

TECH SPRINT FINDINGS: ESG AND SUSTAINABLE FINANCE REPORTING, VERIFICATION AND DISCLOSURE



BACKGROUND

- PIMFA WealthTech is a marketplace and network that drives engagement around the adoption of new technologies in the wealth management and advice sector. It is led by an Advisory Council that covers the breadth of the industry.
- With strategic partner Morningstar, PIMFA WealthTech is running a series of 'tech sprints' to explore where Fintechs and new technology solutions can help address specific areas of industry challenge and opportunity.
- The latest tech sprint, held in May 2024, explored how new technologies could support wealth managers and advisers with Environmental Social and Governance (ESG) and sustainable finance reporting, verification, and disclosure.
- This briefing note summarises the findings from the ESG tech sprint and the six Fintech participants who showcased their solutions.

WHY ESG AND SUSTAINABLE FINANCE?

ESG and Sustainable Finance have become priority areas of focus not only for wealth managers and advice firms but also for the Financial Conduct Authority (FCA).

Research conducted by PIMFA last year in association with Alpha FMC, identified that more specific ESG regulatory frameworks and reporting obligations will have wide-ranging implications for firms, clients, and third parties (e.g., data providers). For example, there is a need to aggregate, analyse, and populate information for climate-related disclosures at an entity, product, or consumer-facing level. New technologies and Fintechs could prove vital for integrating all aspects of ESG and sustainable finance into a firm's offerings and operations.

PIMFA WealthTech, with strategic partner Morningstar, therefore sought to explore how new technologies and innovative solutions can help wealth managers and advisers navigate ESG and sustainable finance data and funds, ensure

that clients are invested in funds aligned with their values, and help meet regulatory reporting and disclosure obligations.

A call to the market was made in March 2024 to invite Fintechs to participate in a tech sprint to answer the following problem statement: **How can new technologies and solutions make a difference to ESG and Sustainable Finance reporting, verification and disclosure?**

Six Fintechs were selected to participate in the tech sprint, during which they presented their solutions and how those solutions addressed the problem statement, to a panel of members of PIMFA WealthTech and its Advisory Council and Morningstar. Each participant was provided with a wide range of ESG-related data from Morningstar to incorporate into their solution demonstrations.

THE TECH SPRINT FINDINGS



Fintechs and new technology solutions can play an important role in helping wealth managers and advisers provide their clients with ESG and sustainable finance data in an easy-to-understand way and with greater visualisation (reducing the need for reams of paperwork and the associated time and costs). However, it was clear that data standardisation and globally agreed-on ESG and sustainable finance terminology and approaches remain essential inputs in this regard.

¹ <https://www.pimfa.co.uk/shared/pimfa-alpha-report-esg-investing-approaches-insights-from-a-survey-of-pimfa-member-firms-on-client-investor-sentiment/>

Overall, the tech sprint successfully demonstrated that Fintechs and new technology solutions can help wealth managers and advisers to:







1. Reduce the administrative burden of investing in ESG and sustainable funds,
2. Ensure funds are aligned to a client's ESG and sustainable values and
3. Present data to clients that is personalised, easy to understand and instantly available.

Below are seven specific findings identified from the tech sprint:

