Press Release

Banor SIM presents its fourth ESG research project in collaboration with the Polytechnic University of Milan

The 2022 study explores the differences between the ESG ratings issued by specialist agencies on publicly traded companies on the Italian Stock Exchange

Milan, 13 June 2022 - Continuing its research with the Management School of the Polytechnic University of Milan, Banor SIM presents its fourth study, focused on the differences between the ESG ratings issued by specialist agencies on publicly traded companies on the Italian Stock Exchange.

The growing attention towards sustainability issues across the financial market has led to a proliferation of environmental, social, and governance (ESG) metrics and rating providers which, in the absence of a standardised assessment system, generates results that can be difficult to compare as each agency considers different data and follows different procedures.

The research analyses the differences between the ESG scores awarded to publicly traded companies in Italy in 2020 by six of the leading ratings agencies (MSCI, Refinitiv, S&P Global, Inrate, Arabesque and Truvalue Labs), breaking down the score attributed by each of the six agencies according to three different effects: the weights attributed to each of the three pillars (E, S and G); the differences in the weights attributed to the different KPIs (key performance indicators) in each of the three pillars; and the differences in how the scores for each KPI are evaluated.

Assuming that many of the differences between ESG scores are due to the varying importance that each agency gives to sustainability KPIs, according to **Giancarlo Giudici, Professor of Corporate Finance at the School of Management at the Polytechnic University of Milan**, *"Greater convergence that enables a more standardised measurement methodology is called for and, above all, there is a need for greater transparency. In this regard, the role of listed companies is paramount; these companies inevitably have a far greater understanding of the production technologies than the financial analysts and are therefore able to develop precise and effective indicators based on the extensive information available to them."*

Methodology

The analysis considered six different data providers: MSCI, Refinitiv, S&P Global, Arabesque S-Ray, Truvalue Labs and Inrate. Overall ESG scores, single pillar (Environmental, Social and Governance) scores and category scores (e.g., for the Environmental category, GHG emissions, water consumption, recycling, etc.), including the values and weights for each pillar or category, from public sources were considered.

Out of the 210 companies listed on the Italian Stock Exchange in 2020, only 22 were covered by all six agencies; typically these were companies with the highest market capitalisation and were often also traded abroad.

Observing the correlation between the individual pillar scores, the discrepancies were less pronounced in the Environmental component. The Social component generally had a little more impact, but it was the Governance aspect that was responsible for much of the heterogeneity.

Furthering the analysis and considering the contribution of the various and specific KPIs selected by the agencies to attribute the ESG score for each individual pillar, it was found that the agencies use metrics that do not coincide perfectly, making it necessary to reclassify and standardise the different KPIs by establishing a common list.

As for the pillars, the analysis conducted on the individual KPIs confirmed a significant disparity between the scores given, mainly as a result of the different weights attributed by each agency, and often due to the application of qualitative rather than quantitative criteria which left the assessments more open to the subjective analysis of the analyst.

The scores converge more and tend to offset each other more when the different KPIs considered are grouped by class.

Highlights

The results of the research show that different agencies attribute quite different “weights” to the same factors: the greatest differences are found in the “Social” and “Governance” components, while scores attributed to the “Environmental” factor are more uniform. Furthermore, while not establishing a statistically robust cause-and-effect relationship, there is a negative correlation between the market performance of securities in the 2018-2019 two-year period and the variance of the ESG ratings assigned: issuers whose ESG ratings showed the least discrepancy between providers generated better returns for investors in 2019 and 2020.

“*Greater convergence among ESG ratings by different analysts could reduce data disparities and drive investors to favour certain stocks over those that present greater disagreement,”* commented **Angelo Meda, head of equities and ESG research manager for Banor SIM**. “*The research shows that in 2019 the stocks of businesses with similar ESG ratings performed the best, while in 2020 securities associated with a greater divergence of ratings performed the worst. This is a sign of the importance that investors and shareholders now attribute to the ESG ratings of their securities.”*

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