



THE WEALTH MOSAIC

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# WealthTech Views Report

## The rise of ESG in wealth management

September 2021

[www.thewealthmosaic.com](http://www.thewealthmosaic.com)



Issue 10

# Welcome

The consideration of Environmental, Social, and Governance ('ESG') issues is not new for wealth managers; however, in recent years, it has moved from being a peripheral concern to being a critical component of investment decision-making. The shift in attitude has been caused by a wide range of factors, such as the increasing awareness of climate change, the apparent benefits strong corporate responsibility has on company performance (not negative, as was previously thought), as well as the realization that the next generation of investors take these issues very seriously and therefore wealth managers must respond to remain relevant. The private sector has been in some way leading the way in this area, with, for example, the CEO of Blackrock, Larry Fink, recently stating that "Climate risk is investment risk." Regulators are also stepping up, and there is a real possibility that the SEC could make it obligatory for market participants to report on their ESG performance soon.

The headline figures of investment in ESG are impressive, with current claims in the market that over \$40 trillion has already been committed into funds and companies in this area, and projections state that this could reach \$140 trillion globally by 2025, thereby representing over one-third of total assets under management. However, as you will read in our foreword by Robert Rubinstein, all is not as it seems. This is highlighted by the increasing concern of 'greenwashing' due to ambiguous definitions of ESG, with companies included in ESG portfolios that are deemed by some not to meet valid ESG criteria. Also, some commentators point out that with all this money 'invested' in ESG, why are there still so many environmental problems across the globe. One could argue that wealth managers are doing the best they can with the tools they have at their disposal; however, it is clear that there is considerable room for improvement. And this is where technology comes in.

In this report, The Wealth Mosaic has gained insights from technology and data vendors that are focused on helping wealth managers in a wide range of ways in this area; from client suitability tests, incorporating ESG into portfolio construction, ESG reporting, news and analytics, and sourcing reliable ESG data to make investment decisions against. It is therefore clear that although there remains a lot more to do to improve ESG investing, there is real momentum from all participants, and technology has a crucial role to play in making things better. I therefore hope you find the report interesting and informative.

**Simon Ramery**  
Co-Founder of The Wealth Mosaic

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# Introduction

This WealthTech Views Report: The rise of Environmental, Social, & Governance (ESG) in Wealth Management, includes the views from nine solution providers and thought leaders from across the globe, comprising aixigo (Germany), BITA Risk (UK), Etops (Switzerland), New Access (Switzerland), Objectway (Italy), OWL Analytics (US), Refinitiv (UK), and SwissQuant (Switzerland). To enable each thought leader to present their views on the impact of ESG in wealth management today and highlight how their solutions can help wealth managers achieve their objectives in this area, we asked each of them the following two main questions;

**MARKET:** How are ESG issues impacting the wealth management sector today? What has been achieved so far, what are the opportunities and threats, and what is still to be done?

**SOLUTION:** What solution(s) does your company offer the market that addresses ESG issues, and how do they help wealth management firms manage their increasing obligations in this area?.

The key themes from the participant responses are as follows:

- Capital inflows into ESG related investment products and companies are significant and growing fast, capturing the whole industry's attention. According to Morningstar, funds that used ESG principles captured \$51.1 billion of net new money from investors in 2020, a significant increase from 2019 (\$21 billion). It is expected that this will only get larger as the transfer of wealth from baby boomers to the next generation takes place

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over the next 25 years.

- However, the definition of what is included in ESG or what is sustainable remains highly subjective, leading to increasing mistrust in the industry as companies that are deemed not 'ESG' applicable are included in ESG funds. New regulations such as the Sustainable Finance Disclosure Regulation (SFDR) are creating additional obligations on financial service firms to provide more information on ESG investments, which in turn is leading to increasing demand for technology to enable them to do this efficiently and effectively.
- Although much has already been achieved in bringing ESG factors into mainstream investing, a lot more needs to be done, especially regarding access to transparent, granular, and standardized data. The use of big data analytics and artificial intelligence are ways to achieve this.
- There remains an education gap in the market as wealth managers, especially on the frontline, need to get fully up-to-speed on what ESG means and its place today in client portfolio building. Although disjointed now, it will become embedded in it the investment process.
- Capturing a client's ESG preferences has gone from a nice-to-have to a must-have, and technology is considered at the core to enable wealth managers to do this.
- Due to the strong demand from investors to invest in ESG related companies, funds, and ETF's, there is currently an opportunity for wealth managers to have a competitive advantage in the market if they adopt technology that enables them to offer a personalized approach to this emotive area.

