How swissQuant is leading the financial sector in sustainable investment

Banking is undergoing a technological churn right now due to rising competition from FinTech startups, but environmental, social and corporate governance (ESG) preferences will be the real game changer.

Regulatory changes, decreasing margins and digitalisation have changed the private banking sector as we know it, therefore making it increasingly important to look beyond basic tech tools.

While innovation has predominantly evolved around digital tools, which automate and streamline back-office processes, there was a gap in the industry for products based on client-specific data such as client ESG preferences, risk profile, portfolio allocations, investment preferences and restrictions. As swissQuant head of wealth management technologies and sustainable finance Michael Taschner put it, there is "a differentiating factor by properly solving arising problems in risk assessment and the consideration of client's detailed investment preferences such as ESG impact. A powerful mitigating measure is the usage of mathematical methods as the ecosystems are getting more and more complex. There is a lot of inefficient allocation within client portfolios to asset classes, styles and currencies. The proper consideration of ESG preferences and risks can change asset allocations materially. Traditional mean-variance, Factor Risk as well as Total Portfolio Analyses rely heavily on assumptions and historical data - both are very sensitive to ESG variance."

As regulatory and industry/asset class specific disclosure requirements were previously very heterogeneous, many different ways evolved to label financial instruments as green or sustainable – in a less diplomatic formulation, this ended up in a large window-dressing exercise. However, by using intelligent quantitative measures such as big data analysis and artificial intelligence enriched with deep ESG know-how, a solution can be provided to the market, Taschner added. ESG risk assessment and quantification can reveal investment opportunities that competitors are unable to see and therefore can create additional alpha sources for asset managers as well as increase the risk adjusted return for asset owners. This is where swissQuant comes in.

swissQuant sets all efforts on anticipating and solving these pressing challenges before they impact business results negatively. As front-runners in end-to-end ESG integration, swissQuant allows wealth managers to gain a competitive edge and benefit from holding an industry-leading position. By incorporating investor ESG preferences into the portfolio optimisation process of growth and return, swissQuant re-shapes the core of wealth management by demanding the engagement of investors and encouraging them to define their contribution to the future.

Alongside benefits such as greater compliance, access to behavioural data to enhance customer engagement and faster reaction to market volatility, siwssQuant's technology is particularly useful where algorithms are powered by live data streams such as real-time equity prices. "As a result, we developed and applied models to 'master complexity' when, for example, different types of risks interact closely or influence one-another due to different time horizons," Taschner said.

swissQuant's platform offers a wide suite of services, be it advisory solutions, portfolio management, model portfolio generation, trade recommendations with artificial intelligence or portfolio optimisation. Financial institutions that use quantitative solutions will be able to analyse large or unstructured data sets more effectively and deliver sharper insights to a larger client segment by offering tailored solutions, he said. "By being able to satisfy and engage existing investors while attracting next generation investors with thought-leading solutions, banks will be well positioned to grow revenues and boost their trust proposition," Taschner added.

ESG – the missing piece in digital banking

Admittedly, upgrading technology and tools for better client satisfaction is the top priority for the entire industry. The goal is to provide a solution where the investor can meet individual investment preferences while at the same time achieving both a positive ESG impact and outperformance, with respect to relevant benchmarks. Both the end-client and the wealth manager are shown the way to a three-fold benefit: an optimal risk/return portfolio, an optimised ESG and SDG portfolio, and a minimized Sustainability Risk in the portfolio leading to mid-to long term outperformance.

"Only by applying sophisticated optimisation methodologies and risk engine capabilities, which we have continually developed and refined over the past 15 years, is it possible to engineer a solution which can drive such a professional-level scenario-driven portfolio experience."

In the past, financial regulation has largely required financial institutions and companies to focus on the financial risks of their clients. However, it is now demanding asset and wealth managers to look at businesses' sustainability risks and opportunities, as these factors can ultimately impact capital returns. Consequently, investment advisors must ramp up their efforts due to the increasing recognition that ESG factors – climate change in particular – represent material risks that must be managed.

