SDP SUSTAINABLE DIGITALISATION PROJECT

# Sustainable digitalisation: understanding ESG-related risks for real asset investors

The use of digital technologies in the built environment is usually welcomed with anticipation about the value that AI, augmented reality, the Internet of Things and other such technologies will bring to the places we live, work and play. But what happens when public trust in such technologies – and the organisations that deploy them - is challenged because the risks of harm to people, communities or the environment have not been managed responsibly, ethically and sustainably? Is innovation stifled or value eroded?

The SDP's **Sustainable Digitalisation in Real Assets Forum** explored the ESG-related digitalisation issues that asset owners and investors need to be aware of as we embark on a journey to better understand the next frontier of ESG risks. We were joined by experts and colleagues in the investment space. Here are some of their insights:

*"**Trust is a central factor influencing the acceptance and adoption of AI and digital technologies,** yet many organisations are still at an early stage of maturity in establishing the ethical, technical and governance foundations to manage the ESG related risks they pose."* - Prof Nicole Gillespie, KPMG Chair in Organisational Trust and Professor in Management at University of Queensland Business School, on her global research into trustworthy artificial intelligence.

*"The technology is moving so quickly - it is a particularly complex area where deep understanding of technology and how it interlinks with society is needed. But **we have a voice as investors and the ability to effect change, which gains in power when we collaborate**."* - Katie Beith, Head of ESG at Forsyth Barr, on New Zealand government-owned investors effort to engage the world's three largest social media companies to strengthen controls after the Christchurch terrorist attacks of 2019.

*"It wasn't until recent years that most organisations have realised how significant the impacts of cyber-attacks can be. Network defences simply haven't kept pace with the techniques used by malicious attackers wanting to disrupt organisations and monetise their attacks, and this is particularly challenging for operators of any physical infrastructure. **The financial impacts of a breach can be felt for many months or longer following the incident**, as we've seen through analysis of market data."* - Nick Klein, Executive Director, Digital Forensics & Incident Response, CyberCX.

*"Our tendency is to focus on the upside but, **given that our knowledge levels around some of these downside risks are typically low, it can open the door for unintended consequences, some of which can be significant,** especially on a company's reputation. I became involved because I wanted to be part of defining what sustainable digitalisation means for our industry and what a leadership response looks like."* - Melissa Schulz, General Manager Sustainability, QIC GRE, on the drivers for engaging with sustainable digitalisation

*"**We need to consider our role as asset owners in shaping sustainable digitalisation risks** like social inclusion and responsible automation. The latter issue is akin to the 'just transition' system-wide challenge with climate change. Our member base comprises 1 in 10 working Australians. Technology can play a critical role in creating efficiencies but valuing the workforce as human capital should remain critical and central to the workplace of the future. AI and related technologies are tools which deployed responsibly, should support, enhance and enrich livelihoods."* - Serlina Chu, Manager ESG & Stewardship, AustralianSuper.

The topic of sustainable digitalisation is very broad and cuts across many traditional ESG themes including climate change, modern slavery and diversity and inclusion. Part of the work of the SDP has been to develop a set of Sustainable Digitalisation Principles (www.sdp.digital/principles) to share our thinking, raise awareness of these issues and eventually, help manage risks and assess performance more holistically in the future.

## Interested in learning more or joining this collaboration?

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| References: | Following page |
| Visit: | www.sdp.digital |
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## For reference

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Trust in Artificial Intelligence - A Five Country Study: KPMG and the University of Queensland, 2020: https://home.kpmg/au/en/home/insights/2021/03/artificial-intelligence-five-country-study.html

## Selected digitalisation-driven ESG issues associated with the built environment

**Social inclusion:** Inclusion, or the exclusion or discrimination, of people.

**Cybersecurity:** Compromised technology systems leading to the control or harm of people or assets.

**Information integrity**: Altered quality and reliability of information associated with the built environment.

**Personal freedom**: Loss of personal freedoms such as of choice, autonomy, expression and association.

**Safe & healthy places**: Improved safety and health in urban places, buildings and workplaces.

**Operational footprint**: Reduced environmental footprint of built assets, and the operational impacts of technology use.

**Materials footprint**: Improved lifecycle impacts of materials used in the built environment, and the impacts embodied in technology hardware.

**Job automation**: Transitioning of workers affected by job automation and the creation of higher quality jobs.

**Personal information misuse**: Misuse or exploitation of personal information collected in the built environment.

**ESG transparency**: Improved transparency of the ESG activity and performance of built environment stakeholders.

## Sustainable Digitalisation Principles

Sustainable Digitalisation Principles paper: www.sdp.digital/principles

**Principle 1_ Clarity of Purpose**

The reasons for the development or use of digital technology are carefully considered and made clear to users and other potentially impacted stakeholders.

**Principle 2_ Whole Impact**

Social, environmental and governance benefits are sought from digital technology and harm associated with its use is avoided.

**Principle 3_ Benefit to Humanity**

The fundamental experience of being human is supported, including our dignity and human rights, and the qualities of healthy societies and culture such as fairness, inclusion and diversity.

**Principle 4_ Broad Responsibility**

The scope of responsibility for environmental, social and governance issues associated with digital technology covers the broader systems it is part of, its whole lifecycle, and its supply chains.

**Principle 5_ Stakeholder Accountability**

Transparency and accountability to users and other stakeholders exists for environmental, social or governance issues arising out of the use of digital technologies.