Adapted from:
AI Human Impact: Toward a Model for Ethical Investing in AI-Intensive Companies, published in the Journal of Sustainable Finance & Investment: https://doi.org/10.1080/20430795.2021.1874212.

Why ESG Investing Needs to be Updated for the AI Economy

James Brusseau
Pace University, New York City

Environmental, Social and Governance (ESG) investing was forged for the industrial economy with its massification and polluting machines. The artificial intelligence economy diverges materially – poured cement and factory smokestacks are different from flashing pixels and digital exhaust – but the decisive split involves human values.

When Henry Ford promised customers they could have any color they wished so long as it was black, he was not proposing a color acceptable to every individual purchaser so much as eliminating individuality from purchasing. Ford did *not want to know* about customers' unique preferences. The personal information was even counterproductive because making vehicles profitably depended on construing humans as monochromic and interchangeable, like the units rolling-off the assembly line. AI-intensive companies operate differently. Instead of aspiring to generic movie recommendations for homogenized demographic groups, Netflix aims specific possibilities toward individual viewers at targeted moments. Similarly, the burgeoning field of data-driven finance does not cover population segments over extended durations, it customizes for unique clients and intervenes at critical junctures in their unrepeatable lives. AI coronary healthcare is less concerned with a patient's age and gender cohort than with tiny and personal heartbeat abnormalities that escape human eyes but not machine-learned analysis. In every case, what is significant is the uniquely personal information: it fuels innovation for companies employing machine learning at the core of their operation.

Personal information fueling innovation explains why privacy concerns have surged in public conversations and corporate meeting rooms. It also begins to explain why the perils of AI and human interaction are not captured well by standard ESG criteria. Instead of environmental toxins or institutional corruption or poverty, the most immediate risk produced by the artificial intelligence economy is *our own* dataset. It is the information defining who we are – our habits, anxieties, beliefs, desires – that may be engineered to provide gratifying experiences and opportunities, but that also can be twisted to control where we go and what we do.

Whether the AI is stationed at an airport security kiosk, or on the LinkedIn career platform, or the Tinder romance site, or behind an Amazon recommendation, or underlying a loan decision, or inside a hospital emergency room, the question is the same: *Is my data liberating, or*

oppressive? Will the personal information gathered about me invigorate my life, or force me to conform to the predictions of machine learning?

According to the Geneva Association for the Study of Insurance Economics, continuous collection and analysis of behavioral data will allow dynamic risk assessment along with constant feedback to loop insurance providers with policyholders. So, not only will the digital monitoring enhance risk measurement while providing real-time insights into the insured's behavior, it will also enable micro-targeted incentives for risk reduction. Already today these AI-powered enterprises are rolling out as peer-to-peer concepts (Bought by Many) and fully digital insurers (Oscar, InShared, Haven Life, Sherpa). For users in real life, this means a skier standing atop a double black diamond run may wrestle with her vitality and fear as she decides whether to descend and, in the midst of the uncertainty, receive a text message reporting that her health insurance premiums will rise if she goes for the thrill.

This is good and bad. AI-powered insurance *does* increase autonomy and self-determination by providing clients more control over their policies: they can literally raise and lower their own rates. But, the *reason* we have health insurance in the first place is so that we can take risks, like skiing the double black diamond run, and it's easier to go downhill when insurers aren't monitoring and hectoring in the background. So, does this AI application increase freedom in our real lives, or constrict it? There is no clear answer.

What is certain is that the discussion is very different from those we have grown accustomed to associating with ESG investing. Instead of carbon production and exploitation of laborers, there is big data and users asymmetrically matched against the psychological force and predictive power of algorithms. The larger conclusion is that what makes AI humanism different from traditional ESG finance – and what requires a new and distinct model for ethical investing – is evaluation that begins with autonomy, unique persons, and our intimately identifying information.

None of this means that traditional ESG is outmoded or that the challenges it confronts have withdrawn, but the meaning of human-centered finance is tilting. Gathering risks – and also new opportunities – increasingly concentrate around decreasingly private information. As data and algorithms fold the industrial economy into the past, investors will need to adapt, just like the fossil fuel behemoths and sweatshop manufacturers of the previous generations.

Adapted from: *AI Human Impact: Toward a Model for Ethical Investing in AI-Intensive Companies*, published in the Journal of Sustainable Finance & Investment: https://doi.org/10.1080/20430795.2021.1874212.

And from: *AI ESG Ethical Dangers*, Skytop Strategies, https://skytopstrategies.com/ai-esg-ethical-dangers-a-slippery-slope