- 1. Client personalisation:** The main focus of the solutions demonstrated, in relation to the problem statement, was on supporting clients in understanding and engaging with sustainable investing. This was seen as a benefit in helping firms save costs by reducing the effort associated with current manual analysis and reporting approaches and also offering greater client personalisation. For example, providing tools, such as client-focused value discovery questionnaires and portfolio alignment analysis, or offering client-portal functionality that allows for customised reporting. Further, the tech sprint solutions also showed the importance and ability, beyond just reporting, in helping firms onboard clients into ESG and sustainable finance funds and how they might ensure their clients were educated enough about ESG and sustainable finance factors to ensure they were investing in assets that aligned with their values.
- 2. Portfolio analysis.** Several of the tech sprint solutions demonstrated their ability to instantly analyse portfolios for ESG and sustainable factors, showing that technology can help speed up what would otherwise be a time-consuming and costly process for wealth managers and advisers. The ability to instantly analyse portfolios removes the need to manually upload documents, such as factsheets, removing costs and enabling wealth managers and advisers to provide a range of funds to clients almost immediately, helping to show how available funds can align with their values and attitude to risk.
- 3. Data visualisation:** Most tech sprint solutions provided innovative ways to show ESG reporting, such as through data screeners, charts, and customisable visualisation tools. Solutions showed how visualisations could be tailored to an individual client's investments and values, removing the need for lengthy factsheets and introducing a greater degree of personalisation that might not currently be available. This ability to instantly analyse an individual client's investments and present them in an easy to understand way could help to reduce current costs for wealth managers and advisers, while also providing clients with a tailored service they can access quickly and easily.
- 4. Monitoring and alerting:** Many of the tech sprint solutions offered continuous ESG-related monitoring with alerts for potential rule breaches, using data from sources like Morningstar, regulatory filings, and client holding. This functionality can provide firms with independent, auditable ESG oversight at lower costs than existing manual methods and is suitable for both large and small firms. This is a significant benefit for addressing risks like greenwashing and providing more transparency. For example, scanning ESG rules against an extensive portfolio of assets in less than 10 seconds and providing instantaneous daily updates. Some solutions demonstrated 'Reporting as a Service' capabilities, which increased the amount of information available to clients and demonstrated how the funds they were invested in aligned with their values and reduced the time and cost of data analysis and reporting.
- 5. Artificial intelligence:** The use of Artificial Intelligence (AI), such as large language models (LLMs), was demonstrated, with several tech sprint solutions increasingly building AI or LLM capabilities in areas such as classifying documents, extracting text, summarising reports, and providing chatbot functionality (i.e. answering client queries, and augmenting human interactions and processes with technology). But equally, in all cases, the use of AI was limited to reasonably simple questions and tasks. However, the use of AI is helpful in providing a baseline from which a client can gain information that helps inform their conversation with a wealth manager or adviser, allowing them to have more in-depth and more detailed discussions about what assets to invest in. It was clear from the tech sprint solutions that the use of AI, as maturity development increases, will increasingly simplify the ESG investment process for clients and provide an intuitive and personalised experience.
- 6. APIs and integration:** The underlying technology of the tech sprint solutions was highly scalable, with most developed on open APIs for easier data integration and, therefore, better systems personalisation (or customisation) within a wealth manager or adviser or to their specific types of clients. However, fully integrating any solution into a wealth manager or adviser's existing technology stack will remain challenging where there are legacy or complex existing technology environments
- 7. Climate impact and carbon credits.** Some of the tech sprint solutions focused on how to analyse funds and portfolios for their impact on global climate temperatures allowing wealth managers and advisers to choose options that might help offset the impact through carbon credits. This is important for understanding how investments align with the Paris Agreement, and the tech sprint showed the importance of the availability, quality, and comparability of climate-related metric data for clients.

TECH SPRINT PARTICIPANTS

Thank you to the following six Fintechs for participating in the tech sprint:

	<p>Etcho enables Wealth Managers to provide personalised sustainability insights for client portfolios through values profiling and portfolio storytelling.</p>
	<p>Know Your Funds provides continuous, automated ESG oversight and reporting for investment institutions.</p>
	<p>Sugi is a climate analytics and carbon management platform for wealth managers and their clients. Leveraging intuitive analytics which cover a market-leading range of assets, clients can make a quantified, real-world impact on climate change via high-integrity carbon projects. Delivery available via API, PDF reports and Sugi's award-winning app.</p>
	<p>Codepan GmbH is a Berlin-based software company with a 10-year pedigree in data science and machine learning solutions. They develop innovative software products and provide consulting services, focusing on financial services. They specialize in LLMs, intelligent document processing, and AI agents/chatbots to optimize efficiencies and drive growth.</p>
	<p>U Impact offers a B2B SaaS solution that helps financial institutions attract inflows into sustainable funds by reinventing the investor user journey with gamification and transparency. The solution is powered by a "data translation layer" integrating regulatory, ESG, and asset-level data, tackling transparency and greenwashing challenges.</p>
	<p>The Instinct Digital platform provides Reporting as a Service giving users the ability to automate complex reports, localise content, and distribute reports quickly. This includes ESG reporting.</p>

SHOWCASE YOUR SOLUTION TO THE WEALTH MANAGEMENT AND ADVICE INDUSTRY

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