As public and regulatory expectations continue to change, competitive banks are already moving to take advantage of the situation. As of 2018, $30.7trn was being professionally managed globally under responsible investment strategies ranging from exclusionary screening to corporate engagement, an increase of 34% in just two years, according to the Global Sustainable Investment Alliance's annual review.

This shift toward sustainable finance has evolved beyond socially responsible investing to include asset management and ownership. Taschner believes that, "Unlike other plug and play software, ESG requires a careful strategy to unlock value. Only a systematic integration of ESG risks and opportunities improves the selection process and creates enhanced risk-adjusted returns. What needs to be done is a bottom-up analysis designed to identify positive drivers for change in a company that others in the market have not yet priced in. These results have to be enrich existing asset allocations to have a complete investment strategy considering ESG as a potential alpha factor," he added.

Tellingly, there was a wave of panic and uncertainty after the slew of regulations such as the EU Action Plan on Sustainable Finance, SFDR and quasi legislation from TCFD came into force to accelerate firms' efforts towards sustainable finance. But Taschner said that swissQuant was prepared for the new challenge. "In anticipation of this wave of demand, we had already onboarded sustainable/ESG experts who now are in the position to give our customers the guidance to confidently plan their next steps in the integration of ESG into their wealth planning process," he said.

However, incorporating ESG is not only for compliance purposes as data suggests that ESG-related funds beat the markets. The MSCI World ESG Leaders Index outperformed the regular index by 1.36% on the quarter. In another study by Morningstar, 70% of responsible investment funds outperformed their peers in the first quarter of 2020.

The Covid-19 pandemic has also played a part in the shift to ESG as businesses and investors were further forced to shift their focus from profits to people. Issues related to health services and societal welfare topped the investment agenda as wealth managers realised that environment and social issues have a deep and direct influence on economic stability.

How swissQuant is leading in the ESG initiative

According to Taschner, swissQuant is "constantly enhancing its wealth management platform with the goal to bring wealth managers and private banks the most clearly thought-through, comprehensive and market-leading solution for their client management and investment process. This can be achieved by bringing the investor and the bank closer together by matching investors preferences with the investment intelligence of the bank."

How can this be achieved? Taschner said, "By incorporating investor ESG preferences into the portfolio optimisation process of growth and return, we are reshaping the very core of wealth management by demanding the engagement of investors and encouraging them to define their contribution to the future. Moreover we cooperate with large financial market infrastructure provider to make these strategies tradeable. By providing advisors and investors with flexible, responsive and scenario-driven applications, we enable a trust-building investment experience, where the advisor can then lead the investor to his or her personal goals. Supportive tools, driven by data analytics and comprehensive reporting, further build investor confidence by allowing advisors to easily respond to challenging questions over market developments."

Sustainable finance is the future

It is no secret that sustainable finance is here to stay. A growing number of investors have moved their wealth to sustainable investments and the younger generation of investors are demanding that society has a conscience. As Taschner said, "With the upcoming, ever stricter and highly complex ESG capital market, it is of utmost importance to use an efficient setup from the beginning in order to effectively cover the complexity and scope of the topic. While this pressure creates certain compulsory actions, the real value added comes from the fact proper ESG integration simply leads to better results, especially for medium to long-term investments."

Looking ahead, indeed the train towards ESG investment and wealth management is already moving. "Those who are too late will lose out." Taschner opined. And, swissQuant is poised to lead the financial sector by escalating its tech services. As the firm continues to scale, it plans to boost its growth in Europe, especially the Nordics and the ASEAN market, "where the ESG topic seems to find more followers every day," Taschner added.

"According to recent market experts including the well-known value investor Warren Buffett, value will replace growth as the driving force in the future. As a value provider and value believer, true to our quality promise, we think swissQuant will continue to enjoy a top reputation within the financial industry," Taschner concluded.