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Artificial intelligence to standardise company sustainability analyses

Socially responsible investment and environmental, social and governance (ESG) criteria are increasingly a topic for debate, and not just in Italy. The United Nations has set 17 sustainability goals for 2030. The European Commission is discussing the question of categorisation with a view to establishing firm, unambiguous definitions for all possible activities covered by ESG criteria. And this year ESG and sustainable finance will be the common thread of the 10th edition of the Salone del Risparmio (which runs from 2 to 4 April in Milan).

THE PROBLEM OF STANDARDS

"It's not as widely known that different standards are used to judge companies and so a company can have a certain type of evaluation with one data provider and a different evaluation with another", explains Angelo Meda, Head of Equity at Banor SIM. And he adds: "That's because each analysis firm adopts its own criteria. They can analyse the different sectors giving each ESG criterion a different weighting: significant or less so". The three ESG criteria are key characteristics of a sustainable approach for the business system.

An example of this possible divergence in evaluation? For an oil company, the environmental component is more significant than for a bank, where the most interesting variable is governance. "A company that has to assign scores to companies and evaluate them in terms of socially responsible investment has different ratings services at its disposal. They

can have a positive influence on the choice, where they give them a 'compliant' score, or a negative influence, to exclude them. In this context, Banor SIM has chosen an independent path", explains Meda. "We access the raw data provided by the firms and then apply a standard that helps assess companies in each sector in a uniform way by identifying the most relevant elements of the business's activity that could have a strong ESG impact".

BANOR SIM'S REPORTS AREN'T BASED ON PROVIDERS' ASSESSMENTS BUT ON THE DATA PROVIDED BY COMPANIES THEMSELVES

Angelo Meda, Head of Equity at Banor SIM

BALANCE SHEETS, AND MORE

But there's more. Other factors are used in analyses, such as balance sheet readings, whether traditional or sustainability-focused, and the inevitable dialogue with management. But reputational problems can arise at any time after the financial statements have been published.

"To prevent this problem", continues Meda, "Banor has created a platform that uses artificial intelligence to review all the news appearing in the media and update its evaluations accordingly. As the research conducted by Politecnico di Milano in collaboration with Banor SIM has already shown, ESG analyses increase returns, especially when combined with the value approach. The aim, always, is to give clients a good return on their investment, while integrating several levels of screening is proving to be the right road to follow".

Ma.B.