ShareAction»

Health: An Untapped Asset
A briefing for Asset Owners

Good health is integral to social and economic prosperity and resilience

- It is what enables us to thrive and live independent and fulfilling lives, as well as contribute productively as workers, and be active participants in the economy. According to McKinsey, better health could add US$12 trillion to global GDP in 2040, representing an eight percent boost that translates into 0.4 percent faster growth every year[i].

- Health is shaped by our environment – the jobs we do, the things we consume, the places we live – and a wide range of companies influence this, which means the investment sector has a role to play. As much as 80 per cent of health outcomes are driven by these wider factors[ii]. We have developed a framework for how investors can consider companies impact on health, akin to the scopes used in climate reporting: Pillar 1 – Worker health, Pillar 2 – Consumer health, Pillar 3 – Community health (see chapter 3 of the report).

- Like climate change, poor health poses a systemic risk that many investors simply cannot diversify away from. As the Covid-19 pandemic has shown, we all share the cost burden of poor health – one that is becoming increasingly unsustainable. In 2008, the Government-commissioned review 'Working for a Healthier Tomorrow' suggested the cost of poor health in the UK alone – to employers and taxpayers – ran to £100 billion per year[iii]. According to the CBI's 'Seize the Moment' report, 63% of years lost to poor health are in the working age population, and this costs the UK around £300bn in lost economic output annually, excluding direct health costs[iv].

- Even prior to the pandemic, health gains had slowed. In the UK, improvements in life expectancy stalled over the last decade, and declined in the poorest groups[v]. In the US, life expectancy has seen a decline since 2014[vi]. In 2018, the WHO estimated that 15 million working age people die prematurely every year around the world as a result of preventable poor health[vii].

Investments may be exposed to greater risk than is realised

- The cost of ill-health is spiralling and becoming increasingly unsustainable. This is causing governments around the world to regulate, increasing the risk of these costs being internalised by the companies that contribute to them. Forty-two countries now have sugar taxes in place – more than have implemented carbon taxes[viii]. Moreover, health-related litigation is increasing, consumer trends are shifting and societal expectations of companies to act responsibly are growing.

- Our research found that health-related risks are not routinely captured within the 'social' pillar of ESG frameworks. Where they are, a narrow, piecemeal and short-term approach is taken. Risks that may materialise and accumulate at a portfolio level are not recognised by asset managers, and nor are longer term risks from increasing regulation which may threaten the business models that companies depend on. Investors have a blind-spot when it comes to health-related risks.

- As a result, vast amounts of capital remain available to the most health-damaging industries, and corporate engagement often lacks in relation to health. The investment sector today is contributing to sub-optimal population health. If left un-checked, these costs will continue to rise and increasingly be internalised by companies – impacting shareholder returns.

- Investors could mitigate the damage done to health through their investments and drive toward positive outcomes by incorporating health considerations in their stewardship. At a systems-level, this shift could reduce the cost-burden of ill-health, and improve portfolio resilience and returns.

What this means for asset owners

- We found that many institutional asset owners – including pension funds of public agencies that have a duty to promote health – remain heavily invested in mainstream funds. This means their investments are likely to be fuelling the growth of health-damaging industries. This creates both financial and reputational risks. By including health as a core theme within Responsible Investment policies, and engaging with asset managers on this, asset owners can better align their financial goals with their societal ones.

- The current status quo within the investment system is undermining health outcomes. This may lead to indirect costs to asset owners over and above the weaker long-term returns that may be expected as a result of a less healthy population. For example, poor health may lead to additional insurance claims, or lower pension contributions. It is also at odds with what is in the best interests of savers. In a government survey, UK public savers reported that improving health was the top Social Development Goal (SDG) of interest, with 70 percent saying this goal was important to them[ix]. Another survey found that 33 percent of pension savers want their pensions to be divested from companies that undermine health by not paying the living wage[x].

- Investors, who remain invested in health-critical sectors, have an opportunity to influence their practice and improve health impacts through engagement. Asset owners can play an active role in this and can encourage their managers to do the same.

Asset owners should incorporate health into their responsible investment approach

They can begin this by:

- Integrating health into their responsible investment policies and practices. The framework developed in chapter 3 of the report can help asset owners to consider more holistically and systematically the health impacts of their investments.
- Influencing their asset managers to incorporate health into their stewardship, and to report on their progress and impact. Owners, particularly charitable foundations, can support a programme of work which will help them and their asset managers to do this (see next steps).
- Supporting the development of disclosure frameworks, data sets and benchmarks that help to assess companies' health impacts, where these are absent or lacking.
- Increasing their corporate engagement on health-related topics, including by participating in collaborative initiatives. Topics could include food and nutrition, good work, air quality, alcohol manufacture and health-related political lobbying.

What's next?

With support from a range of funders, ShareAction is developing a new programme to transform the way investors integrate health into their stewardship practices. The Long-term Investors in People's Health (LIPH) programme will: support investors to improve their practice by establishing and sharing good practice, influence public policy in relation to the integration of health within ESG frameworks, and work with investors to undertake collaborative engagement on key health topics.

For more information read the full report here, or contact Jessica.attard@shareaction.org.

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ShareAction is a registered charity working globally to define the highest standards for responsible investment and to drive change until these standards are adopted worldwide. Our vision is a world where the financial system serves our planet and its people.