We hope you enjoy reading the report and look forward to hearing your thoughts.



THE WEALTH MOSAIC

**Want to stay informed on the developments in the global Wealthtech sector?**

# Foreword by Robert Rubinstein

## ESG - Breakdown or Breakthrough

Now is ESG's moment, or is it? For the past 25 years, TBLI has worked to educate asset owners and managers regarding ESG and impact investing. Based upon the money flows, one would say it has been a resounding success if one only looks at the numbers. "ESG assets may hit \$53 trillion by 2025, a third of global AUM," according to Bloomberg Intelligence February 23, 2021.

The assorted Social Investment Forum's claim that 40 Trillion dollars are already committed to ESG, in one shape or form. But are these figures accurate?

Unfortunately, if we look at the impact of all these asset flows, we really have to start questioning the claims. Firstly, are the numbers correct that 40 trillion dollars have already been invested in ESG from institutional and retail investors? And secondly relates to the issue of the definition - perhaps the figures are accurate, but has any of this money really addressed the challenges that they were intended to help, fix or address?

If one looks at the environmental and social challenges the world faces, still after all the trillions going into ESG, one can only admit, ESG investing to-date has been a failure. The on-going issues below highlight this, as all of them have grown significantly despite the money flows that were intended to reverse the trend.

- Climate Change Destruction
- Biodiversity loss
- Water Shortage
- Food shortage
- Health Crisis (Diabetes)
- Income Inequality (Living Wage)
- Pollution
- Threat of War

I was asked by a family office in Singapore to stop by to discuss ESG and Impact Investing, as the family was transitioning from intensive fossil fuels to sustainability. The head of the Family Office said, "Robert. We don't understand how the most toxic companies score so well on ESG Sustainability Indexes. For example, BP & Shell - carbon-intensive and damaging the climate, Unilever - semi-toxic cosmetics and processed food, and Pepsico - causing diabetes from snacks and sugar water." I had to explain that the methodology used for ESG assessment is not what the company does but how it reports.

If one looks at institutional investors like pension funds, they began claiming ESG alignment because they engaged with the companies through intermediaries. The engagement was very popular as nothing had to change; the pension funds maintained their positions and an intermediary spoke to the companies that the asset owner wanted to see behavioural change. Were they really changing the behaviour of the companies to address climate risk? Not really.

To date, the ones who have benefitted from ESG and Impact Investing are Fund managers (fees), Institutional Investor box tickers, Aspirational Club Members, Service Providers, and Advisors. Unfortunately, so far, society and the environment have not benefitted.

## Why has ESG become so popular?

The reason for ESG's rapid's growth is because it describes a form of investing that has multiple beneficiaries, and not only for the investor. It looks at all risk factors; social, environmental (climate change), governance as well as financial. If a company has extraordinary social performance, they often spend less on hiring the best and the brightest, and they retain them longer, as most employees are looking for some purpose. Additionally, companies with excellent environmental performance often waste less, pay fewer fines, use fewer raw materials and energy. All of this leads to higher returns and lower risk.

But the really big drivers of ESG and Impact investing are at the macro level of resource depletion, driven by emerging market economic growth. At 8 percent annual growth, China would reach US consumption levels in 2030, translating into China consuming 60 million barrels per day. The present consumption is about 84 million worldwide.

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# Foreword by Robert Rubinstein

This massive commodity requirement is even worse if we look at grain, iron ore, paper, coal, steel, and meat. If we then add India to the mix, and then the other 3 billion in emerging markets and the developed world, one can see that linear growth is not possible at this level of inefficient use of resources or present business model. We won't have enough.

"The Western economic model, the fossil fuel-based, automobile-centered, throwaway economy, will not work for China," says Lester Brown of Earth Policy Institute. So, the only way to continue the growth is perhaps conflict for resources, which is not a good long-term option.

The real opportunity for the financial sector is a massive drive for resource effectiveness or efficiency, which is what sustainability is about. Doing more with less also translates into more profitability.

