
Financial sector research report

The ING Group: CSR policy and practices

November 2004

With a case study on Indonesia



Amsterdam, 2004

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Introduction: background to the research of ING

SOMO (the Centre for Research on Multinational Corporations) is a Dutch Non-Governmental Organisation researching different aspects of internationally operating companies. SOMO's research on multinationals serves civil society organizations and focuses particularly on Corporate Social Responsibility (CSR) policies of a company under investigation, and how these are applied in practice.

In 2003 and beginning 2004, SOMO has done in depth research of the financial sector. The research was carried out as part of our 4-year program 'Sector Research and Corporate Social Responsibility', and was financed by the Dutch Ministry of Foreign Affairs and co-financed by Novib (Oxfam Netherlands).

SOMO's CSR research has the particular feature of including case studies on CSR practice of companies in its reports. In order to make these case studies, SOMO draws on an extensive network of researchers in countries of the global South. In addition, SOMO strives during all company research to have direct contact with those staff members at the Headquarters of the company who are responsible for CSR policies and practices in countries of the South. For the financial sector research, SOMO has chosen to do case studies in the Asia Pacific region on the CSR practices of Citigroup, the world's largest financial conglomerate, and ING, and important Dutch Financial conglomerate. For the case studies, SOMO selected Indonesia and asked local researchers to carry out the research on the ground.

The ING Group seems to have a comprehensive policy to incorporate CSR principles into its corporate culture and its daily operations. This SOMO report aims at identifying ING Group's CSR policy and to assess how this policy is put into practice worldwide, and especially in Indonesia. Part 2 of ING's company profile studies more in depth ING's involvement in Indonesia for which the research was conducted by Business Watch Indonesia (BWI). BWI is an Indonesian NGO that was set up in 2002 to promote democratic economic governance. The research on ING in Indonesia was conducted by BWI's own staff, with the help of experienced Indonesian journalists.

PART 1: The ING Group and corporate social responsibility (CSR)

1.1: The ING Group: an introduction

The ING Group is a Dutch based financial sector multinational, specialized in banking and insurance, as well as in asset management activities. Because of its broad financial services character, it is qualified as a so-called ‘allfinanz’ business. In 2004, ING has about 112,000 employees worldwide, serving an estimated 60 million customers in over 50 countries¹ in Europe, the Americas, and the Asia-Pacific region. Its clientele consists of individuals, families, small and large companies, institutions and governments. In 2003, the ING Group made a total operating net profit of 4,043 million euros, while its total assets amounted to almost 779 billion euros². Since 2001, ING’s insurance activities have proved more profitable than their banking activities, making a operating net profit of 2,498 million and 1,545 million euros respectively in 2003³.

1.1.1: History

The ING Group came into existence in 1991 through a merger between the Dutch insurance company Nationale Nederlanden and the Dutch bank NMB Postbank Group. The newly formed company expanded quickly throughout the nineties and in the first years of the new millennium. This rapid expansion was based on autonomous growth, but also on a number of large international acquisitions. The most well- known acquisitions have been:

- the British investment bank Barings in 1995;
- the U.S. insurance company Equitable of Iowa in 1997;
- the Belgian Bank Brussels Lambert in 1998;
- the German BHF-Bank in 1999;
- the American insurers ReliaStar, Aetna Financial Services and Aetna International, all in 2000;
- the Polish Bank Slaski in 2001;
- the Mexican insurer Seguros Comercial América in 2001.

Besides its many subsidiaries, ING also has quite a few joint ventures throughout the world. Over the past few years, ING has concluded partnerships with financial services companies such as Vysya Bank in India, Kookmin Bank in Korea, Principal in Japan, ANZ and QBE in Australia and Sul América in Brazil, amongst others⁴.

¹ Source: <http://www.ing.com/ing/contentm.nsf/content/79F02F0B59C8EE81C1256E93001DB7B5!Opendocument&lan=en>

² Source: ING Group, Annual Report 2003

³ Source: ING Group, Annual Report 2003, p. 57. The operating profit before tax is 3,486 for the insurance operations and 2,371 million euros for the banking operations.

⁴ Source: ING website www.ing.com; company profile; corporate brochure

1.1.2: Strategy

In 2003, the ING Group tried to realise five strategic goals: to improve solvability, to optimize its activities portfolio, to create value for its customers, to develop its specialties, and to reduce its cost base⁵. Part of the corporate strategy of the Group is to focus on its “core business and areas where it can achieve leading market positions”⁶. Since ING is an allfinanz company, its core business consists of banking, insurance and asset management activities. However, not all financial services are included: health insurance, for instance, does not belong to ING’s core business.

In the last few years, ING’s policy has been to do no large acquisitions, but to further develop its existing specialties instead. These specialties are: ING Direct (a division that offers financial services, such as savings accounts and mortgages, in developed-country markets in North America, Europe and Australia, making extensive use of call-centres, direct mail and internet); insurance activities in emerging markets in Central Europe, Asia and Latin America; and pension activities. For its other, more mature activities, like the European banking division and U.S. insurance activities, ING’s goal is to increase efficiency and apply a tight cost control policy⁷.

1.1.3: Rankings

To give an idea of the scale of the ING Group’s operations:

In *Europe*, ING serves a total of 27 million private customers. In the Netherlands, ING’s insurance division Nationale Nederlanden is market leader. In Belgium, ING Insurance has a 10% market share and is part of the country’s top 5 insurers. In Central Europe, ING is market leader in the life insurance business in Hungary and Romania, and the second largest in the area of pensions in Poland and Hungary⁸.

In the *Americas*, ING has 33 million customers in total and 14.4 million customers in the United States alone, where ING belongs to the top five providers of life insurance and pension services. In Canada, ING is the largest non-life insurer. It is also the largest insurer in Mexico, and the number one international insurance company by premium income in Latin America as a whole⁹.

Finally, in the *Asia/Pacific* region, ING is ranked fourth in the list of life insurers and asset managers in Australia, where its joint venture with QBE in non-life insurance is ranked

⁵ Source: ING Group, Annual Report 2003

⁶ Source: PR Newswire, ING Group reports first nine months results, Amsterdam, November 14, 2003

⁷ Sources: ING Group, Annual Report 2003 and website ING, ING’s new structure, 13 May 2004, www.ing.com

⁸ Source: ING Group Annual Report 2003.

⁹ PR Newswire, ‘ING Group Reports First Nine Months results’, November 14, 2003.

sixth. In Japan, ING's joint venture with the Principal Group (U.S.) comes in seventh place in the list of pension insurers. Taiwan is one of the most important markets of ING in Asia. ING Antai life insurance comes fourth in Taiwan with 1.5 million customers. Further, in Malaysia and Korea, ING is the third and fifth largest life insurer respectively. China, India and Thailand are part of ING's emerging markets strategy, and ING's presence in these countries is growing rapidly. ING aims to achieve leading positions in these markets within a few years, as well¹⁰.

Worldwide, in 2004 the ING Group ranked number 12 on Forbes' list of the world's biggest companies, measured by a composite of sales, profits, assets and market value. On this list, ING is ranked 16th when it comes to sales, and 12th when listed by assets¹¹. In the Financial Times' Global 500 of 2004, the ING Group is listed as the 97th largest company in the world, ranked by market value. Categorised as an insurance company in the Global 500, the ING Group occupies a third place within this industry, again measured by market value¹².

1.1.4: Employees

Worldwide, ING's employees were distributed throughout different countries and regions in the following way in the years 2002 and 2003¹³:

Country / region	No. of employees, 2002	No. of employees, 2003
Netherlands	33,833	33,937
Belgium	13,457	12,646
Rest of Europe	23,987	22,996
North America	23,116	16,594
Latin America	6,134	11,792
Asia	12,980	13,949
Australia	2,234	2,408
Rest	74	22
Total:	115,815	114,344

From this table, we can see that the number of employees more or less stayed the same in most countries / regions, except for North America, which saw a sharp decrease, and Latin America, which saw a large increase in the number of employees.

1.1.5: Corporate structure

¹⁰ Source: ING Group Annual Report 2003.

¹¹ Source: Forbes website, <http://www.forbes.com/2004/03/24/04f2000land.html>

¹² Source: Financial Times Global 500 Special Report, 27 May 2004

¹³ Source: ING website, ING in Society 'Performance' section 2003, www.ing.com

As to corporate structure, there will be some important changes for the ING Group in mid-2004. The new corporate structure coincides with the appointment of a new CEO (Chief Executive Officer): on the 28th of April 2004, Michel Tilmant, who has previously been the chairman of Bank Brussels Lambert, member of the ING Executive Board and vice-Chairman, became ING's new CEO, replacing Ewald Kist.

During his first press conference on the 13th of May 2004, Michel Tilmant presented the new corporate structure, which has taken effect on June 1, 2004, the same day that Ewald Kist officially left the company. The new corporate model is based on short and direct reporting lines, eliminating the old Regional Executive Committees and local Management Committees, to create a direct link between the Executive Board, the different ING divisions, and the individual business units. This simplification of management structure is meant to increase flexibility, transparency and accountability throughout the company¹⁴.

The new structure will be organised along six business lines, with a clear division between the insurance and banking activities. The six divisions are 1) Insurance Americas; 2) Insurance Europe; 3) Insurance Asia-Pacific; 4) Wholesale Banking; 5) Retail Banking; 6) ING Direct. The key executives of each division will report directly to the responsible member of the Executive Board¹⁵. The individual business units operate directly below the six main business lines¹⁶:



The strict division between banking and insurance activities is part of a Dutch legal tradition, where it is prohibited to combine banking and insurance within one legal entity because of 'contagion' risk. However, banks and insurers are allowed to be part of one holding company. Therefore, in ING's legal structure, the ING Group is parent of two legal entities: ING Bank N.V. (ING Bank) and ING Verzekeringen N.V. (ING Insurance)¹⁷.

¹⁴ <http://www.ing.com/ing/contentm.nsf/content/407653D902B80D00C1256E93004523E7!Opendocument&lan=en> and http://www.ing.com/ing/presentatie/2004/kw01/new_structure_en/new_structure_en.pdf

¹⁵ <http://www.ing.com/ing/contentm.nsf/content/79F02F0B59C8EE81C1256E93001DB7B5!Opendocument&lan=en>

¹⁶ <http://www.ing.com/ing/contentm.nsf/35a9c0caebaa805ac1256a140051f49e/d748a9b403668152c1256e67002c473e?OpenDocument&lan=en>

¹⁷ <http://www.ing.com/ing/contentm.nsf/content/51E8A2367EF91CA5C1256E67002A0A00!Opendocument&lan=en>

1.1.6: CSR ratings

In 2003, the ING Group was elected ‘Bank of the Year’ in the field of corporate social responsibility by the British financial magazine ‘The Banker’¹⁸. Also, in the sector insurance, ING was rated second best in the Dow Jones Sustainability World Index and the Dow Jones Sustainability STOXX index. Several other institutions gave ING positive CSR ratings as well¹⁹. Dutch Sustainable Research (DSR) researched the sustainable entrepreneurship of companies listed on the AEX in 2003 and ranked ING as 8th.

Criticism formulated by VBDO, the Dutch Association of Investors for Sustainable Development, an organisation which evaluated a number of CSR reports in 2002, was that the emphasis of ING on social aspects results in a neglect of environmental issues, and that reporting on ING’s core activities (credit lending, investment and asset management) is insufficient and not verifiable from a CSR perspective. On the positive side, VBDO concludes that ING has paid much attention to identifying its stakeholders and to explaining why some GRI indicators are not applied, and that, overall, ING Group’s sustainable development reporting could be judged positively.

The Dutch consumer association Consumentenbond has treated the ING Group in two of its assessments of sustainability policies in the financial sector²⁰. In their CSR-index on Dutch banks, De Postbank and ING Bank (both part of the ING Group), come in 5th and 6th place, respectively. Both banks are judged positively on their internal environmental policy, but are advised to assess social risks in a more consistent manner, and work on their policy on human rights and corruption. Another downside of these banks, according to the Consumentenbond, is that they do not have any activities regarding micro-credit lending schemes. According to the Consumentenbond, ING scores many points on some aspects of its CSR policy, but much less on others, which makes that the overall impression of its policy is leaning towards positive, but with some important notes.

Some of ING Group’s CSR initiatives have been rated by the independent analyst Innovest, and Stichting Bijsluiterscore, a Dutch non-profit organisation that does research on the quality of financial products²¹. These and other analysts have investigated and rated the ING Group on various CSR aspects and have generally come up with a positive judgement, followed by some suggestions for further improvement.

¹⁸ The Banker, ‘The Banker Awards’, October 1, 2003.

¹⁹ Source: ING website, ING in Society ‘Performance’ section 2003, www.ing.com

²⁰ ‘Geld én geweten: sociaal bankieren, kan dat?’ Consumentengids, December 2003.

‘Duurzaam bankieren: aspecten van duurzaam bankieren vanuit een consumenteninvulshoek geïnventariseerd, de bedrijfsvoering van 10 Nederlandse banken op duurzaamheid doorgelicht’, Consumentenbond, October 2003.

²¹ Websites: www.innovestgroup.com, <http://www.vbdo.nl/index.php?nl/publicaties>
http://www.bijsluiterscore.info/P_INGBank_DuurzaamRendementFonds_028.htm

1.2: ING and corporate social responsibility: policy, implementation and commitments

According to the ING Group, practicing CSR makes sense from a business point of view. Ewald Kist, the Chairman of the Executive Board, puts it this way: “Our reputation is our most valuable asset”²². CSR is to provide the company with corporate credibility, social acceptance and employee retention. Mr. Ewald attached great importance to CSR and during his presidency has led the company to more proactive stands on CSR issues.

ING says that it sees CSR as an integral part of their *risk assessment* procedures according to their 2003 report on corporate social responsibility: “Awareness of ethical, social and environmental aspects of business transactions minimises risks at an early stage in credit-lending, insurance and investment activities”²³. This means that CSR is to be incorporated into the standard business procedures of ING worldwide.

1.2.1: CSR Policy

The ING Group’s CSR policy is based on four pillars:

1. Stakeholder dialogue;
2. Business Principles²⁴;
3. Embedding CSR into the core business;
4. Monitoring CSR performance and activities.

The ING Group has published information on their CSR policy for nine consecutive years, and published its fourth separate sustainability report in 2004. The ING group considers CSR as part of its core business because it sees CSR as an investment, not merely as a cost.

The Group’s definition of CSR is as follows: “ING understands corporate social responsibility as a commitment to pursue profit and commercial opportunities in an ethical as well as a socially and environmentally acceptable manner”²⁵. The way to achieve this mission is elaborated upon in the four pillars of ING’s policy:

1) As to the first pillar, **stakeholder dialogue**, ING distinguishes four categories of stakeholders: customers, shareholders, employees and society at large. Apart from existing customers, also potential clients and consumer representative groups are part of the first category. The second category includes investors, financial analyst, rating agencies and the Socially Responsible Investment (SRI) community. The third group comprises current, former and potential employees, regional and local works councils, labour unions and networks that represent employees’ interests. Finally, in the last category, society at large

²² Source: ING Group, ‘ING in society 2003’, p. 2.

