ASIA PACIFIC FINTECH MONTH 2022

FINTECH FOR SUSTAINABILITY

At CFA Institute Asia-Pacific Fintech Month 2022, MioTech CEO and co-founder Jason Tu demystified environmental, social, and governance (ESG) data and examined how artificial intelligence (AI) is being harnessed to gather such information.

Sivananth Ramachandran, CFA Institute director of capital market policy in India, moderated a panel discussion on the key aspects of Jason's presentation. The contributors included Shih Shen Wong, country sales manager (Southeast Asia and North Asia) of Planet; Abhilasha Purwar, CEO and founder of Blue Sky Analytics; Dr. Jacky Tang, managing director and CIO of Goldman Sachs Asia's Portfolio Management Group; and Dael Wilson, chief of staff and head of sales at ESGTech.

WHILE TECHNOLOGY ENABLES, ESTABLISHING STANDARDS NEEDS TIME

AI is used to solve various issues concerning sustainability, climate change, carbon neutrality, and social responsibility. Technological advancement and increasing data volumes are readily available. As Tu notes, "Now, automated monitoring devices can track and collate all sorts of data, while AI and other software can verify and validate what's gathered." This data forms the basis for analysis, and the methodology used to break down and understand the relationships between the primary material is the key differentiator. Because this is a relatively new field, there are numerous competing approaches. Unlike in the financial world, in which quarterly earnings reports and investment opinions have become well established, unified global standards for ESG reporting do not yet exist. It will take time for ESG-related benchmarks, investment research, and reporting to mature and become widely accepted.

SATELLITE IMAGING AND ITS APPLICATIONS

Wong explains that his company uses 200 orbiting satellites to monitor the earth, taking thousands of high-resolution photographs. Given the increased granularity of the images, these can be used in time-lapse analyses, can measure the rate of deforestation, and can provide real-time impact assessments of natural disasters or industrial accidents. Further downstream, Blue Sky Analytics turns satellite images into useable intelligence, not just for observation but also to make predictions. Purwar notes that "satellite data is objective and impartial, unlike evaluations and opinions that can be subjective or biased." In addition,

satellite data can be collected without input or consent from the companies or individuals being observed. This can augment information already being collected by sensors placed either by the companies or by governments and authorities.

AI CAN GENERATE ALPHA FROM ESG INVESTING

In the past, the investment community focused only on financial information to generate alpha because that was the only data available. "The advent of AI and Big Data allows investors to go beyond that single-factor approach," says Tang. With fintech, professional investors can focus on equity premiums and the premia for liquidity, foreign exchange, and emerging markets. AI is also being used to assess potential ESG investments, particularly given the lack of standardised information. Consequently, applying fintech to ESG investing can become another source of alpha, especially in an environment with imperfect knowledge.

STARTING DOWN AN ESG PATH

"Technology has an outsized ability to affect the ESG landscape through efficiency and effectiveness gains," observes Wilson. The onus, however, will still be on individual companies to become ESG compliant. This could present enormous challenges, especially for smaller businesses. Other potential roadblocks include knowing what information to collect, managing it, and creating a sufficiently robust process to enable data verification.