Institute and Faculty of Actuaries

Reporting UK Progress on Sustainable Development Goals

IFoA response to UK Stakeholders for Sustainable Development and the Office for National Statistics

15 April 2016

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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UK Stakeholders for Sustainable Development and
the Office for National Statistics

15 April 2016

Dear sirs,

Reporting UK Progress on Sustainable Development Goals

The Institute and Faculty of Actuaries is the UK chartered professional body for actuaries who provide institutional risk management across the financial services sector. Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues.

We welcome the opportunity to respond to the UKSSD consultation on Reporting UK Progress on Sustainable Development Goals. This response has been led by members of our Resource and Environment Board (R and E Board). The R and E Board's objective is to incorporate resource and environment issues into actuarial science and to provide actuarial input into efforts to reduce, mitigate and adapt to the challenges of climate change and other R and E issues. The R and E Board has conducted research exploring the implications of ultimate planetary limitations to growth; and the suitability of GDP as the key metric of economic activity and success. This research highlights the importance of understanding the interaction between economic growth and sustainability. We have focused our response on Target 8.1, as this is the target on which we feel best placed to comment, but many of our remarks are of more general relevance.

The seventeen SDGs outline a variety of targets which, if achieved, should combine to deliver and define an inclusive and sustainable society. Goal 8 (*Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all*) and Target 8.1 (*Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries*) contain the assumption that it is desirable to target per capita GDP growth as a way of achieving an inclusive and sustainable society.

Our research on sustainability and the financial system[1], and the research we have commissioned on limits to growth[2], has highlighted two material challenges to this assumption: firstly the observation that GDP does not measure sustainable economic activity; and secondly the observation that economic growth may not be possible or indeed desirable over the long-term. The existence of limits

[1] https://www.actuaries.org.uk/documents/sustainability-and-financial-system-review-literature-2015
[2] https://www.actuaries.org.uk/documents/resource-constraints-sharing-finite-world-evidence-and-scenarios-future

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to growth raises important questions about inequality given the imperative to raise living standards in many countries, particularly the least developed ones.

In our view, as we outline below, sustainable development will be achieved with a shift in priorities from increasing consumption and GDP growth to wider concepts such as improving quality of life and well-being, and reducing global inequalities and environmental impact.

Target 8.1, Question 3: What are the biggest challenges that the UK faces in supporting the implementation of target 8.1, and how could UKSSD best support you in overcoming these challenges?

There are many different interpretations of what sustainable development looks like. In the UK, the government definition is essentially that the current generation satisfies its basic needs and enjoys an improving quality of life without compromising the position of future generations. We believe that, for the best possible chance of achieving the SDG targets in the UK, it will be important that a concise set of indicators provides a coherent view for policymakers by covering social and environmental issues, as well as economic factors. For this purpose, indicators based on human welfare that capture the state of natural and human capital may be the most appropriate.

More specifically, in supporting the implementation of target 8.1, the UK will need to consider the feasibility of achieving sustained per capita GDP growth in the medium- to long-term and the desirability of attempting to do so. The limitations of GDP as an indicator of the sustainability of economic activity are well known, in particular that it measures only the level of economic activity and not the source of economic activity. The focus on GDP growth as an indicator of success incentivises both the public and private sectors to achieve higher GDP in the short-term without having regard to whether economic activity is running down capital and not replacing it. Targeting GDP focusses society only on the short-term boom in activity and not the point when the capital might run out.

Sustainable economic growth is more likely to be achieved if there is a shift away from a focus on GDP towards a set of indicators that includes social welfare, justice, wellbeing, and the environment to name but a few. These can also be viewed as capitals of a non-financial nature, which may be depleted by the actions of a GDP-oriented economy. While the other SDGs cover these areas, the inclusion of GDP growth is, in our view, at odds with their achievement in the long-term, not complementary to it.

The New Economics Foundation (NEF) has published a set of indicators measuring national success across jobs, wellbeing, environment, fairness and health. The objective of the indicators is to drive more balanced policy decision-making without the underlying assumption that GDP growth translates automatically into benefits across all areas. We would urge the ONS and UKSSD to consider how indicators, such as those developed by NEF, could be used in reporting progress towards sustained, inclusive and sustainable economic growth.

More generally, to support the SDGs, policymakers will need to:

1. Ensure that the achievement of the SDGs is not seen as a co-benefit of the aim of pursuing indefinite economic growth within the finite ecosystem. Our limits to growth research highlights the need to consider the planetary boundaries impinging on human society, most prominently in the case of climate change, but also in respect of access to energy, raw materials, food, water, and the biodiversity of the ecosystem. The stark conclusion that neither human population nor material consumption can indefinitely increase should lead developed nations to consider reducing the overall levels of consumption in their own countries as well as encouraging an increased per capita consumption in developing nations.

Whilst this topic is politically charged in developed nations, we note a lack of open discussion and policy around the eventual impossibility of continued global growth and its consequences.

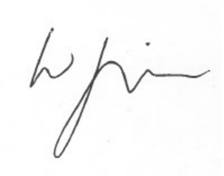
2. Achieve long-term economic sustainability as highlighted by Goal 12. While the growth and innovation of individual human enterprise and practice must be an enduring part of a vision of economic sustainability, owing to the existence of limits to growth, the overall growth of the global economy cannot be. Defining a model of economically sustainable practices which enable both human wellbeing and system stability is the central challenge of policy-makers in delivering the SDGs. The current model of economic growth has not been sustainable and may not be capable of continuing to improve quality of life. It has increased per capita consumption which is further excerabated by increasing population numbers. Increased demand has increased the strain on non-renewable resources, making further growth harder to achieve and increasing the risk of a decline in supply of a critical resource. Policy-makers will need to review economic growth in developing countries from the perspective of long-term sustainability if we are to make meaningful progress towards the SDGs.

3. Secure local financial, economic and political stability. While globalisation has brought undoubted benefits to the developing world, the free movement of capital around the world can be inherently de-stabilising to local economies. Our research highlighted the reduction in financial stability caused by factors of interconnectedness and concentration in the financial and monetary systems. While harder to achieve, endogenous financial systems – composed of smaller and more numerous entities, and controlled and owned by local participants – are likely to deliver better long-term outcomes for developing economies. Over-reliance on a handful of global banks, financial intermediaries, markets and currencies is likely to result in an increasingly fragile financial ecosystem and make a long-term sustainable economy impossible to achieve.

Communicating progress will also be essential to achieving the SDG targets. We note that having individual indicators for all 169 targets is too many for communication purposes. We suggest that a small set of headline indicators is used to measure progress against the targets and presented in a way that resonates with the public. This way the public can hold policymakers accountable over environmental and social issues to the same extent they are currently held to account over economic issues. This would also provide policymakers with a simpler guide to use in deciding between policy options.

If you have any further questions or would like to meet to discuss the points raised in this response, please contact Morgan Slebos, Policy Manager, in the first instance at morgan.slebos@actuaries.org.uk or 020 7632 1473.

Yours sincerely,



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