²³ Source: ING Group, ‘ING in society 2003’, p. 6.

²⁴ For the full text of the Business Principles, see annex 1.

²⁵ Source: ING Group, ‘ING in society 2003’, p. 6.

is interpreted as the conjunction of (inter) national governmental bodies, NGO's, non-profit organisations, local communities, and business partners and suppliers. All these stakeholders are, ideally, part of an ongoing dialogue with ING about its CSR policy.

According to the company, about 50% of ING's business units have their own formal stakeholder dialogue policies in place. Others have no direct contact with societal groups, operate on a case-by-case basis or follow the regional or group framework²⁶. To give an impression on ING's interpretation of 'stakeholder dialogue', the 'ING in Society 2003' report gives numerous examples of recent initiatives that have been taken in this area.

With respect to the *developing world*, ING, together with the Dutch Ministries of Development, of Finance and of Economic affairs, started working on a platform for financial-sector development in developing markets, and the company plans to make an effort to better involve local management in its stakeholder dialogues. Another stakeholder initiative that ING participates in is the Round Table Human Rights, a platform in which Dutch multinationals get together with Amnesty International to discuss human rights issues in developing countries.

Within the *financial industry* and the *multinationals community*, ING claims to play an active role in promoting CSR. Some examples of ING's participation in the international dialogue on CSR are the investor seminar on sustainability that ING organised together with the Royal Dutch / Shell Group²⁷ and the European Women's Leadership Forum that ING, IBM and Unilever organised in Amsterdam in November 2003²⁸. Other examples abound in ING's own report and are too numerous to list here.

Finally, an important aspect of stakeholder dialogue with *employees* is the level of internal communication about the company's CSR policy. The ING Group's focus in this respect is on its own Business Principles. According to an internal survey in 2003, covering 90% of ING's employees worldwide, the Business Principles are communicated in various ways to employees. The following table²⁹ names these ways and gives percentages of employees, covering about 99,000 fulltime employees in total:

Communication about BP's	Percentage
Introduction programme	90
Received document BP	20
Group training session	15
Self-training through intranet/ CD-rom	79
Other	44
N.A.*	7

²⁶ Source: ING Group, 'ING in Society 2003', p. 31.

²⁷ Source: ING Group, 'ING in Society 2003', p.18.

²⁸ Source: ING Group, 'ING in Society 2003', p. 24.

²⁹ ING website, ING in society 'Performance' section 2002, www.ing.com

* The response N.A. was sometimes given because the programme was not available because of an update or because the subsidiary had recently been acquired.

From this table, it becomes clear that a large majority of ING's employees worldwide should be acquainted with the Group's basic CSR policy. This is a necessary, but not the only, condition for a fruitful internal discussion on corporate social responsibility. To see what the discussion could be about, the content of the Business Principles is explained briefly in the next section.

2) **The Business Principles** of the ING, which were implemented in the entire ING Group in the year 2000, include statements in the following areas: personal conduct; employee relations; environment; international operations; communications & disclosures; community relations; economic policy; and competition. They serve as guidelines for behaviour and stakeholder relations within the company. An important omission of the Business Principles according to SOMO is that they do not make any reference to the ILO-Conventions, the OECD Guidelines for Multinational Corporations or UN Treaties.

The Business Principles have to be respected by all employees of the ING Group. The most important commitments that can be derived from the principles are:

- no corruption or bribery is allowed within the company's operations and in its relations with clients;
- employees are entitled to a safe workplace and 'market conform' terms and conditions of employment;
- employees have equal opportunities (non-discrimination policy);
- internal and external policy aims at preserving the environment;
- ING does not interfere with politics, in the sense that the company does not choose sides with any national political party;
- ING promises to supply accurate and transparent information about business operations.

The Business Principles take the form of guidelines and are phrased more in terms of good intentions than in terms of specific rules or a code of conduct as used by other companies. This makes it very difficult to judge for outsiders like NGO's whether or not some of ING's controversial activities worldwide are in line with these Principles or if they constitute a clear violation, which has to be addressed immediately by the Group.

An important phrase of the Principles says that: "ING employees are expected not to do business with persons, companies or institutions if this business is related to activities that are illegal or can be regarded as unethical". However, this general statement is not matched by publicly available specifications about what kind of business is regarded as 'unethical' by the Group. These specifications do exist in the form of internal CSR statements, but are not available upon request.

3) Pillar number three, the desire to **embed CSR into the core business**, refers to the integration of the Business Principles and CSR issues into daily operations. ING says it takes ethical, social and environmental aspects into consideration in all its banking, insurance, and asset-management activities. One way of doing this is to include CSR issues into standard risk assessment and screening procedures.

The most important instrument within the ING Group to achieve this is its Operational Risk Management (ORM) policy. Operational Risk Managers are appointed throughout the company and are responsible for “monitoring operational risks such as client, business or product malpractice, employment malpractice, workplace safety, internal criminal activity and unauthorised activities”³⁰. They also have to report on breaches of ING’s Business Principles. Operational Risk Managers are present throughout the ING Group and currently cover about 70% of all business units, aiming to cover 80% at the end of 2004.

One indication that the ING Group is embedding CSR into its core business, is the interest it takes in SRI, Socially Responsible Investment. Besides some non-core activities like organising and participating in SRI fora and discussion groups, in its ‘ING in Society 2003’ report, ING notes that companies in many of its investment portfolios are checked for human rights violations, child labour and involvement with the production of weapons of mass destruction, amongst others. On page 8, it reads: “Should any of the companies in which ING invests be involved in unacceptable practices, ING would take action. This could range from direct or indirect ‘shareholder engagement’ to divestments”. However, this only applies to most assets ING invests for its own operations and products, such as for its insurance and pension products. Two thirds of the assets which ING invests is for its clients and is not screened for CSR. ING leaves it to its clients to decide how to invest as most clients do not ask for a CSR check of their portfolios but wish to follow the Dow Jones instead for potentially high returns. Clients that do take an interest in socially responsible investment can opt for one of ING’s sustainable or ethical funds.³¹

ING is promoting SRI to its institutional clients through its ‘Non-Financial Indicator’ methodology which it uses to provide information on social, ethical and environmental performance. ING is currently working on increasing the share of ‘informed investments’, where the bank has provided investors with information on the sustainability of their portfolio³².

Although the ING Group uses a standard CSR check for its investments, it is not allowed by law, even if it wanted to, to apply a similar screening procedure to its clients. Any company or private person may open a bank account or may use other financial services

³⁰ Source: ING Group, ‘ING in Society 2003’, p. 9.

³¹ Source: Meeting SOMO with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

³² Source: ING Group, ‘ING in Society 2003’, p. 13

from ING except when that company or person is suspected or condemned for illegal practices. Thus, ING cannot be legally held responsible for CSR malpractices of any of its clients, if it is not directly involved in their activities³³.

A last note with respect to embedding CSR into the company's core business is that ING actually sees all of its activities in the banking, asset management and insurance industries is making valuable contributions to society as a whole. Through its daily operations, ING says, the company not only creates employment and economic wealth, but may also provide additional benefits, like the transfer of knowledge to its world wide staff. This positive spill over effect is especially of importance in emerging markets. ING makes a point of sharing its expertise with these countries, for instance by working together with governments to try and solve their pension problems and to reform their insurance and banking sectors. A special agency even exists -the ING Institutional and Government Advisory (ING-IGA)- to advise governments and private or public financial institutions on the restructuring of banks and insurance companies. ING-IGA fees are paid for by the Dutch national bank DNB.

Even though some of the projects that have been carried out with such help of ING were aimed at “promoting social inclusion and improving access to financial services and credit for small entrepreneurs, low-income groups and rural communities”³⁴, most of the ING-IGA's advice was meant to promote financial sector liberalisation. This is considered a valuable contribution to society by ING, who sees the free market as the most efficient and beneficial system, but other stakeholders may be less enthusiastic about this use of ING's knowledge (see section 2.3.3). In any case, it seems like ING itself is following the advice of a recent report on sustainable investment of the World Economic Forum, which encourages companies to see their economic contribution and the positive spill over effects of their operations as part of their corporate social responsibility successes³⁵.

4) Finally, ING makes a commitment to **monitoring compliance with its CSR policy**. Various monitoring mechanisms are already in place, and the Group has introduced a new methodology to measure CSR performance, using Key Performance Indicators (KPIs). The various monitoring mechanisms and the lines of responsibility that are used to ensure compliance with CSR commitments are outlined in the next section regarding the implementation and monitoring of CSR policy.

³³ Source: Meeting SOMO with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

³⁴ Source: ING Group, 'ING in Society 2003', p. 28.

³⁵ Source: World Economic Forum report on 'Values and Value: Communicating the Strategic Importance of Corporate Citizenship to Investors', 2003.

1.2.2: Implementation, monitoring and reporting

As a large international business entity, ING is bound to a host of local, national and international laws and regulations, and to a number of self-imposed ethical standards. To ensure compliance with all these rules, the Group has a so-called ‘Compliance Charter’ that defines the lines of responsibility throughout the company. A company-wide network of about 500 Compliance Officers has to make sure that there will be no unnoticed breaches of commitments that may damage ING’s reputation (‘compliance risk’).

In the Compliance Charter, it is stated that management at all levels is responsible for compliance, and is assisted by Compliance Officers in monitoring compliance risk. For instance, at the highest level, the Executive Board of the Group collectively has the ultimate responsibility for compliance with rules and ethical standards. One member of the Board is appointed Head of Group Compliance and carries specific responsibility for compliance issues. He and his colleagues are assisted by the Group Compliance Officer. The same structure applies throughout the ING Group: within each management centre, the general management has collective responsibility for compliance, and one member of management in particular has specific responsibility. Each management team is assisted by a Compliance Officer.

Compliance Officers are selected and appointed by the management. At each level, the appointment of a Compliance Officer needs the approval of the Compliance Officer from the next level. Other interesting notes are that “Compliance Officers may not have a commercial responsibility” and that “A functional relationship exists between Compliance Officers at various levels in the organisation”³⁶, indicating both the independent and the network character of ING’s compliance system.

With respect to internal communication and monitoring, the Compliance Charter says that general management has to report on compliance in its usual annual report, and is also obliged to report to the next level in management whenever a specific compliance issue arises. Compliance Officers report periodically to their management about issues from their own level and from all levels beneath them. Meanwhile, monitoring of Compliance Officers is done by the Officers above them, by management, by the Group Internal Audit and by the external auditors of each office.

To clarify responsibilities and reporting lines, the ING Group also has a Compliance Framework which shows the management line, the compliance line and the reporting line within the Group. The details of how the Framework works are described in Group Compliance Manuals³⁷. In these Manuals, Compliance Charts are included, which state all

³⁶[http://www.ing.com/ing/contentm.nsf/attid/7433B9AD8C903EE7C1256E6700362B3A/\\$FILE/ing_group_compliance_charter.pdf?OpenElement](http://www.ing.com/ing/contentm.nsf/attid/7433B9AD8C903EE7C1256E6700362B3A/$FILE/ing_group_compliance_charter.pdf?OpenElement)

³⁷ These Manuals are not publicly available.

the laws, regulations and ethical standards that are relevant to a specific management level. General Management is made responsible for their implementation.

If an employee breaks any of the rules laid down in the Business Principles, appropriate measures will be taken. Sometimes, an employee gets fired if his or her responsibility for a serious breach in ING's CSR policy is proven. According to Ewald Kist, former CEO of ING, this happened to a Japanese employee who stole a few million euros from the company, which is an illegal activity. In the same interview, he said that the Countrymanager takes the final responsibility for the behaviour of employees: "if anything goes wrong, his head will roll"³⁸.

How the general implementation of CSR standards is coming along within the company is reported with the help of an annual CSR survey that is sent to ING's major business units around the world. The internal annual CSR survey is filled in by managers and Compliance Officers. Employees only make a small contribution to CSR reports. Employees do fill out employee satisfaction surveys which include five general questions on CSR issues i.e. questions about general satisfaction with CSR policies in the areas of the environment or workforce diversity³⁹. Through the survey, management reports on CSR policy implementation within their own business unit. The results of the survey are the basis for ING's CSR reports (ING in Society) and for the performance section of the Group's website. Last year, in 2003, this reporting mechanism entered a new stage when Key Performance Indicators (KPIs) were introduced to measure CSR performance. These new indicators are based on the guidelines on sustainability reporting of the Global Reporting Initiative (GRI).

Reporting: In September 2002, the Dutch Association of Investors for Sustainable Development (VBDO) commented on ING's 2001 Sustainability Report⁴⁰ in a research paper called 'Corporate duurzaamheidsverslagen langs de GRI-meetlat'⁴¹. In this paper, the VBDO states that "In 2002, the ING published its second sustainability report. Remarkably, ING pays more attention to social aspects than to environmental aspects [...]. This extensive social reporting can serve as an example to other companies". However, "Their sustainable investment activities are described in detail, but the social and environmental aspects of their regular investments, which are much larger in scope, are not treated at all. Another fallacy in the report is that hardly any quantitative information is given, which means many statements about corporate social responsibility by ING cannot be verified and a comparison to other companies in the sector is impossible"⁴². A positive aspect is that ING

³⁸ Source: Fem de Week, ING: Het spijt me, maar we zijn geen soft cluppie, 21 December 2002

³⁹ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

⁴⁰ 'ING in Society 2001'.

⁴¹ Source: http://www.vbdo.nl/publicaties/GRI_sep2002.pdf

⁴² Translation from Dutch to English by SOMO.

has chosen to use the GRI guidelines in its report which should help comparison with other companies⁴³.

1.2.3: New elements in the ING Group's corporate social responsibility policy

In 2003, the ING Group made several adjustments to its CSR and corporate governance policy, in order to comply with new legislation or to remedy existing deficiencies. Some of these new elements have already been mentioned in the previous sections, but to get an accurate idea of the degree of dynamism of ING's policy, it is useful to briefly list them here, together with other important changes:

- The company's Business Principles have recently been adjusted to meet the requirements of the new U.S. Sarbanes-Oxley Act, concerning corporate integrity and transparency. Through a so-called 'Whistleblower Procedure', employees can and should report any violation of the Business Principles to his or her line manager or a Compliance Officer.
- It was decided that a new Business Principle which deals with the issue of human rights will be added in 2004. The official text of the principle will be: "ING supports the aims of the United Nations Universal Declaration on Human Rights and endeavours to apply its principles throughout ING's operations worldwide".
- The ING Group, together with several other large international banks, endorsed the Equator Principles⁴⁴. These principles provide guidelines for the financing of large projects in developing countries through credit lending, and apply to sensitive industries such as mining, oil, gas and forestry. In line with the International Finance Corporation's guidelines, the Equator Principles state that projects of more than 50 million U.S. dollar should meet certain social and environmental prerequisites. The Principles only apply to those banks that signed them. A two-year period is reserved for implementation.
- From its Business Principles, ING derived a number of criteria to test transactions for their social acceptability: the Corporate Social Responsibility statements⁴⁵. They help assess non-financial risks (i.e. reputation risk) for credit-lending activities in specific sectors that are known for their potential environmental or social risk, such as agribusiness, defence, gambling, natural resources, pornography and industries involving animal testing and welfare and/or genetic engineering. The statements provide additional criteria for ING's financing decisions.
- ING Financial Markets became the first Dutch equity broker for Socially Responsible Investment (SRI) when it started providing brokerage services to institutional SRI investors⁴⁶.

