ESG Viewpoint: QuantData

RepRisk
ESG data science and quantitative solutions

RepRisk interviews Xiangfeng Liu, Founder & CEO of QuantData

秩鼎 QUANTDATA

1. RepRisk: Please provide some insight into your specific role at QuantData and explain the work that you and your team do.

Xiangfeng Liu: I am the founder and CEO of QuantData. I used to work for Thomson Reuters and knew from the customers in developed markets that alternative data like ESG is increasingly critical for risk management and pricing. I founded the venture in 2018 and joined the UN PRI (Principles for Responsible Investment) the same year as the 9th signatory on the Chinese mainland. There are now a total of 63 signatories headquartered in China.

QuantData provides data and analytics services to help financial institutions make better investment decisions. We serve a wide range of clients such as buy side, sell side, professional services, and corporates across the US, Europe, and Asia. We've also built strategic partnerships with prestigious global service firms like Bloomberg, ICE, and RepRisk to serve financial market practitioners across the world.

2. RR: QuantData provides risk incidents in Chinese language for RepRisk*, ensuring all nuances and specialties for the market are accounted for. In your experience, how has ESG-related reporting developed over the past years and why do you think analysis in local languages is key to meaningfully detecting ESG risks?

XL: ESG proactive disclosures are getting better in terms of volume. For example, 80% of companies in the China Securities Index 300 issue CSR reports. However the quality is still far from perfect due to a lack of standardization, regulatory requirement, and third-party audits. For our financial institution clients, it's not practical to just wait for a perfect ESG disclosure system like the financial accounting that we have today. They wouldn't be able to meet the market demand on ESG investing, and would lose significant business opportunities. So, it's crucial to build the capabilities to source ESG intelligence through various other channels like regulatory filings, news, and third party reporting, which are typcially in local language and in an unstructured format. QuantData built the technology infrastructure to cover a wide range of data sources, and the result contributes to RepRisk's language and market coverage to support global investors. For example, on a daily basis, QuantData collects the environmental violations from 3,000+ public regulatory websites and maps the records to listed companies. Only with such data collection and analysis can financial institutions effectively detect ESG risk and make better, more informed decisions.

* RepRisk also conducts its own research in Chinese language since 2010.

3. RR: Would you please summarize the ESG market landscape of China, and the barriers and opportunities around ESG integration for companies investing or operating in China?

XL: The ESG market in China has been quickly developing in the past years, especially since mid-2020. There are now more than 200 ESG asset management products, and the ESG assets under management reached RMB 330 billion (USD 47 billion) in June 2021. The extended green finance and carbon market is even bigger – the balance of green credit exceeds RMB 12 trillion (USD 1.7 trillion), and green bonds reached RMB 1.2 trillion (USD 171 billion) in 2020.

ESG integration is no longer an option but a must for domestic asset managers, as well as the local operations of global players. Aside from the opportunities presented by the fast growing market, the challenges are similar to those in other markets; the lack of comparable and historical data – which RepRisk addresses with its 15-year data history – limited understanding of ESG issues, and limited understanding of the investment benefits of ESG. In today's market, traders are short-term focused investors expecting a reliable alpha signal. I think that a misunderstanding of benefits arises because the benefits for ESG investing are very solid, but sometimes more for medium- or long-term risk management and asset pricing. So essentially, the challenge is the mismatch of investing timeframe and expectations. I expect that will get better and more asset owners will drive asset managers to price medium-long ESG risks.

What's unique to the Chinese market is the ESG materiality research. ESG factors, especially social and governance, can derive different impact analysis, like the state owned enterprise's shareholding structure. That may not be fully consistent with the risk modeling in developed markets. So, global asset managers must build local expertise on data and research if they commit to this market.

4. RR: What do you believe to be some of the main drivers of ESG integration in China?

XL: The Chinese market is still very much policy driven, so policy and regulations are the main drivers. The second main driver is from the asset owners – like insurance groups or pension funds – who push asset managers on ESG integration and ESG investing.

Individual investors also drive ESG integration. More and more retail investors buy ESG mutual funds or wealth management products.

5. RR: What is the current state of regulatory frameworks in China? How do regulatory frameworks in China dovetail with other international standards in guiding sustainable development?

XL: Chinese regulatory frameworks target green finance or sustainability finance that involve larger segments beside asset management, like credit, loan, insurance, and even industry sectors. On the other hand, China focuses a little bit more on the environmental pillar of ESG, especially when it comes to air pollution, non-sustainable energy consumption structure, and carbon neutral commitments. In fact, the state leadership set up the ecological civilization goal back in 2013, much earlier than ESG investing development in the Chinese market.

Chinese regulatory frameworks are top-down and involve wider stakeholders. Under the Fourteenth Five-Year Plan by the Party and State Council, various regulatory bodies (like PBOC, CBIRC, CSRC on financial regulating and MEE, NDRC on industry regulating) jointly contribute to the frameworks.

It takes time for Chinese and global markets to fully agree on one universal standard about sustainable development. Practically, the climate change risk is well understood, and the environmental issues could be one main area to have solid output. For example, the Chinese National ETS, the largest carbon trading market in the world, just went live in July. Although the trading volume is not huge for now, the tradable carbon price has become a good metric to calculate the environmental cost, the value under risk, and ultimately the asset price and capital flow.

6. RR: What is your forecast for ESG within China specifically?

XL: I have a very positive outlook for the future of ESG integration and sustainable investing in China. The policy driver and capital flow together accelerate the market growth. Essentially, ESG integration will enhance the traditional risk modeling and asset pricing, so the use case will extend far beyond asset management and have transformative impacts to the credit market, loan market, and insurance market. All of these markets are huge and rapidly developing in China – and those impacts could be various. Essentially, it's about risk measurement and asset pricing, no matter if it's credit market, loan market, or insurance market. We recently had some converstaions with one property insurance firm. Its actuarial rate did not account for ESG risk before, however the firm is now looking into climate risk data and fine tuning their underwriting risk model with that in mind.

For professional service firms, the opportunities are promising given they can help the customers make better decisions about risk via specialized services on data and analytics.

Conclusion

Headquartered in China, QuantData is on the cutting edge of the burgeoning Chinese ESG landscape, and has formed a strategic partnership with RepRisk, providing risk incidents in Chinese language and ensuring all nuances and specialties for the market are accounted for. Xiangfeng shares his data-driven insights on the main drivers of ESG in China, regulatory frameworks in place, carbon trading, and the barriers and opportunities around ESG integration for companies investing or operating in China. Together, RepRisk and QuantData provide comprehensive data and metrics on companies, projects, sectors, and ESG trends in China.

Bio – Xiangfeng Liu

Mr. Liu founded QuantData in 2018. QuantData provides data services and data-driven analytics to financial institutions. QuantData joined the UN PRI in 2018, is Bloomberg's first alternative data provider in China, and became the solutions partner of Intercontinental Exchange in 2021. The company is built on a research-driven culture, market know-how, and engineering expertise. Having served a wide group of customers across buy side, sell side, and professional and corporate services, QuantData empowers customers to make better investment decisions. Before founding QuantData, Mr. Liu worked for Thomson Reuters and managed the global strategic banking accounts. He has held various managerial roles in business development, product management, and client services during his 12 years tenure. Mr. Liu obtained a Master's degree in Economics from Peking University, and a Bachelors / Master's degree in Computer Science from Nankai University.