



Thoughts on terminology from the ESG Investment Working Party

Introduction

On 20 September 2017, the ESG Investment Working Party (WP) had a preliminary discussion about the terminology to use when seeking to engage actuaries on topics related to environmental, social and governance (ESG) issues in investment. This note records the key points from this and subsequent discussions within the IFoA. It is offered to inform the IFoA's future use of terminology, for example when advertising events, writing articles or responding to consultations.

Discussion

The abbreviation **ESG** is potentially problematic for an actuarial audience. Although it is widely used within the investment industry to refer to environmental, social and governance issues, it is used elsewhere (including in the insurance industry) to refer to economic scenario generators. Care should therefore be taken to avoid ambiguity. Also, the WP generally agreed that ESG should not be used as a noun, as if it were a particular 'thing'. Instead it should be followed by a word such as issues, factors or topics.

The term '**responsible investment**' has the advantage that it has been widely adopted and is unlikely to disappear, not least because of the existence of the Principles for Responsible Investment (PRI)¹ and its size and influence. The PRI uses the following definition:

"Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns."

However, all terminology in this area has its problems and responsible investment is no exception. To some extent the PRI used it as a 'compromise' term to help secure very wide adoption of their Principles. It is rare to state the intended beneficiaries of taking a 'responsible' approach. Sometimes the beneficiary may be intended to be wider society, but for other investors this could conflict with their fiduciary duties (eg to pension fund members or insurance customers).

It was noted that the WP itself had not been named the Responsible Investment WP because responsible investment was often understood as being a financially-driven pursuit, but the WP has a broader remit than this. For example, it could include '**impact investing**' which is defined by the Global Impact Investing Network as:

"Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return."

The WP generally did not favour the adjective **green** given its political connotations. It was noted that it is used in the retail space more than the institutional investment space. The example 'green infrastructure' was discussed. This implies investment in certain types of infrastructure which meet environmental criteria. This is narrower than responsible investment which can be applied to any type of infrastructure by assessing it against ESG criteria.

A commonly-used term is '**sustainable investment**'. While this is something of a truism (who would knowingly invest unsustainably, or irresponsibly?), it implies a longer-term outlook than most of the

¹ The IFoA is a [PRI Network Supporter](#), committing it to actively support the PRI within its spheres of influence.



other terms discussed, which is consistent with typical actuarial investment objectives. It does not imply an ethically-driven approach, though it could incorporate one where required.

Another term which found some support is '**long-term investment**'. This is perhaps more readily understood than sustainable investment and less likely to be seen as value-laden, but it encompasses a wider range of issues – such as companies' long-term strategic planning and risk management generally – which are important but go beyond the intended scope. It also implies that the topic is not relevant to investors with shorter time horizons (eg pension schemes targeting buy-out in the short to medium term) and may reinforce the misperception that ESG risks are *only* long-term risks, giving people an excuse for people to defer consideration of them. The WP noted that the closely-related term '**patient capital**' has become much more widely used during the past year.

Throughout the discussion, the importance of investor objectives and beliefs was stressed. Some terms (such as impact investing) imply ESG-related objectives, whereas responsible investment is consistent with a wide range of investor objectives (such as providing DB pension benefits). It is often helpful to bring investment beliefs out into the open so that they can be challenged if appropriate. For example, there may be a perception that sustainable investment is more relevant to certain types of assets, but such perceptions may not be accurate.

Conclusion

There was broad consensus that 'sustainable investment' applies to many of the questions and considerations that a typical actuary would encounter in this area. The phrase aligns well with the long-term nature of actuarial work. Most of the tasks performed by an actuary would benefit from the actuary asking themselves whether they had considered the sustainability of their proposed approach, in light of the needs / objectives of the client / investor and the timeframes under consideration. However, whilst sustainable investment is the WP's preferred term, it should only be used when the meaning outlined above is intended. In other cases, alternative terminology may be more accurate and should be used instead.

Version dated 5 January 2018