⁴³ Duurzaamheidsverslagen langs de (GRI) meetlat,
http://www.vbdo.nl/publicaties/GRI_dec2003.doc

⁴⁴ For the full text of the Equator Principles, see annex 2.

⁴⁵ These Statements cannot be found on any website or in any public document.

⁴⁶ Source: ING Group, 'ING in Society 2003', p. 13

- ING Bank introduced the ‘Sustainable Portfolio Scan’, a tool which gives investors a quick overview of the sustainability of their equities and bonds.
- In its supplier relations, ING adopted an ‘ethical clause’ that requires from its suppliers an ‘unquestionable reputation’ regarding environmental, health & safety and child labour aspects.⁴⁷
- The ING Group introduced a set of Key Performance Indicators (KPIs) to improve the monitoring of law and CSR performance worldwide. The KPIs are based on the guidelines for sustainability reporting of the Global Reporting Initiative (GRI) and the company’s own Business Principles. Managers of business units around the world are made responsible for annual reporting on the KPIs.
- ING and the Dutch ministries of Development, of Finance and of Economic Affairs made plans to create a platform for financial sector development in developing markets.
- Adjustments concerning corporate governance were made to comply with the new Tabaksblat Code on transparency and accountability in the Netherlands.

The focus of CSR attention in 2003 was without doubt on issues of corporate governance. Another example is ING’s cancellation of many voting restrictions, giving shareholders and depositary receipt holders more say in the company. The international debate on corporate governance reached a peak when various new scandals were brought to the light in the U.S. and Europe, and legislation was passed in the U.S. and the Netherlands, amongst others, to regain control over governance malpractice. As mentioned, the ING Group made internal policy adjustments to comply with the U.S. Sarbanes-Oxley Act and the Dutch Tabaksblat Code. Also, changes in voting procedures are expected to increase ING’s transparency and accountability.

So the Group took up the issue of corporate governance and actually devoted a large part of its ‘ING in Society 2003’ report to it, explaining changes and commenting on criticisms from society. In ING’s Annual Report 2003, the last chapter is devoted entirely to ING’s new Remuneration policy, where the financial compensation policy for the members of the Executive Board and the Supervisory Board is described in detail. Increased transparency on this issue, however, has not made it less controversial: following the presentation of the Report in March 2004, shareholders and other parts of society have voiced many criticisms on the 60% increase in financial compensation for CEO Ewald Kist, and on the height of the other members’ financial compensation packages. The Annual Shareholders Meeting on April 27 2004 was dominated by the debate on salaries, and the discussion was also on the national political agenda.

1.2.4: The ING Group’s CSR commitments

Over the years, the ING Group has signed several charters, codes of conduct, guidelines, and agreements. It is subject to various general economic and sector-specific conventions

⁴⁷ ING Group, ‘ING in Society 2003’, p. 32.

and treaties, as well as to its own Business Principles. Of course the company also has to abide by all international, national and local regulations.

As described in section 1.2.2, there are 500 Compliance Officers throughout the organisation who have to make sure the company meets all of its obligations. Part of their job is to ensure that ING's commitments to corporate social responsibility are respected. With regard to CSR, the ING Group has signed, or is otherwise obliged to apply, the following rules and voluntary guidelines:

- In 1999, the ING Group first published its Business Principles⁴⁸. These Principles are internal guidelines and as such, compliance cannot be enforced by external parties. To date (mid-2004), they do not refer to any international standards such as the ILO Conventions or the UN Declaration of Human Rights. In the course of 2004, a new Principle should be introduced containing a general statement on ING's vision on human rights issues, basically supporting the UN Declaration (also see section 1.2.1).
- ING supports the ICC (International Chamber of Commerce) Charter for Sustainable Development⁴⁹, which focuses on environmental issues and is signed by more than 2,300 companies.
- In 2002, the ING Group, together with 10 other financial institutions, signed the CEOs' and Chairmen's Statement of the WBCSD Working Group Finance⁵⁰. This is a declaration on sustainable development.
- Also in February 2002, ING published its own CSR statement with respect to the financing of oil palm plantations and the paper- and pulp industry. The statement deals with the environmental impact of projects in these sectors and consists of additional financing criteria (see section 1.4.1 and 1.4.2).
- Additional internal CSR statements exist on agriculture, animal testing, defence, gambling, human rights and pornography, as well as on the financing of environmentally friendly projects.
- All of ING's insurance companies in the U.S. that sell individual life insurances are certified by the Insurance Marketing Standards Association (IMSA) and therefore have adopted the IMSA principles of Ethical Market Conduct and the accompanying Code of Life Insurance Ethical Market Conduct⁵¹.
- ING signed the Code of Conduct of the Dutch Association of Insurers⁵² (het Verbond van Verzekeraars) in September 2002 (see section 1.3.5).
- ING U.S. Financial Services, ING's banking businesses in the Netherlands and ING's banking and insurance operations in Belgium have signed government or industry

⁴⁸ Source: <http://www.ing.com/ing/contentm.nsf/0/2DA337E37B12EDE2C1256C4500352BD2?OpenDocument&sc=society&lan=en>

⁴⁹ Source: <http://www.iccwbo.org/home/environment/charter.asp>

⁵⁰ Source: http://www.dresdner-bank.com/meta/kontakt/03_dresdner_bank/06_nachhaltigkeitsbericht/wbcds2002.pdf

⁵¹ Source: http://www.imsaethics.org/p_m_ibd.html

⁵² Source: <http://www.verzekeraars.org/download/gvseptember2002.doc>

charters to prevent social exclusion. These charters are about increasing access to services for consumers in disadvantaged positions (i.e. disabled, elderly).

- In 2003, ING made adjustments to comply with the Dutch Tabaksblat Code⁵³ on good corporate governance. Transparency about decision making and remuneration of top management are the core issues.
- Also in 2003, the ING Group signed the Equator Principles⁵⁴, a document containing additional financing requirements to test the sustainability of projects.

Besides these CSR standards, there are two important financial sector CSR documents that ING has not signed⁵⁵:

- The UNEP Statement by Financial Institutions on the Environment and Sustainable Development, which is part of the UNEP Finance Initiative. Some 200 other banks *did* sign this statement.
- The UNEP Statement of Environmental Commitment by the Insurance Industry (also part of the UNEP Finance Initiative). This statement was signed by 86 other insurance companies, including the Dutch insurers Achmea and Interpolis.

The ING Group does also **not** mention the following two sets of guidelines in any of its CSR policy documents:

- The OECD Guidelines for Multinational Enterprises, which consist of nationally endorsed voluntary principles in the areas of labour rights, human rights, the environment, information disclosure, and competition, amongst others⁵⁶. As a Dutch based multinational, the ING Group also falls under the OECD Guidelines.
- The UN Global Compact, which consists of ten principles in the areas of human rights, labour, the environment and anti-corruption. The principles are based on the [Universal Declaration of Human Rights](#), the [International Labour Organization's Declaration on Fundamental Principles and Rights at Work](#), and the [Rio Declaration on Environment and Development](#). Only ING Bulgaria supports the Global Compact⁵⁷.

While some of ING's commitments, like local laws and regulations and the Group's internal CSR statements, are very detailed and/or provide clear criteria for acceptable conduct, most of the above commitments that deal with CSR take the form of non-binding guidelines and are phrased in general terms, which leave room for each business' own interpretation. Usually, the more general CSR commitments are, the more areas of

⁵³ Source: http://www.nivra.nl/download/code_corporate_governance.pdf

⁵⁴ Source: <http://www.equator-principles.com/principles.shtml>

⁵⁵ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

⁵⁶ Source: OECD website, http://www.oecd.org/departement/0,2688,en_2649_34889_1_1_1_1_1,00.html

⁵⁷ Source: Global Compact website: <http://www.unglobalcompact.org/Portal/>

business activity they cover: specific commitments usually only apply to limited areas of business conduct. This is only logical, but the implications should be carefully considered.

For banks, for instance, the difference between direct or indirect involvement in company or project financing makes a big difference in terms of responsibility. Generally, banks only take responsibility for their clients' actions if these are undertaken directly with the help of the bank. So when a bank grants a loan for the construction of a dam, for example, it could be considered as co-responsible for the environmental and social consequences of that dam. But if a bank provides a loan to an institution which constructs a controversial dam, but also other infrastructural projects, and the loan does not directly go to the financing of the dam, then the bank is not responsible for the consequences of the dam project. This also means a financial firm may provide all kinds of financial services to a controversial company, from banking to insurance to asset management, without being responsible for its controversial activities, because it is not directly involved in the financing of these activities.

1.3: CSR initiatives (and issues) in the financial sector

Apart from national and international regulations imposed or promoted by governments, initiatives with respect to corporate social responsibility in the financial sector can be classified in two ways, namely from a *micro-level* perspective, or from the individual business' point of view, and from the *macro-level*, or the point of view of multiple similar businesses, like sector-wide initiatives and sub-sector initiatives⁵⁸. On the micro-level, CSR initiatives in the financial sector can be divided into three main categories, which will be discussed below.

1.3.1: CSR initiatives at the company level

In the SOMO report "Critical issues in the financial Industry, by Myriam Vander Stichele, March 2004" the CSR initiatives on micro level are divided into three areas:

1. **How financial firms operate in-house:** the social and environmental aspects of their own operations such as labour and work conditions, recycling and energy consumption and the screening of suppliers. From the point of view of NGO's, special interest goes to working conditions for employees of subsidiaries and partners in developing countries; how does the company handle reorganisations and the closing down of branches abroad? And: does the company subscribe to basic principles of human rights and workers' conditions, such as the ILO conventions?
2. **How policies, services and products of financial firms impact society:** the social, human rights and environmental impacts of, for instance, projects financed by

⁵⁸ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

banks or bonds issued by an investment bank. CSR initiatives relating to the impact of financial services can also cover the way in which financial firms operate, e.g. the terms an insurer uses to assess the risk of a company. These initiatives often focus on how CSR principles are managed (not what their actual effects are). Negative elements of this category could be lobbying against government regulation, abuse of market position, and involvement with money laundering, tax evasion and corruption⁵⁹.

3. **How financial firms actively promote sustainable development:** financial firms can be pro-active and support socially and environmentally friendly developments, e.g. by designing new products that favour better social or environmental practices. Such products might be, for example, loans with lower interest rates for companies with a proven social and environmental record. Financial firms can also advocate for more sustainable practices among their colleagues within the whole financial industry.

The report does not include a fourth area, charitable initiatives by financial firms. SOMO views that charitable activities would not be necessary if CSR would cover the core business of any company and if all firms paid enough taxes. ING's performance on the three distinguished areas can be described as follows.

1. In-house operations

The ING Group has taken various initiatives on this level, and has commented on these initiatives for several years in a row in its 'ING in Society' reports and on its website. It is actively trying to reduce its own waste through water efficiency programmes, paper reduction programmes, transport management programmes, and waste management programmes. Suppliers are required to comply with basic CSR requirements since 2003.

As to labour and working conditions, ING offers training and personal development programmes to its workers, it rejects discrimination of any kind, and it is actively trying to get more women to work in top positions. Its health and safety programmes cover a large share of the Group's employees, as can be seen from the following table:

The number of ING employees covered by health and safety related policies in 2003 is⁶⁰:

Non-smoking	96%*
Safety	100%
Sexual Harassment	93%
Other forms of harassment	87%

⁵⁹ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

⁶⁰ ING Group, 'ING in Society 2003', p. 27.

Stress	57%
Ergonomics	64%
Fitness	58%
RSI prevention	66%

* Percentages are based on the internal CSR survey representing 104,000 full time employees worldwide.

However, the CSR charters ING has signed are almost exclusively about sustainable development and environmental issues, and do not contain commitments in the field of basic working conditions, including wages and unionising. No reference is made to the ILO conventions, and no minimum internal standards exist within the ING Group. During a meeting with SOMO researchers, ING representatives explained that ING has very good working conditions worldwide, and that the Group not only respects the minimum labour standards required by law, but generally exceeds these. In short, ING does not think it is necessary to explicitly include basic labour standards in its CSR policy.⁶¹

As mentioned, a new Business Principle concerning human rights will be introduced in 2004, which states that ING supports the UN Declaration of Human Rights. In the area of labour rights, this will at least commit the Group to the basic working conditions that are described in article 23 and 24 of the Declaration. These articles guarantee:

- the right to just and favourable conditions of work;
- to equal pay for equal work;
- to just and favourable remuneration;
- to rest and leisure;
- and to form and to join trade unions.⁶²

As part of the Business Principles, these rights will be subject to ING's regular (voluntary and internal) compliance mechanism.

As to company restructuring, which may lead to the closing down of branches or a cut in personnel expenses, ING's policy on the firing of employees is stated in 'ING in Society', page 25: "In cases of redundancy, ING's policy is to engage in a consultation period, during which potential alternatives are sought. If the search for alternatives is unsuccessful, an employee will be made redundant on terms which are both more favourable than the statutory minimum and in line with competitive market practice. ING also offers the services of an outplacement provider as an additional aid to assist employees to find new employment".

2. Policies, services and products and their impact on society

In this category, the ING Group has also taken a host of initiatives, some of which have already been mentioned in previous sections. In its external relations, the Business

⁶¹ Source: Meeting SOMO with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

⁶² Source: UN Declaration of Human Rights, <http://www.un.org/Overview/rights.html>

Principles serve as basic guidelines for what is acceptable and what is not, covering competition, corruption and transparency issues, amongst others. A small part of ING's business has received special attention: additional sustainability requirements have been made for the financing of projects, based on the Equator Principles, and the financing of oil palm businesses and the paper and pulp industry have to fulfil the requirements of ING's own statements related to those sectors.

ING's consumer policy includes regular customer satisfaction surveys and the signing of charters to prevent social exclusion by several of ING's retail banks (ING US Financial Services, ING Bank Netherlands and ING Banking and Insurance Belgium). One specific initiative ING took to prevent social exclusion was the launching of 'Postbank Geldservice' in the Netherlands in 2002. These money service points are opened in small communities with the aim to provide cashier services to people with difficult access to ATM machines, like elderly and handicapped people. At the same time, ING's Postbank had closed several branches in remote of non-profitable areas.

3. Actively promoting sustainable development

ING is offering a few sustainable products like sustainable asset management, sustainable discretionary portfolio management, 'green' certificates and 'green' loans⁶³.

From ING's own information it is clear that the company is making a fair amount of effort to promote CSR, both internally and externally, through workshops, conferences and activities aimed at increasing knowledge about their Business Principles and their general corporate vision on CSR.

ING's initiatives in this area are also covered in section 1.2.1.

