Analysis Criterion

Corruption and Financial Crime

Storebrand Sustainability Team

Storebrand aims to invest in corporations that contribute actively to sustainable development. We believe such practices – when integrated into core business – will be financially rewarded. Furthermore, we have implemented a standard for all investments under management by the Group; Storebrand standard. This standard leads to certain corporations being excluded from investment. Among them are companies involved in grand corruption and/or other forms of serious financial crime.

Definition

Corruption is a form of financial crime and can be defined as the misuse of a trusted position by giving/offering or receiving/accepting improper advantages. Corruption includes trading in influence, money laundering and attempts to conceal or prevent the investigation of such activities and includes activities in the public as well as private sector.

Examples of other forms of financial crime covered by this criterion are; tax evasion, accounting fraud, embezzlement, insider trading and breaches of competition laws.

When assessing if a company is involved in grand corruption or other forms of serious financial crime, Storebrand evaluates the extent of the allegations – this includes the financial extent, the number of incidents and the share of the company involved. Furthermore, importance is placed on when the incidents occurred, on which level of the company the involved employees are; and the intent of the action(s). A legal conviction is not a prerequisite for the exclusion of a company as it can take years before legal proceedings are concluded. Storebrand shall assess the present and ongoing risk of a corrupt culture in a company.

Background

Financial Crime is a serious problem as it undermines trust in social institutions, makes governance ineffective, prevents fair competition and drains public finances. World Bank researchers have estimated that around US$1000 billion is paid in bribes each year. This was the equivalent of more than three per cent of the world economy in 2001/2002.

Corruption is, by its very nature, secret. Therefore it is difficult – if not impossible - to quantify the total extent of corruption. In addition to imposing direct costs on companies, corruption involves negative consequences for social and economic development.

The World Bank and the UN consider corruption to be one of the most serious threats against development and the successful reduction of poverty. In corrupt regimes, decisions are often made to benefit individuals, at the cost of national interests. This often entails the squandering of common resources that could have been used for beneficial social purposes. There are numerous examples of individuals who have
increased their own wealth at the expense of the community. Corruption is assumed to contribute to the *privatisation of profit and the socialisation of costs*. Furthermore, authorities’ corrupt practices can impede foreign investment thus obstructing a nation’s economic growth.

Furthermore, corruption hinders the efficient functioning of the free market and prevents fair competition and technological development. In corrupt business relations, price or technical quality is not crucial; decisions are instead based on the individual interests of the actors involved. This in turn discourages technological development.

In addition to serious social and economic consequences, corruption also involves considerable challenges for individual companies. The direct costs associated with corruption act as an additional tax on investments. Corruption also represents a substantial operational risk that can threaten a company’s business. For instance, enterprises that are involved in corruption often face subsequent demands for bribes. Unfortunate dependences may evolve, and the company becomes vulnerable to blackmail and threats.

As an investor it is in Storebrand’s interest that companies behave responsibly in order to prevent damage to their reputation and to prevent them becoming the subject of legal proceedings. Furthermore, Storebrand considers the fight against corruption and financial crime as vital to preserving confidence in world financial markets.

**International law and conventions**

The fight against corruption has intensified in recent years, and several international initiatives have been developed. The UN Convention against Corruption (2005) is the basis for Storebrand’s corruption criterion.

Other important conventions and guidelines:

Most of these international conventions are aimed at committing countries to anti-corruption initiatives. The conventions are aimed at being incorporated into national legislation, with the individual countries being responsible for law enforcement. The U.S. Foreign Corrupt Practices Act (FCPA) (1977) is among the oldest corruption legislations and has contributed to the criminalization of corruption. In 1998 FCPA was extended and adjusted to the OECD convention.

In addition to conventions aimed at countries, there are also several international initiatives that address *companies*. One example is the UN Global Compact, a voluntary network of companies, authorities, NGOs and UN agencies promoting ten principles in the areas of human and labour rights, the environment and corruption. Kofi Annan initiated the network in 2000, and Storebrand has been a member since the beginning.

The OECD, Transparency International (TI), and Social Accountability International (SAI) are examples of organisations that have been driving forces in the development of guidelines for conducting business without corruption. The comprehensive “OECD Guidelines for Multinational Enterprises” (2001) includes a separate chapter on corruption. In addition TI and SAI have cooperated with business representatives, universities, labour unions and NGOs to develop “The Business Principles for Countering Bribery” (2003). Both initiatives are voluntary, and consequently, they are not legally enforceable. The guidelines are meant to form a basis for companies, from which they
can develop their own codes of conduct. Authorities and NGOs are requested to give notice when the guidelines are violated and seek to influence the company in question.

Laws governing corruption and money laundering are based on international conventions. Regarding other financial crime, there is currently no dedicated international convention. Despite this international definitions of financial crime are of a similar nature. The definition of financial crime that this criterion is based upon is as follows: “Unlawful actions, motivated by profit, conducted within or through enterprises, which are or appear to be, legal”. ¹

Scope

Storebrand will not invest in companies involved in grand corruption or other forms of serious financial crime. In the event that subsidiaries of a company are involved in such cases, but are not publically listed, the closest listed company above the subsidiary in the hierarchy, with a controlling interest, is excluded. In the event that a subsidiary involved is listed, the parent company is also excluded if it has a controlling interest in the subsidiary. If a parent company is involved, listed subsidiaries are only excluded if they are involved in the same unacceptable activities. Storebrand will also consider exclusion in cases where suppliers or other business partners (such as joint ventures), systematically violate the criterion. Storebrand will not exclude companies based on operations in specific countries, but will assess the manner in which they run their business in the countries they operate in.

¹ The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) [http://www.okokrim.no/definisjon-okonomisk-kriminalitet](http://www.okokrim.no/definisjon-okonomisk-kriminalitet)
Key sources

Business for social responsibility
http://www.bsr.org

Civil Law Convention on Corruption, Strasbourg, 4.XI.1999

Council of Europe - Criminal Law Convention on Corruption (1999)

Council of Europe – Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime“(1993)
http://conventions.coe.int/treaty/Commun/QueVoulezVous.asp?NT=141&CM=8&DF=28%2F08%2F00&CL=ENG

Council of Europe – Greco – the fight against corruption
http://www.greco.coe.int/Default.htm

Transparency International
http://www.transparency.org

Global Compact
http://www.unglobalcompact.org

NHO: Standpunkt Korrupsjon, 2002
http://www.nho.no/files/Standpunkt_korrupsjon_1.pdf


OECD – fighting bribery and corruption
http://www.oecd.org/department/0,2688,en_2649_34855_1_1_1_1_1,00.htm<

http://www.oecd.org/document/21/0,2340,en_2649_37447_2017813_1_1_1_37447,00.html#text

UN corruption

UN Convention against Corruption (2003/2005)

UN Convention against corruption

World Bank – Governance and anti-corruption
http://www.worldbank.org/wbi/governance/

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