When a wealth manager engages their clients on ESG investments, that conversation can be much more engaging than traditional investing. Impact Investing instills passion and excitement. If one looks at the anticipated transfer of wealth – some US\$30 trillion- in the coming 20-30 years to Gen Z and Millennials, this is a massive opportunity. Gen Z values are not only financial. They are more willing to align their values with their investments.

As information, education, and infrastructure for ESG Investments increases, the market will grow even faster. The market is clearly there, but the way ESG is done now is just a death march in the wrong direction but slower. Fortunately, many asset owners are realising this and demanding investment that is regenerative in nature or far less harmful. This message was clearly made with the announcement of the launch of Net Zero Asset Managers The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050. Let's hope this is not another aspirational press release that sounds good but never delivers.

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[Get in touch with the TBLI Group](#)



**Robert Rubinstein, CEO and Founder**

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Robert Rubinstein is CEO and founder of TBLI Group. For 25 years TBLI has advised investors seeking to incorporate Environmental, Social, and Governance principles into their portfolios, with the goal of making a positive, measurable social and environmental impact alongside a financial return.

TBLI work with their clients to identify outstanding businesses that generate sustainable shareholder value and will in the long run outperform their peers. TBLI clients leverage their large network of ESG-focused businesses to complete a virtuous circle of investment that continues and accelerates the world's inexorable shift toward sustainable business and a sustainable society. Triple Bottom Line Investments are investments that deliver financial as well as environmental and social value. TBLI Group has helped hundreds of asset owners and managers to achieve triple bottom line success. Our mission is to provide multiple returns for your investments. For 25 years has aided asset owners and managers in integrating ESG and Impact in their portfolios. Having completed nearly 500 projects and influencing over 50 Trillion dollars in Assets and helped direct nearly 1.3 trillion in investments.

# 1. Introducing aixigo

## Key business facts:

**Founded**  
1999

**HQ Address**  
Aachen  
Germany

**Company Size**  
51-200 employees

**Website**  
[www.aixigo.com](http://www.aixigo.com)

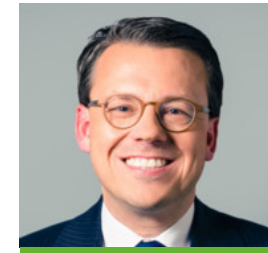
**Target Regions**  
Western Europe

**Target Wealth Management Firms**  
Asset Managers, Bank Wealth Managers, Digital Wealth Managers, Financial Advisors


## Company overview

aixigo has the world's fastest API-based wealth management platform for investment advisory, portfolio management, portfolio risk management, financial planning, portfolio analysis, and portfolio monitoring. The platform, which is equipped with more than 100 digital services, delivers constant trend-setting and added value innovations to aixigo's customers and their savings and investment customers. aixigo's international customers, including Bank Vontobel, BNP Paribas, Commerzbank, and Hargreaves Lansdown, are already benefiting from the aixigo platform. Furthermore, aixigo was awarded the Banking IT-Innovation Award by the University of St. Gallen (Switzerland), the German Innovation Award by the German Bundestag and the German Industry, and was repeatedly included in the WealthTech100 by FinTech Global.

## Thought leader



**Christian Neuenhaus, Head of Marketing and Communications**

 **Email:** [solutions@aixigo.com](mailto:solutions@aixigo.com)

With the start of his banking apprenticeship in the 1990s, Christian Neuenhaus first discovered his passion for the world of finance. Positions as a Head of Marketing and Sales in the financial sector quickly followed. These positions enabled him to gain long-standing expertise and a well-founded understanding of exclusive financial services. As the Head of Marketing and Communications at aixigo AG, he works with his team to identify unique selling points for banks and financial service providers, which enable these to tackle the ever-increasing challenges of wealth management professionally and thus to position their business successfully.

# \*Q&A Christian Neuenhaus



## How are ESG issues impacting the wealth management sector today? What has been achieved so far, what are the opportunities and threats, and what is still to be done?

The current news indicates a clear trend: interest in sustainable investments is growing rapidly, especially sustainable ETFs, which are experiencing an enormous boom in Europe. As a result, 2020 is considered to be a record year for the investment volume in sustainable funds and ETFs.

According to Morningstar, funds that used ESG principles captured \$51.1 billion of net new money from investors in 2020 — the fifth consecutive annual record. This was a significant increase from 2019, when investors funneled roughly \$21 billion into funds that applied ESG principles.