On the macro-level, one way to categorize initiatives in the financial sector is by sub-sector: the financing world can be divided into three main areas, namely banking, asset management and insurance activities. Each subsector has confronts its own CSR problems and has developed its own CSR activities. However, we will start off with those initiatives and issues that cover the financial sector as a whole.

1.3.2: Allfinanz

The ING Group is one of the few international financial players that covers all three major areas of finance: retail and corporate banking, insurances and asset management. This means the Group can influence all kinds of national and international financial flows, from private savings to mergers and acquisitions, and from corporate finance to employee benefits. The important role that such so-called allfinanz companies play in the economy and in society stresses the need for them to incorporate a solid CSR policy into their daily

⁶³ Even though some of these products are questioned for their sustainability. See also: 1.4.11: Unjust use of the word 'sustainable'

operations. However, there are hardly any regulatory initiatives, whether governmental or industry-based, that cover all three areas at the same time⁶⁴.

The initiatives that do exist take the form of voluntary guidelines and apply only to those in the industry who signed them. Examples are the EPI-finance project (2000)⁶⁵, the UNEP Statement by Financial Institutions on the Environment and Sustainable Development⁶⁶, and a statement by CEOs of financial companies belonging to the World Business Council on Sustainable Development (WBCSD). Also, an international group of NGO's has come up with a new approach to CSR in the financial sector and laid down its principles in the Collevocchio Declaration⁶⁷.

For the financial sector as a whole, CSR initiatives tend to focus on the environmental consequences of financing decisions. There is still much room for policy development in the social, labour and human areas of CSR, such as working conditions and gender issues.

Also, much needs to be done about transparency, and the possibility of external verification of CSR policies, since many companies are still reluctant to disclose information on their policies, projects and clients. Financial firms are bound to strict privacy regulations and this makes it hard for NGO's and other third parties to get an adequate idea of the activities of financial firms and whether or not they comply with external and internal CSR standards. This was also the case with this research of ING. While this dilemma cannot be avoided, it is important that financial firms are as transparent as possible and at least disclose all necessary information about their own policies to the public.

1.3.3: Retail banking and corporate banking

Controversial issues in the banking sub-sector mostly relate to financing activities through loans. In the past, banks have been criticised for their role in the realization of several kinds of projects, including:

- Large infrastructure projects, such as roads and dams (especially in developing countries), which can cause both environmental and social damage;

⁶⁴ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

⁶⁵ The EPI-finance project is a report by 11 financial service institutions based in Switzerland and Germany that proposes Environmental Performance Indicators based on the ISO 14032 standard for environmental performance evaluation.

⁶⁶ The UNEP Finance Initiative was created in 1992 to promote CSR in the financial world. Their Statement by Financial Institutions on the Environment and Sustainable Development was revised in 1997 and has currently been signed by about 200 financial firms, but not by ING.

⁶⁷ The Collevocchio Declaration is the most comprehensive set of guidelines on CSR initiatives in the financial sector to this date. It was endorsed by over 100 civil society groups by the beginning of 2004. NGO's interested in the declaration work together under the name 'Bank Track'.

- Projects which cause environmental damage, like oil palm plantations and paper and pulp industries, which involve the cutting or burning down of tropical rainforests;
- Oil pipelines that cause social and environmental damage;
- Projects in high risk areas like mining, energy, and forestry;
- Financing trade in ‘blood diamonds’, that originate from conflict areas and are seen to help finance local wars;
- Financing of investments in countries where human rights are systematically violated, such as Burma.

Banks are increasingly being held responsible for the negative effects of the projects they finance. This has led to a situation where some project areas, such as the exploitation of natural resources, and some countries, such as Burma, are considered high risk areas because investments might lead to infringements of human rights and meet public resistance.

There are various initiatives on environmental and social standards for the financing of projects and companies. Some financial companies, such as the ING Group and ABN Amro, have their own internal CSR guidelines, laid down in their respective Business Principles, and handle specific credit requirements for some industries or project-types, but compliance is voluntary and often hard to verify by outsiders. While ABN Amro has made their guidelines publically available, ING has not. The NGO community has come up with guidelines for the financing of controversial projects like mining and the construction of dams, but no bank is legally bound to these guidelines, even if it would sign them.

One of the multilateral CSR standards for banking services is a document called the Equator Principles, which is based on the International Finance Corporation’s standards for lending procedures for big projects in developing countries. The Principles state that a potential project needs to be assessed on their environmental and social impact. By March 2004, 20 large international banks had signed the document, covering more than 75% of all project financing through loans. However, to date it is not clear if and how these Principles are applied, and what the consequences will be if they are violated by its signatories. What is clear, is that adherence to the Equator Principles (EPs) is in practice completely voluntary.

More specifically, a number of NGO’s from North America and Europe, representing the NGO’s that drafted the Collevocchio Declaration, issued a ‘Collective NGO analysis of the Equator Principles’, summarising their criticism in eight points⁶⁸:

1. The EPs do not go far enough. For instance, they do not imply no-go areas or categorical prohibitions;

⁶⁸ Source: Rainforest Action Network website, http://www.ran.org/news/equator_ngo.html

2. The scope of the EPs is too limited. For instance, they only apply to project finance and direct loans, and to projects larger than 50 million dollars;
3. There is no guarantee of implementation;
4. There is no monitoring mechanism;
5. The text of the EPs is vague and leaves much room for manoeuvre;
6. The EPs are weak on social issues;
7. The EPs may discourage the adoption of other, stricter guidelines or best practice sector standards;
8. The EPs put most responsibility on the borrower. If the EPs are violated, there is no recourse mechanism for affected communities⁶⁹.

It is also unclear if the Equator Principles should be applied to all project finance retrospectively: it seems more plausible that they will only be used to judge future big projects. All in all, the Principles can be regarded as a positive commitment, but their success depends entirely on the goodwill of signatory banks. Moreover, project lending is only a small part of bank's financial activities.

Another initiative in the banking business is the provision of 'sustainable' products, such as portfolios based on ethical investment funds and so-called green loans, to customers. There are no international guidelines on such products and the interpretation of the words 'ethical', 'green', and 'sustainable' can vary widely across the banks that offer such services.

Also, many banks are involved in handling developing countries' debts⁷⁰. This is a controversial issue because stringent debt requirements can hold back a country's economic growth and pose a heavy burden on government expenditure, leaving little resources for a national social policy.

This CSR issue, and others that concern the financial services sector, like bribery and corruption, the number of poor country clients, and ethical questions concerning innovative products, should be reported on according to the 'Financial Services Supplement on Social Performance Indicators' of the Global Reporting Initiative (GRI). The ING Group uses the GRI Guidelines, including the financial services supplement, to report on its CSR policy and performance. According to its own GRI Contents Index, its 'ING in Society' report does not respond to various aspects of the GRI Guidelines, including

⁶⁹ For more information on the debate about the Equator Principles, see www.banktrack.org.

⁷⁰ ING says it plays a role of very little importance in the restructuring and financing of developing countries' debts. The Group thinks that in general, it is the governments and the intergovernmental institutions that are responsible for solving the debt problem in the first place, not banks. However, SOMO thinks that ING is co-responsible for poor countries' debt problems, for instance through its membership of the Institute of International Finance, a global financial sector research and lobby group (www.iif.com). This discussion took place in a meeting between SOMO and ING representatives on the 29th of June 2004.

questions about compliance with environmental standards, about labour/management relations, and about human rights issues.

1.3.4: Asset management and socially responsible investment

Asset management can take on a variety of forms:

- Banks manage investments for private persons and institutions to get them the highest rate of return;
- Insurance companies manage their assets in order to increase their financial reserves;
- Pension fund managers invest to increase their capital;
- Mutual funds invest in company shares to increase the value of their funds and provide high returns to their clients;
- Companies buy securities hoping to earn high returns⁷¹.

Allfinanz businesses like the ING Group are involved in all of these activities. Investments are normally made on the criteria of financial viability and profitability only. CSR criteria have only recently and marginally become part of asset managers' risk assessments, after continuing pressure by civil society and interest groups to withdraw capital from companies with a bad CSR record.

One of the initiatives in this area is SiRi, the Sustainable investment Research international Group, an umbrella organisation for private research organisations which supply information to the largest asset managers, insurance companies, pension funds, banks and social investment institutions around the world. The SiRi database provides information on the 600 largest global companies and, through its network partners on over 4,000 other companies worldwide. SiRi's research covers all major environmental and social issues, and several less known CSR topics such as the weapons industry and genetic engineering⁷².

Over the past few years, asset managers could choose to invest in ethical funds that consist of companies that have been screened on their CSR records. In June 2003 there were 313 of these green, social and ethical funds in Europe alone. Still, these funds represent only a tiny fraction of total assets managed in Europe (less than 0.5 percent).

The ING Group manages a green fund called the 'ING Sustainable Return Fund', which includes companies such as Shell, BP and Suncor Energy. Some of these companies have been the target of CSR-related protest for many years, and many people doubt if they should be included in the fund at all. However, there are no rules and regulations on this matter yet. The ING Sustainable Return Fund managed assets worth 346 million euros in 2003⁷³.

⁷¹ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

⁷² Source: www.sirigroup.org

⁷³ Source: www.ing.com, ING in Society 'Performance' section 2003, www.ing.com

In recent years, pressure groups from different layers of society have called upon pension funds in particular to invest only in companies with high CSR standards or in ethical and green investment funds. Pension funds handle such large amounts of money that they can make a big difference in the direction the financial sector is going in. Unfortunately, if you look at the many UK pension funds which have included social and environmental considerations in their Statement of Investment Principles, only few of them actually applied these by introducing a screening procedure in their investment policies⁷⁴.

The ING Group does apply a standard CSR screening procedure to its own insurance funds. Companies in these funds are screened for their involvement in child labour, human rights violations, the production of weapons of mass destruction and may not conflict with existing laws. If they are linked to any of these unethical practices, they do not qualify for inclusion in the fund. But this only applies to one third (150 billion euro) of the invested funds.⁷⁵

1.3.5: Insurance and corporate social responsibility

The insurance industry owns and manages a vast amount of assets in order to assure that potential claims can be paid for. Examples of assets managed by insurance companies are equities, bonds, property, real estate, and different kinds of valuable items. Claims to insurance companies can come from private persons who have fallen ill or face the consequences of theft, fire or accidents, and from companies who face the risk of losing their physical and human capital.

Up till date, there are hardly any initiatives by the insurance sector to incorporate CSR policy in their way of doing business. This seems strange, considering the effects insurance companies can have on peoples' lives and on company survival. A socially responsible insurance strategy would make sure to include the vulnerable groups in society, like the poor, women, the elderly, disabled people, ethnic minorities and people from remote areas, even if this would decrease profitability⁷⁶. Another important issue for the insurance industry is the environment. Environmental disasters like pollution, forest fires, floods and draughts can dramatically increase the number of claims to insurers in some countries. Therefore, some companies are introducing 'environmental risk' into their standard risk

⁷⁴ A 2003 report on the 250 largest UK occupational pension funds showed that 90% included social and environmental considerations in their Statement of Investment Principles, however only 11% of the funds included either screening, a preference approach or both in their socially responsible investment policies, Source: EIRIS, [Responsible investment: EIRIS reveals SRI practices of top pension funds](#), press release, 19 May 2003.

⁷⁵ Total invested funds managed by the ING is 490 billion euro. Of which 327 billion euro for third parties like institutional investors and private persons, and 150 billion euro managed by the ING for its own business practises. Meeting ING/SOMO 3 September 04.

⁷⁶ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 4: *Corporate Social Responsibility Standards in the financial services sector*, Myriam vander Stichele.

assessment procedures. Others provide special insurance products for liability arising from environmental damage such as pollution and compulsory clean-up operations.

In 1995, various insurance companies and pension funds supported a ‘Statement of Environmental Commitment by the Insurance Industry’, published by the UNEP Initiative on Insurance. By the end of 2003, 84 companies and 3 associations in 25 countries signed the Statement⁷⁷. As mentioned before, the ING Group has not signed this Statement. However, it has signed the Dutch Code of Conduct for Insurers, set up by the Dutch Verbond van Verzekeraars. This Code contains promises and guidelines in five areas:

1. Reliability
2. Professionalism
3. Solidarity
4. Corporate Social Responsibility
5. Transparency

With respect to CSR, the Code stresses the importance of economically, socially and ecologically responsible corporate management (section M.a). As to the environment, special attention is given to environmental risks and internal environmental policies, and signatories express their commitment to promoting insurance products that stimulate environmentally sound practices, and to promoting environmentally sound behaviour to their stakeholders (M.d). Also, the Code commits signatory insurers to keep corporate social responsibility in mind when they act as an institutional investor (M.h)⁷⁸.

1.4: The ING Group and CSR practice: controversial issues and examples

Over the years, NGO’s have accused the ING Group of unethical behaviour on various occasions. Most of the accusations relate to the malconduct of ING’s business partners, not necessarily of the Group itself. However, it is argued that if ING really wants to show its commitment to CSR, the company should not get involved at all with corruption, pollution, and other unethical practices, whether it be directly or indirectly. Increasingly, NGO’s and other stakeholders, including shareholders, feel strongly that financial companies like ING should take full responsibility not only for their actions but also for the ultimate effects of their actions on society and on the environment. Some examples of CSR issues ING was confronted with in the last five years are briefly described below.

1.4.1: Oil palm plantations in Indonesia

⁷⁷ Source: UNEP Finance Initiative website, www.unepfi.net.

⁷⁸ Source: website Verbond van Verzekeraars, <http://www.verzekeraars.org/download/gvseptember2002.doc>

From 1995 until 2001, the ING Group was involved with financing oil palm businesses in Indonesia, that were doing great harm to tropical rainforests, biodiversity and human health in that country. One of the companies that ING financed, PT SMART / PT Matrasawit, was found guilty of illegal logging and the illegal burning down of tropical rainforest. The company did not have the necessary permits and caused social unrest in Indonesia because it was burning down the land of local inhabitants. However, the ING Bank for a long time denied these allegations and said PT SMART was acting responsibly and in accordance with local regulations.

After pressure from the NGO's like Greenpeace and Milieudefensie, ING sharpened its credit conditions through the adoption of an internal CSR statement on deforestation in February 2002. ABN Amro, Rabobank and Fortis had all given in to the demands of environmental pressure groups four months earlier, in October 2001. A point of discussion for ING was, whether or not to withdraw its loans from companies that had the necessary permits from the Indonesian government, although these were in violation of national law. After ING had sharpened its credit conditions in 2002, it has kept its promise and has not been involved with further deforestation in Indonesia.

ING's CSR statement on deforestation is based on the IFC⁷⁹ Guidelines on Forestry⁸⁰, the IFC Guidelines on Plantations⁸¹, and the ING Group's Business Principles. In addition, all local and international regulations must be respected⁸². A monitoring mechanism is in place to make sure all these requirements are applied in practice: "Either through its own research or through research by third parties, ING will check the environmental effects and the antecedents of the company applying for a credit when it comes to respecting the rights of the local population"⁸³.

