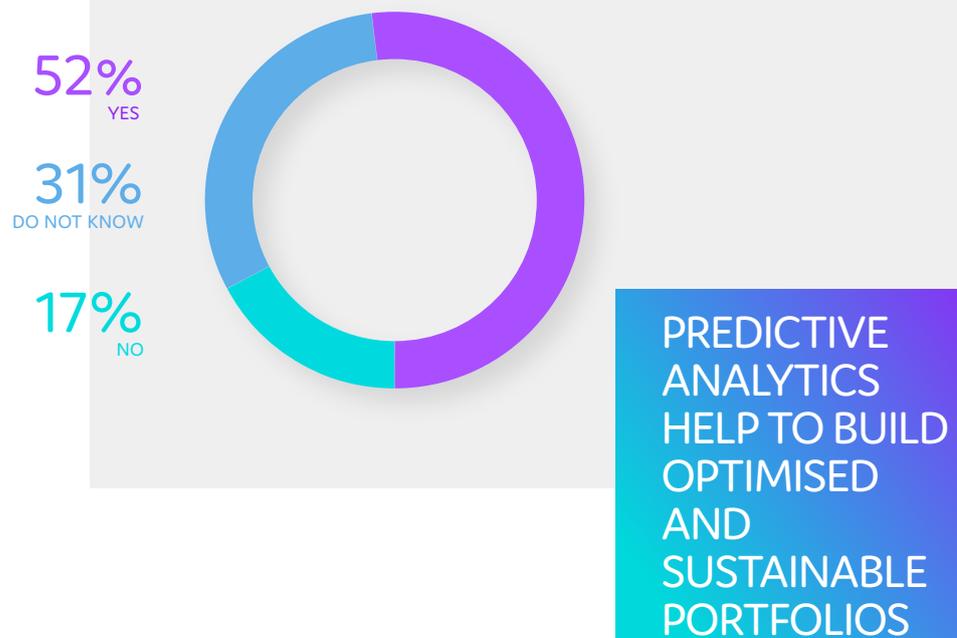
Just a minority (7%) confirmed that they are supported by a fully integrated platform, while a stunning 87% declared that they do not have a vertically integrated risk management solution.

A **digital integrated platform** gives the possibility to leverage a **total portfolio approach**, where the ex-ante analysis of risk and sustainability are tested and validated by ex-post monitoring. Thus, alpha, in terms of stronger returns is generated, leading to a higher quality of investments and a deeper confidence in client engagement.



QUESTION 08

WOULD YOU BENEFIT FROM PREDICTIVE ANALYTICS ENABLING TO BUILD OPTIMISED SUSTAINABLE AND SUITABLE PORTFOLIOS?



Predictive analytics could help to build optimised sustainable and suitable portfolios, and the 52% of the interviewees believed this will be the right path to serve clients with **winning strategies**. Just the minority (17%) do not agree and about a third (31%) are still not certain this will become the way forward.

Evidence shows that firms adopting big data technologies and predictive analytics have an **edge** over other firms in uncertain market conditions.



TAKEAWAYS

In the current situation, it is therefore essential to base investment decisions by relying on processes that take into account the **risk tolerance** and characteristics of the end customer, respecting the **sustainability criteria**.

Recent studies and analysis have shown that companies with good ESG management are able to weather financial crises and generally to **perform better** in the long term than those that pay less attention to sustainability factors.

Integrating ESG into a risk management framework across the customer lifecycle is a challenge for wealth management firms, but a necessary step.





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