Furthermore, the fast-growing interest in ESG advice is a good indicator of the relevance of this topic for investors. The number of advisers having ESG-related conversations with customers rose 2 percent to 19 percent between October 2020 and March 2021, according to the latest NextWealth ESG Tracker Study.

Also, investors are increasingly incorporating ESG ratings to evaluate opportunities and risks. As a result, ESG criteria are becoming more relevant for portfolio construction, portfolio analysis, and risk management.

New regulations, such as the Sustainable Finance Disclosure Regulation (SFDR), which came into force across the EU on 10 March 21, are increasing the pressure on financial service providers. SFDR is intended to ensure that those customers that invest in sustainable financial products are well informed by the financial service providers. The obligations arising from this include, for example, the provision of pre-contractual information, information on websites, and regular reporting obligations.

In addition, the EU proposed a regulatory amendment to the suitability test of MiFID II to extend it to include the query of ESG preferences. This is another indicator of the increasing importance of ESG. The suggested amendment seamlessly follows a long series of new regulatory requirements and, in this case, represents a consistent extension of the suitability test.

Nevertheless, the situation with regard to ESG is now different from previous regulatory adjustments. The MiFID and FIDLEG regulations are focused on protecting the customer; however, from the customer's perspective, their implementation remains non-transparent. Consequently, these regulations are often perceived as more of a bureaucratic burden on both sides, and customers are unable to identify any of the benefits from the regulation!

## What's different about ESG?

ESG encompasses environmental and social values that influence customers' willingness to invest and their investment behaviour. For wealth managers, it will therefore be crucial to not only implement the necessary ESG regulatory requirements so they can generate further profit in their investment business but also become active beyond this by increasing their focus on customer benefits and the contemporary concept of sustainability.

ESG, therefore, opens up the following opportunities for wealth managers:

### Secure a competitive advantage

Those who position themselves today with an offer that enables investors to invest in values that correspond to their morals or ethics can build a strong position in the market. Moreover, financial service providers who are already one step ahead today and implement solutions that are not yet required by regulation (but are likely to come) benefit from the opportunity to gain an absolute competitive advantage.

### Position as a financial coach

Ensuring transparency on ESG issues is not an easy task since it is an entirely new topic, both for the customer and financial service providers. Technological solutions enable financial service

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# \*Q&A Christian Neuenhaus

providers to introduce customers to this topic step by step, thus offering them a high-quality service. If financial service providers successfully manage to advise their customers professionally – from the initial assessment of preferences, all the way to deriving a suitable recommendation, and finally pointing out the investment's impact – they facilitate the customer's entry into this new topic and thereby prove themselves as a financial coach for the customer. By offering a 360-degree ESG portfolio service (from analysis to reporting), they would not just fulfill their regulatory obligations but would provide an exclusive service to their customers.

## Emotionalise the service

There is almost no other topic where emotional values play such an important role as in the field of sustainable investment. ESG criteria pursue goals that have a meaning for the customer. To invest in assets that have an impact on climate change, the protection of the environment, or social injustice is an emotional matter. If the investments or the portfolio represent the customer's values, the outcome is an individual and transparent offer at the highest level.

It is worth noting that with regard to sustainable investments, besides fulfilling regulatory requirements, particular focus should be placed on the customer. After all, sustainability and a sense of responsibility are not only important in the investment business – they reflect the contemporary mindset.

A huge challenge lies in the lack of transparency of sustainable investments. Here, the use of technology at the point of sale enables straightforward and rapid access to a broad range of data providers and rating agencies. Data quality is a critical factor in this respect, so special attention should be paid to select the right provider.

Another challenge is the increasing complexity of investment advice and portfolio construction. While the focus used to be on the portfolio's risk or the individual investment's risk contribution, now numerous additional influencing factors and data have to be taken into account. This complexity can't be solved without technological assistance.

Finally, ESG, which is a new subject for almost everyone, causes significant uncertainty on both the provider and the customer side due to its enormous complexity. Regardless of being an adviser, asset manager, portfolio manager, or customer – everyone is still a "beginner" within this field.

## What needs to be done?

Financial service providers should take a proactive approach, take action early and seize the opportunities that this "new" market offers. Even if customers are still hesitant in asking for sustainable investments – one day they will come. By 2022 at the latest, with increasing regulation, ESG investing will be a topic for all investors – institutional and private.