The CSR statement on deforestation is not generally available to the public. When asked to make the CSR statement on deforestation available to SOMO, ING representatives first said that the policy is constantly changing, and could therefore not be made available at the moment. Upon request, ING did send a general description of the content of the statement and a link to the IFC Guidelines. SOMO could only obtain the CSR statement on Deforestation via the Dutch NGO Milieudefensie⁸⁴, who was involved as one of the stakeholders in the discussion about oil palm plantations. Milieudefensie received the CSR statement in December 2001. In February 2002, ING further explained its policy to Milieudefensie in a letter, saying that a three year period must be respected between the

⁷⁹ IFC = International Finance Corporation, private investment branch of the World Bank

⁸⁰ [http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/gui_forestrylogging/\\$FILE/forestrylogging.pdf](http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/gui_forestrylogging/$FILE/forestrylogging.pdf)

⁸¹ [http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/gui_plantations/\\$FILE/plantations.pdf](http://ifcln1.ifc.org/ifcext/enviro.nsf/AttachmentsByTitle/gui_plantations/$FILE/plantations.pdf)

⁸² Explanation of the CSR statement on deforestation in an internal e-mail sent by Arnaud Cohen Stuart from ING to Irene Schipper from SOMO, 2 June 2004

⁸³ Source: ING website,

<http://www.ing.com/ing/contentm.nsf/content/CAD600F294569C12C1256BE200473003!Opendocument&lan=en>

⁸⁴ See also Annex 3: CSR statement on Deforestation.

time deforestation has taken place and oil palm trees are planted. There may be no link between deforestation and the planting of new plantations. ING also specified that this policy only applies to High Conservation Value Forest areas⁸⁵.

1.4.2: Paper and pulp industry in Indonesia

In June 2001, Friends of the Earth U.K. published a report called 'Paper Tiger, Hidden Dragons'⁸⁶, about Indonesia's largest paper and pulp producer, APP. It was found that 1) this company was doing a lot of damage to the Indonesian environment, and 2) it was being financed by the international financial sector.

Some international investment banks that played an important role in issuing bonds for the APP company were Merrill Lynch, Morgan Stanley, Goldman Sachs, J.P. Morgan and Dean Witter from the United States and the European banks Credit Suisse, UBS Warburg, Deutsche Morgan Grenfell and ING Barings.

Another group of banks formed an international loan syndicate for APP. In this group were present: ABN Amro, Barclays, Bank of America, Dresdner Kleinwort Benson, Fuji Bank, Development Bank of Singapore, Bank of China, Crédit Lyonnais, Deutsche Bank and again, ING Bank.

What these banks failed to take into consideration, is that the way the Indonesian pulp and paper industry operates is completely unsustainable, since vast areas of tropical rainforest are being cut down, and not being replaced, causing decreased biodiversity and social unrest.

The trouble with APP and other Indonesian paper and pulp conglomerates has caused a reaction from several investment banks, including ING. In February 2002, the ING Group issued its new policy on the paper and pulp industry, in which credit conditions for companies in this sector are sharpened in a CSR statement⁸⁷. This is the same CSR statement on deforestation which is used for the palm oil sector.

Before the official introduction of the additional financing criteria, the ING Group had already communicated its new CSR policy to the NGO community. In a letter to Milieudefensie dated December 24, 2001, the Group explains its new policy on the paper and pulp industry, stating it is exactly the same as the one used for the oil palm industry,

⁸⁵ Source: Letter from ING to Milieudefensie, sent on 8 February 2002 by Mr. P.M. Kroon, Head Public Affairs

⁸⁶ The report was a follow up on the investigation done by the Centre for International Forestry Research (CIFOR) and the WWF Macroeconomics Program Office entitled 'Profits on Paper: the Political Economy of Fiber, Finance and Debt in Indonesia's Pulp and Paper Industries'

⁸⁷ Sources: Business Watch Indonesia Report on ING Group, December 2003; ING's reaction, ING website, section 'Issues', www.ing.com; forest conservation portal: <http://forests.org/archive/indomalay/devcounh.htm>

as explained above. The letter says that the CSR statement will be applied to all new financing decisions (so it is not applied retroactively), and clarifies the existing relationships with APP and its daughter companies at the time. The letter further assures that ING will no longer be directly involved in the paper and pulp industry⁸⁸.

1.4.3: Burma

In Burma, a military regime is in power that gravely and consistently violates the basic human rights of the population. This has led the international community to call upon companies worldwide to stop doing business with this regime. The ING Group has reacted to the international debate by closing its Burma Representative Office in 1997, ending its presence in the country.

This did not stop criticism about ING's involvement in Burma. Reason is that ING, together with other national and international banks, decided to finance IHC Caland, an offshore company doing business in Burma, in 2002⁸⁹. However, after consultation with the Dutch NGO Burma Centrum Nederland, the ING Group specifically required that IHC Caland did not use the financing for the Burma project. Compliance with these credit conditions is being monitored through regular inspections. With this provision, ING is acting in accordance with its own Business Principles since it is not directly involved with any economic activity in Burma.⁹⁰

1.4.4: Illegal exploitation of natural resources in Congo

At the end of 2002, the UN published a report in which the Bank Brussels Lambert (which turned into ING Belgium when it was taken over by the ING Group in 1998), was criticized for having been involved in the illegal exploitation of natural resources in Congo⁹¹. Some of BBL's clients were said to be involved in fraud and the smuggling of natural resources such as coltan. The revenues from this illegal trade are used to finance the war in which Congo's neighbouring countries Rwanda, Uganda and Burundi are involved⁹². After the report was published, ING conducted an internal investigation and concluded that "BBL

⁸⁸ Source: Letter from ING to Milieudefensie, sent on 24 December 2002 by Mr. P.M. Kroon, Head Public Affairs

⁸⁹ Earlier, in 2000, ING and other banks sold their shares in this company because of its presence in Burma and the negative publicity attached.

⁹⁰ Sources: Business Watch Indonesia Report on ING Group, December 2003; ING's reaction, ING website, section 'Issues', www.ing.com; Actieblad Ravage #6, 26 apr 2002 http://www.antenna.nl/ravage/2001_2002/0206a5.htm

⁹¹ UN Report S/2002/1146: 'Final report of the Panel of Experts on the Illegal Exploitation of Natural Resources and Other Forms of Wealth of the Democratic Republic of the Congo', October 2002, <http://www.natural-resources.org/minerals/CD/docs/other/N0262179.pdf>

⁹² Source: ABC News, http://abcnews.go.com/sections/nightline/DailyNews/coltan_explainer.html

had acted neither illegally nor unethically”. However, “the file is still pending with the UN representative in Belgium”⁹³.

1.4.5: Controversial BTC oil pipeline from Azerbaijan to Georgia and Turkey

The ING Group is involved with the financing of a controversial oil pipeline that runs from Baku to Tbilisi to Ceyhan (hence its name ‘BTC’), connecting the Caspian sea coast to the Turkish Mediterranean. Many environmental and human rights organisations are opposed to this pipeline because of the huge environmental and social impact it can have on the region. Their common complaint is that the companies involved with the project do not seem to consider its potential harmful consequences, and are avoiding all kinds of national and international laws and regulations. This behaviour is the complete opposite of good corporate social responsibility practice⁹⁴.

Although NGO’s demonstrated in 2003 that the project would constitute a breach of no less than 153 aspects of the social and environmental guidelines of the World Bank, this was no reason for banks like KBC, Dexia, Fortis, ABN Amro and the ING Group to stop financing the pipeline. This is clearly contradictory not only to the Equator principles, but also to many of these banks’ own CSR standards, which require that projects contribute to sustainable development and be transparent.

The pipeline project, which is being executed by an international consortium led by the British petrol giant BP, is expected to transport 1 million barrels of oil a day to the Turkish coast, where oil tankers will take over to supply the European and American markets. The total costs of the project are an estimated 3.6 billion dollars. Fifteen banks together provide nearly 1 billion dollars, the rest is financed by export credit agencies, oil companies and two international financial institutions, the World Bank’s IFC and the European Bank for Reconstruction and Development (EBRD).

Some of the issues that the project raises are:

- There are no proper, independent assessments of the social, economic and environmental impacts and risks.
- Agreements and documents are not freely available to the public.
- In the contract with Turkey, it says that the consortium is not bound to local environmental and social legislation. The country may do nothing to delay the project, not even in the areas of safety and health of people and the environment. If Turkey, in the future, wishes to impose rules to protect human rights or the environment, it is

⁹³ Source: ING Group, ‘ING in Society 2003’, p. 8.

⁹⁴ Sources: CEE Bankwatch Network: <http://www.bankwatch.org/issues/oilclima/mainbaku.html>; Corpwatch: <http://www.corpwatch.org/news/PND.jsp?articleid=9329>; Milieudefensie: <http://www.milieudefensie.nl/globalisering/publicaties/EarthAlarm%20Bakoe-Tbilisi-CeyhanEnglishversion.pdf>, <http://www.milieudefensie.nl/globalisering/publicaties/opinie2003pijpleiding.htm> and other articles

obliged to compensate any economic loss this will incur to the BTC consortium. When testing the pipelines, companies may freely get rid of polluted water without any responsibility for the environmental consequences. Similar contracts exist with Azerbaijan and Georgia.

- In Georgia, the pipeline crosses a protected national park, which also contains an important source of mineral water. Any leakages, which are not uncommon with such pipelines, may cause great environmental and economic damage.
- In Turkey, the pipeline ends in an area that is an important habitat for many different species like birds and sea turtles. The oil terminal and tankers are expected to cause severe ecological damage in this area.
- The project is politically sensitive for a variety of national and international reasons. The region is already conflict prone and the magnitude of U.S. interests and military presence may prove to be destabilizing.
- It is unclear if the project will bring any (economic) benefits to the local population. However, it is clear that it is the local people who will carry the greatest (environmental and social) risk.

Although many parties involved with the pipeline have denied the risks of the project and have stated that it does comply with all local, national and international regulations and the necessary CSR requisites, the project remains very controversial and still meets a lot of opposition from around the world.

ING has listened to the criticisms of NGO's like Milieudefensie (the Dutch branch of Friends of the Earth International), and says it has laid down the concerns about the social and environmental consequences of the pipeline with the credit department responsible for the loan. Also, the entire group of lenders has hired an independent consultant to investigate the social and environmental aspects of the project⁹⁵. In its 'ING in Society 2003' report, ING says "this case will continue to receive ING's full attention in 2004" (page 12).

In a report published in June 2004, Banktrack, a Dutch based NGO network, comments on the progress banks have made one year after signing the Equator Principles. The report says that ING is still financing the BTC project, and that a Belgian NGO called Proyecto Gato has started an OECD case against ING, claiming the bank has violated the OECD Guidelines on Multinational Enterprises through its involvement with the BTC project⁹⁶.

1.4.6: Thailand - Malaysia gas pipeline

In the same Banktrack report, the ING Group's involvement in a gas transportation project that is being built in Thailand and Malaysia is discussed. This project has caused a lot of

⁹⁵ Source: ING Sustainability News, February 2004.

⁹⁶ Source: Banktrack, Principles, Profit or just PR? Triple P investments under the Equator Principles; an anniversary assessment, June 2004 <http://www.foe.org/res/pubs/pdf/princprofspr.pdf>

concern among the local populations, who fear environmental pollution and the impact of the pipeline on their way of life. Protests by local villagers have been suppressed by military and police forces, in a way that violates these people's basic human rights.

ING participates in the international loan syndicate for this project with a \$19.55 million dollar loan that was granted in April 2004. Banktrack comments that "it is unclear how various Equator banks implemented the Principles in this transaction"⁹⁷. It is hoped that the banks, including ING, will soon explain their involvement and the way the Equator Principles have been applied to the project.

1.4.7: Laos hydropower plant

Similar concerns have arisen in the case of a hydropower project in Laos (Nam Theun 2 project). The social and environmental consequences of this project include the forced displacement of 5,700 indigenous people and threats to the local biodiversity. NGO's that investigated the project found that some preparational procedures did not comply with World Bank requirements. ING is one of nine banks that are responsible for arranging a 420 million dollar loan for the project. Financing decisions are expected in late 2004 or early 2005⁹⁸.

1.4.8: Privatisation of water supply in Cochabamba

ING Trust Nederland provides trust services to the international consortium led by Bechtel (U.S.) and Edison (Italy), called 'International Water', that took over the state-controlled water supply of the Bolivian city of Cochabamba in 1999. The privatisation of the water supply in Cochabamba had major economic and social consequences for the population because prices of drinking water reached unprecedented high levels after liberalisation, causing violent demonstrations, riots and general social unrest in Bolivia. In 2000, after continuing protests from the local and international communities, the privatisation had to be reversed, returning control over the water supply to the Bolivian government⁹⁹.

Bechtel, the driving force behind the project, did not leave it at that and filed a 25 million dollar claim at the World Bank's dispute settlement commission ICSID¹⁰⁰ as a compensation for the failed investment on November 12, 2001 (a very high claim considering they only invested about a third of that amount in the first place). The legal demand was made

⁹⁷ Source: Banktrack, Principles, Profit or just PR? Triple P investments under the Equator Principles; an anniversary assessment, June 2004.p. 21. <http://www.foe.org/res/pubs/pdf/princprofspr.pdf>

⁹⁸ Source: Banktrack, Principles, Profit or just PR? Triple P investments under the Equator Principles; an anniversary assessment, June 2004,<http://www.foe.org/res/pubs/pdf/princprofspr.pdf>

⁹⁹ Sources: Homepage 'Solidariteit met strijd tegen waterprivatisering in Cochabamba', <http://www.xs4all.nl/~arenaria/water/index.html> and <http://www.democracctr.org/bechtel/index.htm>

¹⁰⁰ ICSID = International Centre for the Settlement of Investment Disputes.

through the international holding company International Water, via the Amsterdam-based company Intra Beheer B.V., that was taken over by ING Trust in 2001. International Water is registered in the Netherlands, not only providing tax benefits to the holding company, but also including them in the bilateral investment protection treaty that has been concluded between Bolivia and the Netherlands. The case is still pending, but the outcome should become clear around the summer of 2004¹⁰¹.

International NGO's find ING's relation with the highly controversial privatisation project rejectable. ING itself claims that it cannot be held accountable for the results of the privatisation project nor the actions of the multinational water company, because it is not involved in decision making but is only offering trust and administrative services to the consortium. In a letter to the Dutch based NGO XminY, ING spokesman P.M. Kroon says that ING believes that International Water's registration and administration in the Netherlands is completely legal and that its trust services to this company are in line with ING's own Business Principles¹⁰².

1.4.9: Brazilian soybean industry

Recently, in February 2004, ING was part of an international consortium, led by the Dutch Rabobank, that offered a 230 million dollar loan to the biggest soybean producer in the world, the AMaggi Group in Brazil. For the 2003 / 2004 crop, the soybean Group, founded by André Maggi, produced about 370,000 tons of soybean and traded an estimated 2.5 million tons of soybean in total¹⁰³. The growing of soybean in Brazil has become controversial because soybean producers have been clearing large parts of the Amazon forest, closing in the indigenous people who still live there. Besides, the AMaggi Group is said to run a political lobby which aims to eliminate the state of Mato Grosso, where the company operates, from the list of nine states that constitute the Amazonia Legal. The states on this list are not allowed to have less than 80% of forested area, while other states only need 50% of forest coverage¹⁰⁴.

