

Analysis Criterion

# Corruption and Financial Crime

Storebrand Sustainability Team



**Storebrand aims to invest in companies that contribute actively to sustainable development. We believe that such practices – when integrated into core business – will be financially rewarded. Furthermore, we have implemented a standard across the Group – the 'Storebrand Standard' – that leads to certain companies being excluded from investment, including those 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 whether 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, at which level of the company the involved employees sit, 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 assesses 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 USD 1000 billion are paid in bribes each year. This was the equivalent of more than three percent 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 rather 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 dependencies 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 reputational damage and to prevent becoming the subject of legal proceedings. Furthermore, Storebrand considers the fight against corruption and financial crime as vital to preserving confidence in the global 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 criteria.

Other important conventions and guidelines:

1. Council of Europe Criminal Law Convention on Corruption (1999)
2. The OECD Convention on Combating Bribery of Foreign Public Officials (1997)
3. The OECD Guidelines for Multinational Enterprises (2000)
4. Global Compact's 10<sup>th</sup> Principle (2004)

Most of these international conventions aim to get countries to commit to anti-corruption initiatives. The goal is for conventions to be incorporated into national legislation, with the individual countries being responsible for law enforcement. The U.S. Foreign Corrupt Practices Act (FCPA) (1977) is one of the oldest corruption legislations and has contributed to the criminalisation of corruption. In 1998, the 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. When it comes to other financial crime, there is currently no dedicated international convention. Despite this, international definitions of financial crime do not vary widely. This criterion is based on the following definition of financial crime: "Unlawful actions, motivated by profit, conducted within or through enterprises, which are or appear to be, legal".<sup>1</sup>

## 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 activities, but are not publicly listed, the closest listed company above the subsidiary in the hierarchy, with a controlling interest, is excluded. In the event that an involved subsidiary 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 criteria. 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 in which they operate.

## Methodology and data sources:

The screening for breach of this standard is carried out by our data providers Sustainalytics and ISS-Ethix, which monitor over the over 4000 companies making our investment universe. Storebrand 's Risk and Ownership team is responsible for assessing to what degree the companies identified by our data providers are in violation of the Storebrand standards. The team prioritizes cases for exclusion based on the scope of the harm, the severity, the risk of recurrence and the irreversibility of the adverse impact caused by the company at hand and by using a predefined scoring table to ensure consistency in the evaluation process.

The decision to exclude a company, and thus mitigate and prevent the adverse impact, is based on assessment of the issue by Storebrand's investment committee. The committee comprises several representatives of the Storebrand Group's senior management team and other executives, who meet on a quarterly basis. Companies will be excluded if the adverse impact and the breaches of our standards are considered severe and the risk of recurrence is assessed as high after engaging with the company on measures to prevent recurrence and mitigate the adverse impact.

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<sup>1</sup> The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) <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  
<http://conventions.coe.int/treaty/en/Treaties/Html/174.htm>

Council of Europe - Criminal Law Convention on Corruption (1999)  
<http://conventions.coe.int/treaty/en/Treaties/Html/173.htm>

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](http://www.nho.no/files/Standpunkt_korrupsjon_1.pdf)

OECD Guidelines for Multinational Enterprises (2000)  
<http://www.oecd.org/dataoecd/56/36/1922428.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/department/0,2688,en_2649_34855_1_1_1_1_1,00.htm)

OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (1997)  
[http://www.oecd.org/document/21/0,2340,en\\_2649\\_37447\\_2017813\\_1\\_1\\_1\\_37447,00.html#text](http://www.oecd.org/document/21/0,2340,en_2649_37447_2017813_1_1_1_37447,00.html#text)

UN corruption  
<http://www.unodc.org/unodc/en/corruption.html>

UN Convention against Corruption (2003/2005)  
[http://www.unodc.org/pdf/crime/convention\\_corruption/signing/Convention-e.pdf](http://www.unodc.org/pdf/crime/convention_corruption/signing/Convention-e.pdf)

UN Convention against corruption  
[http://www.un.org/webcast/merida/pdfs/03-89343\\_Update\\_press.pdf](http://www.un.org/webcast/merida/pdfs/03-89343_Update_press.pdf)

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

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Responsible for policy: Risk and Ownership Team, Storebrand Asset Management

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