In the next section, you will learn about the opportunities technology offers to reduce complexity and remove uncertainties on the adviser and customer side so that ESG investing in wealth management becomes a sales success.

## Opportunities arising from the implementation of ESG services

- 01** | Secure a competitive advantage 
- 02** | Position as a financial coach 
- 03** | Emotionalise the service 



# \*Q&A Christian Neuenhaus



## What solution(s) does your company offer the market that addresses ESG issues, and how do they help wealth management firms manage their increasing obligations in this area?

As a leading technology provider for wealth management and private banking, aixigo always pursues one goal: transforming complex issues to a comprehensible level to ensure an excellent service experience is provided to end customers!\*

Also, in the area of ESG, technology offers a range of possibilities to reduce complexity and ensure clarity and trust. In the following, we will show you which solutions aixigo provides in this context and how financial service providers can already benefit from the ESG business today.

These five use cases allow wealth management providers to seize the opportunities of the ESG market and generate new revenues:

### Next Level Suitability Check

The suitability test is part of daily business. Alongside the aspects of risk tolerance and experience & knowledge, ESG preferences have to be taken into account, which means going forward, the adviser and customer will have a more comprehensive and emotional conversation. aixigo's software guides both sides towards their goal in a convenient and regulation-compliant manner. This allows both

the adviser and the customer to focus entirely on the conversation, the customer's needs, and the customer's goals.

### Next Level Portfolio Construction

While portfolio construction was primarily based on risk until now (e.g., Markowitz), the additional inclusion of ESG factors means the emergence of a multi-factor model. Without technological support, portfolio construction now becomes an unsolvable task. "The Portfolio Construction Module" from aixigo's Wealth Management Platform as an API-based solution covers all these factors and thus ensures an efficient and profound portfolio construction.

Besides the portfolio construction, the advisory documentation becomes significantly more extensive due to the consideration of emotional needs. To ensure that the increased effort does not consume additional resources, aixigo's software allows the automated generation of complete and regulation-compliant advisory documentation.

### Next Level Monitoring and Rebalancing

Should a number of portfolios be monitored automatically and, if necessary, subjected to rebalancing, the workload will increase significantly if ESG preferences have to be incorporated besides risk. For discretionary portfolio management, this

means that both monitoring and rebalancing will become significantly more complex.

aixigo's "Rebalancing and Monitoring Modules" enable the automation of these portfolio management processes. Thanks to the use of state-of-the-art import/data APIs, it is possible to include ESG KPIs from a wide range of data providers or rating agencies without any additional effort. Whether the data is based on MSCI, ISS, or on the customer's request – aixigo's software incorporates all parameters that are relevant for the financial service provider, the regulator, or the customer. This ensures a high-quality portfolio management service for financial service providers and customers. The outcome of this automation is an efficient process and the creation of a scalable portfolio management business.

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\*You can read more on how aixigo succeeds in reducing complexity in our recent Thought Paper "Disrupt Financial Planning – How Financial Planning becomes a 365-day service". Access it by clicking on the following link: <https://bit.ly/3hOjxS1>

# \*Q&A Christian Neuenhaus

## Next Level Reporting

Up to now, high-quality reporting has comprised key figures such as volatility, returns, risk ratios, or similar metrics. With ESG, various complex information and data will be added that have to be gathered from multiple databases and interfaces and be prepared for reporting in a comprehensible manner.

With aixigo's "Reporting Module", all these requirements can be met, and further data fields can be added to the report. In combination with aixigo's "Analytics Module", it is possible to provide the customer with a report on their ESG Footprint, making their ESG engagement tangible. Figure 1 shows which information will be displayed to the customer within the ESG Footprint. The customer can recognise the impact of his investments on the specific ESG criteria.

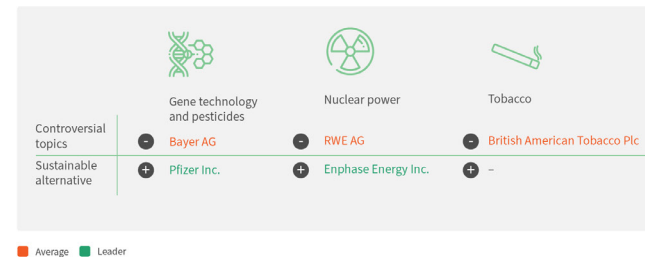
In addition, the customer is provided with information on investments that suit their goals, as well as which investments should be critically checked with regard to alternatives.

aixigo's "Analytics Module" offers an easy-to-integrate API so that the portfolio analytics can be easily displayed in different applications in a multi-channel approach.