It is clear that the AMaggi Group has much political leverage, since André Maggi's son, Blairo Maggi, was installed as the Governor of the State of Mato Grosso in January 2001. Some people even think that if he does well in this office, he might one day become Brazil's president. Blairo indeed seems successful at boosting the regional economy, mainly by improving Mato Grosso's infrastructure¹⁰⁵. Yet indigenous people have voiced concerns over Blairo Maggi's ambitious economic development plans, which include a doubling of Brazil's soybean production in the near future. One problem they see is that agricultural

¹⁰¹ Source: World Bank: <http://www.worldbank.org/icsid/cases/pending.htm>

¹⁰² Source: 'Solidariteit met strijd tegen waterprivatisering in Cochabamba', <http://www.xs4all.nl/~arenaria/water/INGbrief030402.html>

¹⁰³ Source: AMaggi Group: <http://www.grupomaggi.com.br/us/news.asp?idnews=23>

¹⁰⁴ Source: Milieudéfense Magazine, May 2004, page 4.

¹⁰⁵ Source: Star Tribune archive / stories: <http://www.startribune.com/stories/354/4649623.html>

expansion will lead to further deforestation, because farmland that has already been cleared does exist, but is much more expensive than uncleared forest, making (illegal) deforestation an attractive option. Between 2001 and 2002, deforestation in Mato Grosso increased by 30% compared to the previous year¹⁰⁶.

The harmful consequences of deforestation are multiple. First of all, rivers may dry up if forests are cleared, and agricultural burning may result in uncontrollable forest fires. For the native inhabitants, farm fields, roads and trucks are now surrounding their reservations. They fear that agrochemicals will cause environmental damage such as water pollution, which can poison the fish in their rivers. The actual effects of soybean production are not entirely clear yet, since the boom in production only started in 2004, after a disappointing 2003 harvest in the United States drove up prices, and it takes about four or five years for cleared areas to reach full production¹⁰⁷.

1.4.10: Investments in weapon-producing companies

In October 2003, a Belgian investigation by Netwerk Vlaanderen¹⁰⁸ showed that 5 banks, namely AXA, DEXIA, FORTIS, ING and KBC, together owned U.S.\$ 1.5 billion worth of shares in the nine major international weapon producing companies. Netwerk Vlaanderen and the Belgian peace movement now ask these banks to withdraw from these companies, like ABN Amro did in February 2004 when it gave up its financial interests in the British company Insys, which produces cluster bombs.

As to ING, it became clear from the report that:

- Of the 5 banks that are treated by the report, ING came second (after AXA) in investing in the world's nine largest weapons manufacturers.
- ING had over 11 million Euros worth of shares in Barco, a Belgian company involved in manufacturing components for high technology weapons systems. Customers of Barco products include the U.S., Bahrain, Brunei, Chile, Colombia, Indonesia, Iraq, the Sudan, and South Korea. ING is also Barco's house bank.
- For the world's nine largest weapons producers, numbers were as follows:

Company	Value of shares in U.S. \$
ATK	9,202,645
BAE Systems	53,999,144

¹⁰⁶ Source: forest conservation portal: <http://forests.org/articles/reader.asp?linkid=29226>

¹⁰⁷ Sources : AMaggi Group : <http://www.grupomaggi.com.br/us/news.asp?idnews=21>, <http://www.grupomaggi.com.br/us/news.asp?idnews=23>; Amazonia: <http://www.amazonia.org.br/english/noticias/noticia.cfm?id=87338>

¹⁰⁸ Source: 'My money. Clear conscience?', An investigation into the financial links between banks and weapons manufacturers'. Netwerk Vlaanderen, 2 February 2004. <http://www.netwerk-vlaanderen.be/actie/article.php?print=31>

Boeing	36,064,682
EADS	490,719
General Dynamics	90,588,653
Lockheed Martin	54,554,717
Northrop Grumman	47,548,354
Raytheon	6,317,288
Thales	1,504,920
Total	300,271,122

In a reaction to these numbers, ING stated that:

“A Belgian NGO claimed ING is heavily involved in the weapon industry. ING has responded in a detailed and serious manner to the organisation and made clear ING has not invested in most of the companies named by the organisation. Only 0.03% of the total shares outstanding has been invested in five of the companies named by the organisation”¹⁰⁹. Furthermore, ING argued the equipment produced by the companies mentioned had both military and civil purposes.

In early 2003, Netwerk Vlaanderen asked ING if they invested in weapon producers, and if they had rules regarding investments in this kind of companies. Jean-Marie Moitroux, the Director of Corporate Information, answered on behalf of ING Belgium and said in an e-mail that ING operates within a legal framework set by the government. Since the Belgian government approves of weapons production, and in some cases, weapons export, it is okay to get involved with these companies. If companies satisfy ING’s credit conditions, there is no reason not to invest¹¹⁰.

In the report ‘ING in society 2003’, it can be read that *“ING screens the companies in its portfolio for CSR purposes as it realises that its investments may affect society and the environment. It checks, for example, for human rights violations, child labour or involvement with the production of mass-destruction weapons. Should any of the companies in which ING invests be involved in unacceptable practices, ING would take action. This could range from direct or indirect ‘shareholder engagement’ to divestments”* (p. 8).

In April 2004, following up on the ‘My money. Clear conscience?’ campaign by Netwerk Vlaanderen, The Dutch Socialist Party SP took up the topic and, together with Netwerk Vlaanderen, staged a protest at the annual shareholders meeting in The Hague. The concrete issues they brought to the fore were ING’s involvement in the production of landmines, and ING’s involvement in the production of cluster bombs. As to landmines, clients of ING have investments in Singapore Technologies Engineering (STE) and the ING

¹⁰⁹ Source: ING Sustainability News, February 2004.

¹¹⁰ Source: ‘My money. Clear conscience?’, An investigation into the financial links between banks and weapons manufacturers’. Netwerk Vlaanderen, 2 February 2004. <http://www.netwerk-vlaanderen.be/actie/article.php?print=31>

advises its clients to divest. This company is based in Singapore, in one of the countries that did not sign the 1997 Ottawa Landmines Treaty. The Netherlands *did* sign this treaty, which makes the financing of landmine producing companies by Dutch banks all the more rejectable.

As to cluster bombs, the focus of attention at the meeting were ING's investments in Raytheon, Lockheed Martin and EADS, all three of which produce rockets and cluster ammunition on a large scale. Their cluster bombs have recently been used in Yugoslavia, Afghanistan and Iraq. The ING Group holds 2.2 million shares in these companies, worth 87 million dollars.¹¹¹

When confronted with questions about ING's involvement in the landmine industry during the shareholders meeting on April 27 2004, the chairman Ewald Kist responded that the company needs some time to figure out if it is indeed involved in the production of these weapons, and promised that if connections are found, financial relations with these companies will be ended. He also mentioned ING does not want to be involved in the production of weapons of mass destruction, in nuclear weapons, or in other weapons that are prohibited by the NATO. With regard to cluster bombs, he was not sure if these are legally banned or if they fall under ING's own financing criteria for the defense industry, and therefore could not guarantee that ING would withdraw its investments in this kind of weapons.

This answer of Mr. Kist is in conformity with the ING Group's official policy on the financing of weapons, which is based on legal requirements on the one side, and ING's CSR statement on the defense industry, containing specific financing criteria, on the other. This means that during the meeting, no new concessions were made by Mr. Kist. Protestors and shareholders were merely promised that ING would investigate the two issues brought to the fore by Netwerk Vlaanderen and SP, and would address them in a way that is consistent with existing policy.

ING's CSR statement on the defense industry is not publicly available. From various documents, like the ING in Society 2003 report and articles on the websites of Netwerk Vlaanderen and the SP, it becomes clear that the CSR statement makes use of a classification of weapons and their potential impact. Weapons of mass destruction and torturing devices, for instance, do not meet ING's financing criteria¹¹² It seems like the ING Group has adequately addressed the issue of financing weapons producers with its CSR statement. The Group has also indicated at the shareholder meeting that it is always open for suggestions regarding the classification of weapons, and that it will continue to engage in a stakeholder dialogue on this matter.

¹¹¹ For more information on the SP/ Netwerk Vlaanderen action of April 27, see www.verminking.nl

¹¹² see www.verminking.nl

During a meeting with SOMO researchers, ING representatives stressed that it is impossible for ING to withdraw its investments from all weapon producing companies, since many of them also produce civil equipment like airplanes or electronic systems. Companies like Boeing or Lockheed Martin are listed on the stock exchange, which makes their inclusion in regular investment portfolios practically unavoidable¹¹³. Public communication about ING's policy regarding weapon production is not always consistent. In the shareholders bulletin of June 2004 it says that ING does not want to be involved, even indirectly via investment funds, in the weapons industry. This is not in line with practice, since ING only scans its own portfolios, and not those of its clients¹¹⁴.

1.4.11: Unjust use of the word 'sustainable'

Again brought up by the Flemish organisation Netwerk Vlaanderen, is the complaint that ING is misguiding its customers by using the term 'sustainable' where there is clearly no reference to environmentally or socially sustainable practices¹¹⁵. In December 2003, ING launched several new investment products under the slogan: 'Sustainable development: interesting'. Among them were ING (L) Protected Obli-fix Plus vier and ING (L) Protected Equi-fix World Indices. Both of these funds have nothing to do with what is usually understood by sustainable investment. Neither of them applies any selection criteria on sustainable development. In the best case, the term 'sustainable' refers to the returns of the investments, which are guaranteed to be no less than the investor put in at the start.

Unfortunately, it is not prohibited to use the word 'sustainable' in such a way, because there is no internationally agreed upon definition of the concept. However, from all of ING's recent documents and reports, one can conclude that the company is perfectly aware of the common use of the word, referring to the social and environmental impacts of activities.

1.4.12: Conclusion

From these eleven examples of ING's involvement in controversial projects and/or investments, it becomes clear that the Group is willing to have an open discussion with groups in society about (the application of) its CSR policy. In three cases, the Group created new policy elements to deal with the issue (palm oil, paper and pulp, Burma). In two cases, ING denied its responsibility (Congo, Cochabamba). In one case, a promise to withdraw investments that constitute a breach of existing CSR commitments was made (weapons production), and in yet another case, compliance with existing CSR policies is still being investigated (BTC pipeline). On one issue, no comments from ING have been

¹¹³ The meeting took place on the 29th of June 2004. ING was represented by Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs)

¹¹⁴ Source: ING Groep Aandeelhoudersbulletin, nr. 2, jaargang 13, juni 2004, p. 5

¹¹⁵ Source: <http://www.netwerk-vlaanderen.be/actie/read.php?campaign=1&article=47&lang=nl>

made public to date as far as we know (unjust use of the word ‘sustainable’). The remaining three cases are relatively new and have not yet been met by an official reaction from ING (Thailand - Malaysia gas pipeline, Laos hydropower plant, Brazilian soy bean industry). During the meeting with SOMO researchers, an ING spokesman said that new issues are detected as soon as possible and that ING is constantly updating its CSR policy. He took the Brazilian soy bean industry as an example, and said internal research is currently being done in order for ING to take a clear stance on this issue¹¹⁶.

¹¹⁶ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

1.5: Conclusion part 1

The following conclusion can be reached from this current report on ING's CSR policy.

From the information presented in part 1, it could be said that the ING Group distinguishes itself from the average multinational company through pillar 3 and 4 of its CSR policy - embedding CSR into the core business and monitoring CSR performance and activities. Many multinationals still see CSR as a positive side note, but the ING Group claims to be committed to internalising and practicing the values of CSR, for instance by making them part of standard risk assessment procedures.

One factor in particular seem to have influenced ING's commitment to CSR: the personal leadership of Ewald Kist, who ran the company from 2000 to mid 2004.

ING shows the will to embed CSR into its core business.

Positive steps that have been taken in this direction relate for instance to the sharpening of credit conditions with respect to the financing of oil palm plantations and the paper and pulp industry, which is a relatively minor business of ING but which has important impacts on the ground. In 2003 ING endorsed the Equator Principles which contain additional financing criteria for large projects. Additional CSR statements exist on agriculture, animal testing, defence, gambling, human rights and pornography, as well as on the financing of environmentally friendly projects.

One third of the funds that are managed by ING, such as its investment portfolio's related to its insurance products, are screened for CSR purposes (150 billion euro). Two third of the funds managed by ING are not CSR screened because clients are free in their choice to invest in the companies they want (327 billion euro).

The ING Group has also consulted NGO's on various occasions and is willing to listen to criticisms from its stakeholders in general.

ING stands out positively because of the extensive monitoring mechanism, involving all levels of management.

The network of 500 Compliance Officers and the accompanying monitoring system, including the Compliance Charter, the Compliance Manuals and the Compliance Charts, is considered adequate and efficient and although this network is not dedicated solely to tracing and correcting breaches of CSR policy, it should be sufficient to guarantee compliance with all ING's CSR commitments. This is especially true given the fact that Operational Risk Managers are also responsible for monitoring compliance. The reporting lines and the lines of responsibility in ING's corporate structure are clear and within the company, it is clear who can be held responsible for deviations from CSR commitments. However, there is no systematic external reporting on their actions which makes it difficult for outsiders to verify.

Employees are involved in the monitoring mechanism in several ways. Since the introduction of the Whistleblower Procedure in 2003, employees can report breaches of the Business Principles anonymously. Besides that, they are invited to discuss the implementation of ING's CSR policy with their management, their local Compliance Officer or their Human Relations representative. It was outside the scope of this research to examine whether employees found these mechanisms sufficient or efficient.

Reporting mechanisms: more can be done

The 'ING in Society' reports and the internal CSR surveys that are at their basis can be judged positively on transparency and clarity, but could be more inclusive still.

It is expected that they will become more inclusive as the GRI Guidelines are slowly becoming their standard as these guidelines are relatively new.

The 'ING in society' reports are verified by an external party, namely Ernst & Young Accountants, who declare that the contents of the report accurately reflect reality. This is a standard procedure which, according to Dutch NGO's, cannot be regarded as 'independent verification', because of the contractual relationship between ING and Ernst & Young. In the CSR Frame of Reference, a document created by 29 Dutch NGO's that are organised in a national CSR platform, 'independent verification' is described as verification carried out by organisations not linked to the company in question, and with the full trust of the stakeholders involved¹¹⁷. Such organisations could be independent analysts, NGO's or labour unions, for example. Moreover, there are no specific legal requirements for CSR monitoring by accountants.

Pillar 1 and 2 of ING's CSR policy, stakeholder dialogue and the company's Business Principles, are more vulnerable to criticism than pillar 3 and 4 because they display some critical fallacies.

To start with stakeholder dialogue, the timely and accurate provision of information still is an obstacle for a constructive discussion. Although ING made some adjustments in this area, like publishing the 'ING in Society' report before the annual shareholder meeting, other problems persist. Business deals like mergers, acquisitions and project financing are surrounded by secrecy, and it is hard to check ING's involvement in many controversial financing projects and loans. Transparency about investment and asset management activities is not yet sufficient, either. A serious problem is that the additional financing criteria (the CSR statements) for controversial industries are not publicly available and are not disclosed even upon request. This makes it very hard to find out how ING translates its CSR policy to reality and if it adheres to its own criteria.

