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Financial Consumption - Hidden Key Indicators

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The industrial economy is geared towards **maximization of wealth**. This target has led towards a substantial, even amazing, economic growth during the last two centuries. Yet, at the same time this growth has introduced new risks and has caused severe threats and actual damages to the environment and to the social framework. Research shows that mankind survival on Planet Earth is becoming the most pressing and urgent challenge of our time [4],[12].

Some risks are environmental: Global climate changes, loss of diversity that decreases resilience, damages to delicate food chains, and land, air & water pollution. Others are societal, like employment security, growing inequality in income and wealth, pressures related to rapid urbanization, and demographic changes that threaten retirement system.

The focus of our conversation will be to show the roles of financial consumers in helping the mitigation of these threats and turn them into opportunities. As an insurance expert, I think that the retirement savings hold the key to the solution.

Think about the insurance companies – they write the checks when natural disasters resulting from climate changes happen. Therefore, mitigation of those risks is a **must** for the insurers. The retirement and insurance funds are responsible for huge amounts of money globally. They manage the largest asset most individuals accumulate during their lifetime. These monies are the major source of long term investments in the world.

Managing these monies involves a great responsibility: When we save for retirement, the money is invested in projects that reshape our future, and at the same time are supposed to create the revenue stream needed to finance our retirement.

It is important to remember that the insurers and pension funds are just managing **our** money, and therefore they have to serve **our** values. Since environmental and societal risks endanger our survival, we better encourage the insurers to use the funds directly to mitigate some of the major threats, such as the climate change and the insecure employment and retirement arrangements. What is the sense in making other conventional investments, given the level of threat of climate change on our future?

We have the needed funds

Does the insurance and pension industry have sufficient funds that can be the source needed to save humanity? Yes it does! The industry manages a portfolio in the magnitude of $80 T (Larger that the annual global GDP). And every year some $7-10T have to be reinvested [7]. These enormous amounts are more than enough to migrate the threats we are heading.

Let us focus on the example of climate change alone: The Stern Report on the impact of climate changes, published in 2005 [8] estimated that an annual investment of 2% of global GDP was needed to prevent the consequences of climate changes. At that time this was equivalent to "only" $1.5T. This huge amount is only a part of what insurers have to invest annually. Similar projects serving other environmental, social and ethical goals can be treated in a similar way. So the only question is: how can we assure that those funds will be invested on behalf of our future rather than in projects that will eventually destroy us?

At present the investments of pension and retirement funds are managed towards the goal of the current paradigm, thereby serving mainly (almost merely) economic goals. In other words – maximization of the return on investment. Most of the investments are currently made in traded (short term) financial instruments that have daily market valuation rather than in long term real assets. Moreover, some of the financial instruments create much volatility and crises in our financial systems.

A paradigm shift toward 4D system

We have to replace the mere (short-term) economic objective by a multi-dimensional target. There is a broad agreement that we have to serve the "triple bottom" concept that considers at least three dimensions: **E**conomical- **S**ocial- **E**nvironmental [triple bottom source].

The recent introduction of very sophisticated communication and computer systems, such as the smartphones, has made a tremendous change in the world. It enables each person to get access to the entire available knowledge. And at the same time enables people to connect. This has transferred much power from the hands of governments and big businesses to the hands of individuals, and created the Era of the Global Person [13]. We, therefore, suggest to add a fourth dimension to the new dashboard: our new addition to the system, would be Consumer (& Citizen) Consciousness. So we recommend using a 4D system, **ESEC** = **E**conomical- **S**ocial- **E**nvironmental - **C**onsumer (& Citizen) Consciousness, rather than just the triple bottom line approach. Moving from a system where we serve the economy, to a system that serves our 4D ESEC dashboard will generate a game change, will create a transformation, a paradigm shift!

As you know, Peter Drucker introduced the concept that you don't measure what you get, you rather get what you measure [2]. In other words, the metrics set the goal. The new dashboard will serve as our compass and all governments, businesses, organizations and individuals will be aligned in reaching the complex goal. This new goal will enable us to serve all the diverse values alongside the old economic objective. We shall see that serving environmental and societal values doesn't contradict economic targets.