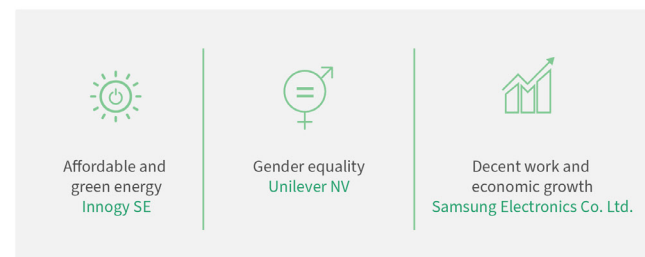
aixigo AG, application screen "ESG footprint"

## Your ESG footprint

### Companies in your portfolio that are marked as controversial



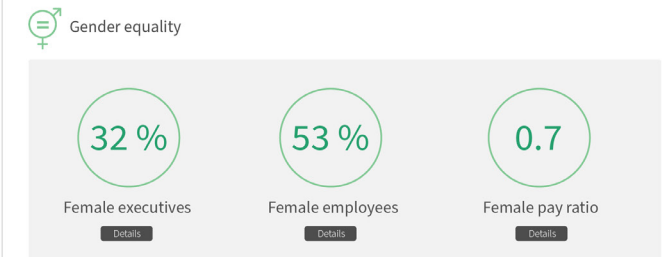
### Companies in your portfolio that promote sustainability goals



### Your portfolio's environmental impact

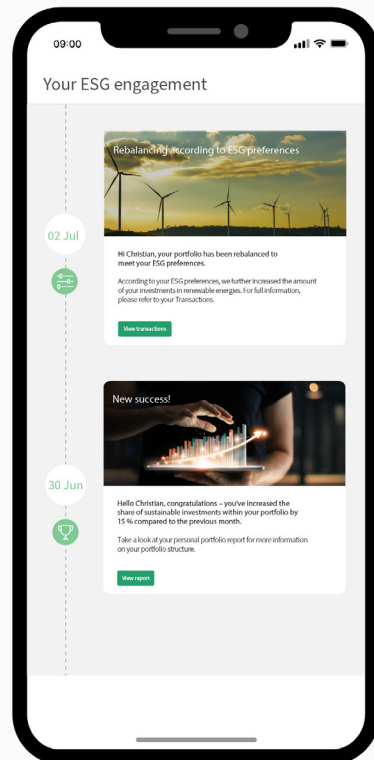


### Your portfolio's impact on social & governance metrics



# \*Q&A Christian Neuenhaus

aixigo AG, application screen "Timeline Module"



## News Feed Impact Investing

In addition to returns, customers interested in ESG have a strong interest in social or environmental issues and typically want to make a difference with their investments. Using our "Timeline Module", a customised newsfeed can be generated for the customer. The newsfeed displays either generally accessible data or curated content on the impact of the recommended products.

It is important to note that there is a set of requirements to be considered by financial service providers to professionally implement ESG requirements, which require automation and software-based support.

Christian Friedrich, CBO aixigo, commented, "If financial services providers take ESG seriously and rely on technological solutions to do so, the adjustments at the point of sale may be greater than expected. It will not only be a matter of adding a few extra data fields – rather, with impact investing, thematic investing, and ESG investing, we will experience a new evolutionary stage in investment advice."

To sum up, there are many opportunities arising from ESG for wealth managers to position themselves as an expert in this area. If financial service providers take this chance, they will gain a competitive advantage, prove their expertise, and increase their profits!

## Why aixigo?

aixigo's API-based wealth management platform provides customised solutions for financial service providers. Financial service providers can select from over 100 different modules and microservices to reach higher process efficiency right where they need it. The integration can be done fast and easily, meaning it is not too late to build a strong position in the new ESG market for financial service providers.

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*For wealth managers, it will therefore be crucial to not only implement the necessary ESG regulatory requirements so they can generate further profit in their investment business but also become active beyond this by increasing their focus on customer benefits and the contemporary concept of sustainability.*

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[Find out more about aixigo](#)