¹¹⁷ Source: CSR Frame of Reference, <http://www.mvo-platform.nl/mvotekst/CSR%20frame%20of%20reference.pdf>

ING is willing to listen to NGO's and take their advice on various issues, as was demonstrated by its decision to publish their sustainability report earlier, an idea proposed by VBDO and other stakeholders, by the cooperation with Burma Centrum Nederland in formulating a new policy on doing business in Burma, and by the reaction of Ewald Kist to protests at the shareholders meeting in 2004, where he promised to stop investing in companies that produce landmines and to look into the financing of the production of cluster bombs. This year, ING is planning to intensify its stakeholder dialogue and the results of this effort are expected to be described in the next sustainability report, 'ING in Society 2004'.

The Business Principles give rise to a number of problems, not so much because of what they do say, but more so because of what they don't. The most obvious deficiency, a lack of reference to human rights issues, will be remedied this year, but the new principle is still vague and one can only hope that the ING Group will convert it into new, verifiable operational standards, like a CSR statement that is made known to the public.

What is still lacking in the Business Principles is a reference to chain responsibility, independent verification and a clear commitment to stakeholder participation. Although these issues are treated in the policy description in 'ING in Society' reports, excluding them from the Business Principles can be regarded as a lack of commitment to these CSR values. Finally, it should become more clear what the consequences will be if the principles are violated. Their voluntary character should be offbalanced by a strong statement guaranteeing their implementation, if the principles are to have any credibility to the outside community.

In the meeting with SOMO on June 29 2004, ING representatives explained that the Business Principles are not voluntary at all but rather serve as ING's constitution. Employees that violate the principles are punished according to the Group's internal procedures, and in the worst case may even be fired. But the question remains what ING's *corporate* responsibilities are in the case of a violation of the Business Principles. For instance, is the company obliged to remedy the discrepancy between its internal policy and practice? If so, within what timeframe?

Other guidelines the ING Group has committed itself to (the Equator Principles, the CEOs' Statement of WBCSD working group on finance, the ICC Charter for Sustainable Development, the Code of Conduct for Dutch insurers) are also voluntary, which means that companies cannot be held legally responsible for violations of these guidelines, and cannot be obliged to disclose all the necessary information that is needed for objective verification. It is important that the ING Group makes clear statements on how it applies these guidelines in practice, and that it provides some guarantee that any violations that are brought to the light will be rectified as soon as possible. Here too, cooperation with independent researchers should ensure that possible breaches of these commitments are detected, discussed and remedied.

The issues that have been discussed in section 1.4 of this paper reveal that ING was, and still is, sometimes operating in business areas that cause harm to the environment or to groups of people that do not have the economic or political power to voice their concerns. It often has taken loud and clear protest from outsiders for ING to stop these activities. Sometimes the problem lies with the lack of clear definitions on what is acceptable and what is unacceptable behaviour. It is only logical that the boundaries of what is considered ethical are constantly moving; what is expected from companies like ING is that they have clear, transparent policies on specific CSR issues and that these policies remain subject to an ongoing debate with society at large. General statements on what is or is not considered ethical behaviour, like Business Principles, are useful as a starting point for this debate, but should be matched by clear criteria that are made public so they can be verified by outsiders.

The ING's CSR statements are not available to the public. A general description of the contents was sent via e-mail. In early 2004, Netwerk Vlaanderen encountered the same problem when investigating ING's policy towards the defense / weapon-producing industry. Netwerk Vlaanderen got a general description of the CSR statement that was adopted in early 2003, but they did not receive the real CSR statement, i.e. the list of specific financing criteria¹¹⁸. ING seems to be reluctant to publish their criteria for fear of losing clients to banks with less stringent criteria. From ING's descriptions, it seems to have an excellent CSR policy, linking the theory of corporate social responsibility as stated in the Business Principles and other general documents into the practice of financing decisions. When made public, they could probably serve as an example to other banks.

Without the CSR statements, it becomes hard for outsiders to see how ING is linking its policy to daily business practice, and it is impossible to verify if ING is sticking to its own CSR commitments. All in all, SOMO urges the ING Group to think about disclosing their CSR statements in an easily accessible manner, for instance through a link on their website. This would contribute greatly to an open CSR discussion.

¹¹⁸ Source: Netwerk Vlaanderen website, Netwerk reageert op het wapenbeleid van ING, <http://www.netwerk-vlaanderen.be/actie/read.php?campaign=1&article=44&lang=nl>

PART 2: The ING Group in Indonesia

2.1: ING in Indonesia; an introduction

The Indonesian financial sector is dominated by the banking sub-sector. Other financial services, like insurance and pension fund management, only comprise a small part of the financial market. To get an idea of the relative size of these activities: in 2002, banking covered 90 % of the private financial market, insurance 3% and pensions also only 3%¹¹⁹.

Within the banking sector, state banks and private banks have traditionally fulfilled different roles. Basically, private banks have focused their attention mainly on large corporate clients, and state banks have served more small enterprises and individual clients. For instance, in March 2003, state banks accounted for some 75% of all credits provided to small and medium enterprises (SMEs), while private banks only provided 25% of these credits¹²⁰. Of the private banks, foreign banks provided 0.005% of their total credit to SMEs in 2003. This reaffirms that their main interest is not with small clients, but with large clients, who almost exclusively receive their attention.

Geographically, foreign banks in Indonesia tend to focus on Jakarta, the only area in Indonesia that is considered economically viable, and where they expect to be able to make a profit. The ING Group is no exception to this rule, and has been conducting all its operations from its Indonesian headquarters in the capital Jakarta.

Until last year (2003), the ING Group was present in Indonesia with the following business units: ING Aetna Life Indonesia (providing individual insurance and corporate insurance and employee benefits), PT. ING Indonesia Bank, and PT. ING Securities Indonesia. It also had, and still has a representative office in Indonesia, which is simply called the ING Bank N.V. Representative Office. ING's headquarters in Indonesia are in Jakarta.

The recent history of ING in Indonesia has been turbulent. There has been a constant reorganisation involving acquisitions and sales of different financial services providers. The most important features and changes in ING's business units are described below.

2.1.1: PT. ING Indonesia Bank

The ING Indonesia Bank specializes in institutional and corporate banking, and does not provide retail banking services to private customers. Its clients are large corporations, like MacDonalds, Philips, Salim Group, Astra Internasional, Sinar Mas Group and PT Indosat Tbk. Because of this, compared to other foreign commercial banks, the ING bank does not have

¹¹⁹ Source: Business Watch Indonesia, based on InfoBank, Nr. 292 - August 2003, Vol.XXV.

¹²⁰ Source: 'Critical issues in the financial industry', SOMO financial sector report, 2004. Chapter 3: *The case of Indonesia*, Myriam vander Stichele.

many promotional activities aimed at making itself known to the larger public¹²¹. It could be questioned if this has been a wise strategy. While other banks in Indonesia, like HSBC and Citibank, who have focused on retail or individual banking, have grown rapidly after the economic crisis, ING Indonesia Bank's focus on corporate banking has made it difficult for the bank to grow.

Indeed, ING Indonesia Bank has not done well over the past few years. From June 2002 to June 2003, its total assets decreased by nearly 33% from 821 billion rupiahs to 551 billion rupiahs¹²². In both years, the division was making a loss, although less so in 2003 than in 2002: losses were brought down from 26 billion to 8 billion rupiahs during that period. According to inside sources, since August 2003 the ING Bank is no longer taking in any new customers. Rumours are that the bank will be closing down, if Dutch headquarters are not willing to eject new funds into the bank soon.

ING Indonesia Bank's CEO and Indonesian Countrymanager Irwan Habsjah has already confirmed that closing down the bank is part of the ING group's global strategy¹²³, since the Group wants to concentrate its efforts on the European market, especially the Eastern European one, and a small number of emerging markets. Several other branches of ING Bank in Asia (Bangkok, Vietnam), Africa (a representative office) and Latin America (five branches) have closed down already in 2003.

2.1.2: PT. ING Securities Indonesia

In 1994, Barings, a British investment bank, went bankrupt because of some bad derivative transactions by one of its investment managers, Nick Leeson. The following year, Barings was acquired by the ING Group, forming a brand new company called ING Baring Securities. In Indonesia, the company operated under the name ING Baring Securities Indonesia until 2002, when the division changed its name into PT. ING Securities Indonesia. Since August 2001, the ownership composition of the company has been 85% for ING Baring International and 15% for ING Indonesia Bank¹²⁴.

At the start of the new millennium, ING Securities Indonesia's financial performance was weak. While total assets stood at 49.6 billion in 2001 and at 64.1 billion in 2002, the company made a loss of 12.5 billion rupiahs and 8 billion rupiahs respectively in these years.

In February 2004, ING's equities sales, trading, research, and equity capital markets businesses in 10 Asian countries, including Indonesia, were taken over by the Australian

¹²¹ Source: Business Watch Indonesia report on ING Group, December 2003

¹²² Exchange rates averaged 9177 rupiahs to 1 U.S. dollar in 2002 and 8582 rupiahs to 1 U.S. dollar in 2003. Source: http://www.econstats.com/fx_aa5.htm

¹²³ Source: Business Watch Indonesia report on ING Group, December 2003

¹²⁴ Source: Business Watch Indonesia report on ING Group, December 2003

based Macquarie Bank¹²⁵. ING continued to offer equity derivatives, mergers and acquisitions advisory, debt capital markets and fixed income products, foreign exchange and treasury, structured finance and syndicated loans¹²⁶.

2.1.3: PT. ING Aetna Life Indonesia

The history of ING Aetna Life Indonesia has been even more problematic. The division came into being because in December 2000, the ING Group acquired the American insurers Aetna International and Aetna Financial Services. As a result of this 7.7 billion U.S. dollar takeover, the already existing companies ING Life Indonesia and Aetna Life Indonesia integrated into one single division in 2001, and the third Strategic Business Unit (SBU) of the ING Group in Indonesia was born.

However, the life insurance business in Indonesia did not turn out to be very profitable. Statistics show that the Indonesian insurance business has been stagnant for a while: in 1996, 10.6% of the population was insured, while four years later, in 2000, this number had only marginally increased to 11.9%. In Indonesia, life insurance does not seem to belong to the population's basic needs yet. This was one of the reasons why, over the year 2002, ING Aetna Life actually made a loss of 83 billion rupiahs, while total assets stood at 437 billion (over 45 million euros)¹²⁷.

From 2001 onwards several foreign insurers sold their business units in Indonesia and left the country, transferring their portfolios and customers to other insurance companies. In May 2002, ING Aetna Life Indonesia sold its non-life insurance activities to the Australian based company QBE Insurance Group. In this transaction, all 60 employees got to keep their jobs. The next year, in October 2003, the rest of the company was sold to Asuransi Jiwa Manulife Indonesia, a division of the Canadian financial services firm Manulife Financial Corp. The reason was that the ING Group wanted to focus on its core business in the region. Also, ING Aetna Life could not reach the desired position of market leader as quickly as it had hoped.

Bram Boon, the CEO of ING Aetna Life Indonesia, said in an interview with the Dutch financial newspaper *Het Financieele Dagblad* that “headquarters in Amsterdam took another look at the strategy of the company. It turned out that our activities in Indonesia no longer fit in our long term vision” and that “for the core activities of ING Insurance, the goal is that in any market, it has to be in a market leading position within a few years. For Indonesia we realised that this ambition cannot be achieved”. Also, “seeing the goal of

¹²⁵ Source: The Standard, ‘Banks chase shrinking pie’, February 9, 2004.

¹²⁶ Source: The Asian Banker Journal, ‘ING and Macquarie Bank discussed over sale of ING Asian equities business’. February 15, 2004.

¹²⁷ Source: Business Watch Indonesia report on ING Group, December 2003

belonging to the top 5 in Indonesia within three years, it would have been necessary to dramatically increase the volume. This is not achievable”¹²⁸.

Another, but related, reason to leave Indonesia was that the merger between ING and Aetna had left the company with too many employees, resulting in high salary costs, and that these employees, according to inside information, were not getting along well, because the former Aetna employees felt that the former ING employees were being treated better. Bram Boon affirms that the merger caused so much trouble with employees that ING Aetna Life could not make a profit¹²⁹.

When ING Aetna Life was sold in October 2003, all 2000 agents continued to work for the company, under its new owner. However, the 400¹³⁰ permanent employees were asked to resign ‘voluntarily’ (see paragraph 2.3.b). Manulife Indonesia was considering to re-employ part of this group.

In conclusion, there are currently about 40 ING employees left in Indonesia, running two strategic business units and the representative office. If ING Indonesia Bank is really to be shut down, this means only the representative office and PT. ING Securities Indonesia will continue to operate, further cutting down personnel to 5 to 10 employees.

2.2: Issue areas in the Indonesian financial sector

Most CSR issues that the financial sector runs into have already been briefly described in section 1.3 above. In that section, it was also explained what kind of initiatives large financial sector companies are taking to deal with these issues. But since most large banking and insurance companies are based in developed countries in the U.S., Europe and Asia, their CSR policies tend to view things from a western, advanced economy perspective. For instance, ING’s corporate social responsibility programme focuses on issues such as: how many women are in top positions, is enough attention given to employee training and personal development, does the company make enough efforts to reduce its own waste, etcetera. The table from the ‘ING in Society 2003’ report that was copied here on page 17 is exemplary.

Especially issues like stress, ergonomics, fitness and RSI prevention are typical for western service industry CSR policies. In developing countries like Indonesia, policies in these areas are appreciated, but are usually not considered as a priority. Because of weak national legislation and enforcement, CSR programs first have to cover basic ethical questions, such

¹²⁸ Source: Het Financieele Dagblad, ING verkoopt Indonesische verzekeraar aan Canadees, 23 October 2003, translation from Dutch by SOMO

¹²⁹ Source: Het Financieele Dagblad, ‘ING verkoopt Indonesische verzekeraar aan Canadees’, 23 October 2003.

¹³⁰ The exact figure is 395.

as how to avoid *corruption*¹³¹ in all levels of business, and whether or not the company is respecting basic *labour rights* such as the right to organize and the right to severance pay. Furthermore, because of the specific character of many developing countries' economies and economic sectors, CSR issues regarding *privatisation* and *environmental degradation* are often at the top of their CSR lists.

Corruption

Corruption issues in Indonesia are very complicated since the economy is ruled by powerful families and their friends, who become extremely rich while the rest of the population is basically standing at the sidelines. Almost every multinational operating in Indonesia is confronted with this national dichotomy and is easily accused of taking sides with the wealthy part of society. The same is true for ING, who has been financially involved in controversial projects controlled by the Suhartos and other upper class families like the Riady and the Salim families, who have repeatedly been accused of corruption.