This will lead towards an enhanced and expanded form of capitalism. Capitalism assumes that each player strives for wealth maximization. This leads to creation of supply and demand curves that automatically determine a set of equilibrium prices. This process leads towards an automatic allocation of all resources as well as all goods and services that we produce. The beauty of the capitalistic system is that the allocation is not only automatic ("the invisible hand"), but also **optimal**. Changing the definition of wealth and inclusion of additional forms of capital – economic capital, social capital, human capital, natural capital, etc. – will lead to a new optimum. (This will enables us to explain and manage what seems to be a huge problem of our antiquated accounting system that explains only a small part of the "market value" of firms) [1]. Moreover, it will show that the new accounting regulations, mainly the capital adequacy rules of **Solvency 2** are diverting funds towards the wrong directions (since they generate a bias towards short term traded government securities, and against non-governmental and non-traded loans and investments). The main issue, of course, is the definition of the new metrics.

For example, the investments of the retirement funds would include anti climate change projects such as renewable energies plants, energy storage systems, better transportation systems, greenhouse gases emission, etc. It may include new educational systems for engineers, designers, executives, accountants. It may encourage new production technologies like Cradle to Cradle [6] and may have impact on job markets. It may possibly even change the retirement system by guarantying minimum returns on retirement funds and relieving the savers from some of the dependency on the volatile capital markets.

How can we make it happen?

As a professor I am a dreamer, but I am also very practical. When the Stern report was published I discussed with some of my friends, leaders of the international insurance industry, the challenge of climate change and the needs for channeling investments towards new directions. The industry leaders decided to create a committee to deal with the issue. They were aided by the Financial Initiative of the UN environmental protection agency (UNEPFI). It took several years to work out a draft of a voluntary PSI treaty – Principles for Sustainable Insurance [9],[10]. This followed the PRI convention that took place for the financial sector sometime earlier [11]. In June 2012 the UN RIO+20 summit on environment and climate change convened in Rio de Janeiro. Not coincidently, at the same week the signatory process of the PSI treaty took place at the Global Insurance Conference at another part of Rio. (I was honored to be a speaker at this event).

Today –about 50% of the funds – approximately $40 T - are already almost in “our hands”. WHY only 50%? Mainly because the inability of US insurers to participate due to legal issues. The main difficulty is regulation. For example, corporation laws in most states say that corporations are supposed to maximize shareholders profit, and executives are afraid to be sued if they will invest in environmental projects.

We have to encourage and thank the insurers that have committed themselves to manage their business in a sustainable way for the benefit of the future of humanity. We can use our power as conscious consumers to show our appreciation.

Metrics

The insurers and UNEPFI committee is still working on the by–laws for the PSI treaty. The main difficulty is the lack of agreeable metrics!

Our Purpose is to help develop the new metrics for the 4D ESEC dashboard. It will enable to optimize the allocation of these long term investments. We can achieve that, if we all unite – the UN, Insurance companies, Retirement funds, Sustainable brands, Game changers500, YKCenter and other organizations that recognize sustainability as their major goal. It is possible, and closer than ever before.

Do you realize the enormous meaning of harnessing the large monies towards the 4D system? The potential impact of this? The wonderful thing is that the money exists. We simply have to make sure that it is invested in the right place. By that, we will be able to ensure the shaping and reshaping of our common future.

To make this happen - we will have to make a paradigm shift, and go through a transformation, and become game changers. This will enable us to prosper in a 4-D sense, rather than just economically.

I believe this will make the insurers, eventually, more important than the banks. This will happen also as a result of the developments of computers and communication, and the development of complementary currencies [5]. the marginal costs of handling large data, transferring and exchanging money and banking services is becoming negligible. The only remaining true cost is the cost of credit rating and insuring credit risks. This may encourage insurers to work with consumers and make the shift faster.

We have two main challenges:

First, we need to harness the US insurance companies to join - they are currently not part of this move, as we mentioned. But where there's a will - there's a way - together we can find it.

Second, we still have to work out a more sophisticated multi-dimensional metrics system, the 4-D matrices. The UN secretary general recently declared their aim to have a new dashboard by March 2016. We need to make sure, that it will include metrics to guarantee optimal management of funds for the benefit of humanity. We need help in shaping the future dashboard. Join our teams working worldwide in designing what we believe to be the most important dashboard in human history.
And please pass our message forward - if what you have heard here today touched you - please make sure more people hear about it, and join this common effort.

Is it possible? YES WE CAN! (Note the internationality of this sentence – "yes" in three languages: English, French and Hebrew…).

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