It is a difficult question to what extent financial firms should be held responsible for the behaviour of their clients. However, there are a few things that multinational financial companies should definitely do (or not do) when operating in a country where corruption is widespread. For instance, financial firms should never accept any kind of gift or favour from their clients, whether before or after providing financial services to these clients. This is rule number one in ING's Business Principles. Financial firms should also avoid cooperating with or facilitating possible corrupt practices by their clients.

It is reasonable to ask financial firms to be aware of the reputation of their clients, and that they be very careful with helping those clients who are known to be corrupt. Just like environmentally unsound behaviour and human rights violations, corruption is a risk to financial firms in many ways. Getting involved with corrupt businessmen can damage their reputation and make the local population lose their confidence in their brand name. Corruption is also a big economic risk, since corrupt business practices are per definition characterised by a lack of transparency and accountability. When corruption is brought to the light, clients often find themselves in financial trouble¹³². Thus, company's like ING should not hesitate to withdraw from companies that it thinks are corrupt.

Finally, multinational financial firms should do their very best to make sure all their transactions, investments and involvements are transparent and can be accounted for. This is especially true for countries where corruption is a sensitive issue, like in Indonesia, where a lack of information will cause suspicion. Any type of business relation with the

¹³¹ ING has a quite extensive policy on corruption: the first and largest Business Principle deals almost exclusively with this topic. After recent financial scandals, good corporate governance has become a priority to ING's CSR policy.

¹³² For instance: the value of the shares of their company collapses, huge fines have to be paid, financiers pull out their investments etc.

corrupt elite or with controversial companies or projects may damage a financial firm's reputation in Indonesia, whether or not the business relationship implies direct responsibility of the financial firm for the actions of its clients.

The ING Group's CSR policy covers the issues of corruption, transparency and accountability in various ways. Besides the Business Principles, the WBCSD CEOs' and Chairmen's Statement, the Code of Conduct of the Dutch Association of Insurers, and the Tabaksblat Code contain provisions in the areas of corruption, transparency and accountability.

Labour rights

Labour rights in the financial services sector are generally okay, but if national legislation in this area is not enforced properly and companies do not have very clear standards on this topic but are just following national regulations, the position of employees can still be weak. In effect, it means that the implementation of labour rights is left over largely to local management. The ING Group so far has not committed itself to any ILO convention. A statement on human rights will be included in the course of 2004, this statement refers to the UN declaration on Human Rights, which contains also freedom of association. The 'ING in Society 2003' report does specify ING's stance on the matter; on page 22, it says:

"As an international company, ING has to take into account different local customs, laws and regulations. That is why labour relations and practices vary widely around the world. These differences include compensation, employee benefits, working hours, contract conditions and the role of labour unions".

This statement contains no specific promises to employees, except that local customs and laws will be respected. This does not seem excellent, top-of-the-list CSR policy, but it does seem fair. Knowing how many Compliance Officers and operational risk managers are working on assuring compliance with laws, regulations, the Business Principles and other commitments, one would expect there to be no problems.

But in reality, problems do arise. If basic labour rights are not explicitly guaranteed by multinational companies that operate in developing countries like Indonesia, local management can always find a way to get around them. This means western based headquarters should not be satisfied with promises by regional and local management that local laws and customs will be applied, but should actively investigate if labour rights are respected in practice. This process is made a lot easier if the company has its own internal minimum standards, that impose regulations on working hours, fair compensation, the right to form a labour union or another collective workers organization, etcetera. This way, a company can also make sure it satisfies international labour standards such as the ILO conventions in all its international business units.

From ING's official CSR commitments, only the Business Principles make reference to labour conditions. Principle 2 states that the Group is striving to offer its employees a safe working environment and market conform labour conditions. It also says ING rejects employee discrimination and mentions as part of ING's labour policy that it stimulates career development by offering training programs to its employees. The new Business Principle on Human Rights that will be added this year will entail a commitment to basic labour rights, such as the right to fair compensation and the right to form a labour union, as explained in section 1.3.1.

Privatisation

As to privatisation, this has been the cause of social unrest and major popular concern in many developing countries, including Indonesia. Commonly heard complaints are that multinationals are taking over economic and political control, are exploiting the population and are so powerful that they are always the winning party in negotiations, business transactions and conflicts with governments and government agencies. Over the past few years, enough evidence has been gathered on this topic to understand why local populations are at least afraid of, if not opposed to, multinationals operating basic services in their country.

For Indonesia, privatisation efforts really took off when Suharto, in his last year of presidency (1998), signed several documents committing Indonesia to IMF policies for economic reform. Economic deregulation and the privatisation of state owned enterprises (SOEs) were major promises the government made as part of the conditions for an IMF recovery package. On a national level, there was no stakeholder dialogue, and the government hardly made any efforts to explain the costs and benefits of privatisation to the public.

While privatisation efforts strengthened over the years, public resistance to privatisation also increased. Managers of state owned enterprises, local leaders, and employees of SOEs all tried to stop the privatisation process. Their main fears were that they would lose their jobs, and that foreigners would take over control over their land, basic services and lives. Local leaders were afraid newcomers would put an end to their vested interests in the local economy and political process. For the population, memories of colonialism made the takeover of national companies by foreigners a particularly sensitive topic. The poor feared price increases caused by price liberalisation that would threaten their ability to pay for basic necessities. Other issues were the complete lack of transparency of the whole reform process and the involvement of the IMF, that was thought to put its own interests (repayment of loans) before the interest of the Indonesian people¹³³.

¹³³ Source: Focus on the Global South: <http://www.focusweb.org/main/html/Article189.html>

The ING Group

The ING Group has not been involved with privatisation efforts in Indonesia: although several of its clients were privatised over the last few years, ING was not in charge with, nor was it involved as a financial advisor for, these privatisations. Financial services to firms such as Indosat, Bank Central Asia, and Lippobank were only provided before or after their privatisation, and therefore ING does not carry responsibility for these privatisation processes or their effects on society.

Privatisation is an issue which is not covered by any official ING CSR policy documents. The Business Principles do mention that the ING Group believes that a competitive market economy is the most effective economic model. It can therefore be expected that ING is generally supportive of privatisation efforts, as long as they are in line with national and international regulations and apply basic standards of transparency and accountability.

Environmental degradation

Finally, environmental issues are extremely important for countries that rely on the export of natural resources, like most developing countries do. The cases of the Indonesian oil palm industry and the paper and pulp industry provide an example of why this is the case. The exploitation of natural resources in these and many other industries has resulted in the depletion of resources, the loss of biodiversity, health risk for the local population, economic loss for the local population, and many other problems. A bank that is involved in financing such industries should not be surprised when it meets public resistance from the local and international society. In fact, any link with unsustainable economic activities is a significant reputation risk for the bank involved.

Of all CSR issues that are important to developing countries, the environment/sustainability is covered best in ING's CSR commitments. Business Principle number three states that ING is committed to preserving the environment and to reducing its own environmental impact. Moreover, the ICC Charter for Sustainable Development, the CEOs' and Chairmen's Statement of the WBCSD Working Group Finance, the internal CSR statements, the Code of Conduct of the Dutch Association of Insurers and the Equator Principles all contain commitments on preserving the environment and on promoting sustainable economic activity.

2.3: Research data on ING's CSR practice in Indonesia

Every year, the ING Group holds internal corporate social responsibility surveys amongst its own business units. Only fully owned subsidiaries with more than 100 employees receive the questionnaire. In 2002, the survey was completed by 44 business units in 23 countries, representing about 90% of ING's employees worldwide. In 2003, the survey was completed by 57 business units in 28 countries, again representing about 90% of all employees. However, none of the Indonesian units completed the survey. According to ING's

headquarters in the Netherlands, ING Aetna Life Indonesia received the survey in 2002 but did not respond.

In any case, ING's survey only contains questions on advanced economy CSR issues like customer satisfaction, charitable and sponsoring activities, and in-house environmental programs. For assessing CSR policy in Indonesia, it might be useful also to look at CSR from a developing country perspective. This is exactly what Business Watch Indonesia (BWI) has done in the fall of 2003.

Methodology

BWI is a relatively new Indonesian NGO that was established in September 2002 in Solo, Central Java. With its research reports on companies and economic sectors, BWI tries to provide the necessary input for a public discussion on corporate social responsibility. The ultimate aim of BWI is to move the Indonesian economy towards more democratic governance.

For its research on the ING Group, BWI combined desk research with several interviews. Apart from indirect sources like local bank analysts, observers, and social analysts, BWI also contacted Mr. Irwan Habsjah, CEO of ING Indonesia Bank and Countrymanager for Indonesia, several times. Additionally, anonymous interviews were conducted with three ING Aetna Life employees and one former ING Securities manager in October 2003. BWI did not try to contact Mr. D. Hudson, Head MC Asia. Besides its own researchers, BWI made use of its contacts with the Indonesian media, and asked four journalists from Indonesian economic newspapers / magazines to help collect data on the ING Group.

As to the contact with Mr. Habsjah, BWI tried to contact him on numerous occasions via the telephone and through the internet in the fall of 2003 (starting September 2003). However, Mr. Habsjah did not want to talk to BWI. In November 2003, the Director of BWI was introduced to Mr. Habsjah in person by a befriended journalist, but Mr. Habsjah refused to talk to him, he made clear that he was familiar with the critical articles of BWI and did not want to make an appointment for an interview¹³⁴.

In the end, SOMO contacted ING's headquarters in the Netherlands with questions about ING's activities in Indonesia¹³⁵. ING representatives were asked to comment on BWI's

¹³⁴ At the meeting between SOMO and ING in May 2004, ING said that SOMO was given the opportunity to talk with Mr. Habsjah and Mr. Hudson. SOMO should have used its contacts with the Dutch headquarters to get in touch with Mr. Habsjah. SOMO, however, thinks that local NGO's like BWI also should have access to the Countrymanager and other ING representatives in Indonesia without the help of Dutch-based organisations. The idea behind the research was that SOMO would investigate the ING Group in general and BWI would do its own research on ING in Indonesia, so that the results of their investigation could later on be incorporated in this report.

¹³⁵ SOMO researcher Irene Schipper contacted the following people: e-mails were sent to Miriam de Wolff (Manager of Public Affairs) on 7 October 2003 and 22 March 2004, and Arnaud Cohen Stuart

research data and to answer some remaining questions regarding the sale of ING Aetna Life. Headquarters were generally cooperative, and in the end answered all of our questions in letters, e-mails and in a final meeting that took place in ING's headquarters in Amsterdam.

BWI's research provides some insight into the problems surrounding the sale of ING Aetna Life in the fall of 2003. The results of the research were as follows:

Research results

In recent years, there have been some problems with the ING Group in Indonesia that started when ING Life Indonesia and Aetna Life Indonesia integrated into one single division in July 2001. ING Aetna Life Indonesia took over all of Aetna Life's employees, who continued working for the insurance company. According to BWI, within two years, 50% of these employees said they preferred quitting from the company because they felt former ING Life employees were treated better¹³⁶. During our meeting with ING representatives in the Netherlands, Mr. Cohen Stuart said he found the discontent among former Aetna Life employees unlikely, because a large part of the new management of ING Aetna Life consisted of former Aetna personnel¹³⁷.

BWI's inside sources said that in 2003, 25 to 30 former Aetna employees intended to have a demonstration because of ING Aetna Life's policy on permanent employee appointment, where former ING employees were often preferred to former Aetna personnel. However, management put pressure on the workers not to take action and the demonstration was cancelled in July 2003. In the end, only 5 or 6 people demonstrated.

Afterwards, employees filed a complaint to the responsible Compliance Officer. The specific problem they put on the table was that promotions seemed to depend not on performance but on whether or not the employee in question was liked or disliked by his or her direct employer. One example was that someone who had been contracted for 3 years was laid off while his manager hired someone else from Lippobank who had no insurance skill background. The manager himself had worked at Lippobank before.

(Corporate Communication and Strategy / Public Affairs) on 29 April 2004 and 12th of May 2004, with reminders sent on 7 May and 26 May 2004. Ms. de Wolff replied in an e-mail on 13 October and in a letter on 15 April. Mr. Cohen Stuart send one of the internal documents SOMO asked for with a letter dated 2 June 2004. In an e-mail from that same day, he briefly explained the CSR statement for palm oil plantations and the paper and pulp industry. Mr. Cohen Stuart was also interviewed over the phone on 19 March, 12 May and 3 June 2004.

¹³⁶ Interviews with ING Aetna Life personnel were conducted by BWI three times in October 2003.

¹³⁷ Source: SOMO meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

Also, ING Aetna Life Indonesia personnel felt that they were not allowed to organize themselves in a workers union. If anyone proposed the idea of forming an employee association, he or she would suffer from pressure by his or her direct manager to abandon the idea, for instance promotion would get delayed. ING headquarters in the Netherlands, however, assure that employees do have the right to organise themselves whatever way they want.¹³⁸

According to BWI, soon after the Compliance Officer had reported these complaints to the regional office of ING Asia Pacific, he got fired himself. This is not true according to ING headquarters. After some internal research, ING affirmed that the Compliance Officer had left the firm, but at his own request and ten months after he had officially filed the complaints. The complaints were put in a report that had been read, and was approved of by the CEO of ING Aetna Life, Bram Boon¹³⁹.

Another issue arose in the fall of 2003 when it became clear that ING would sell ING Aetna Life Indonesia to Manulife Indonesia. According to BWI's research, there was never an open discussion within the company on what would happen to the company's 400 employees. Instead, management had meetings with 20 employees at a time, presenting them with resignation papers and asking them to sign. However, ING headquarters paint an entirely different picture. They say a general meeting was held just a few days after the sale of ING Aetna had been publicly announced. During this meeting, personnel was explained what would happen with the company and its employees. In the following days, groups of twenty employees were called together in smaller meetings to further explain the procedures of dismissal and to clarify any questions they had regarding their future. They received the resignation letter two weeks later, and were given another two weeks to sign it, leaving enough time for them to make an informed decision¹⁴⁰.

According to Dutch standards, the resignation letter contained the following unusual paragraphs:

(§7) *"I agree to release and forever discharge the Company and its directors, commissioners, officers, managers, employees and shareholders from all liabilities, legal actions, suits, debts or claims in whatever form which I have or may have as an employee of the Company arising directly or indirectly from my employment with or resignation from the Company"*¹⁴¹.

¹³⁸ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

¹³⁹ It is not clear if ING headquarters were aware of the complaints before SOMO asked them about it, what the exact complaints were, and in what way the problems have been addressed at that time.

¹⁴⁰ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

¹⁴¹ Resignation letter, italics added

(§8) “I agree not to disclose to any third party any confidential, privileged or non public information regarding the Company or its business activities, *including but not limited to the contents of this letter*”.

(§10) “*I hereby state that I have signed this resignation letter without any duress or intimidation from any party. I have executed this resignation letter with full knowledge and understanding of its contents and its consequences. I shall not revoke my resignation for any reasons whatsoever*”.

According to BWI, when an employee asked what would happen if he did not sign the letter, management said that he would receive a 25-30% cut in his severance pay if he refused to sign before November 30 (2003). This meant the employee in question (3.5 years of working at ING Aetna Life Indonesia) would not get the full 60 million rupiahs (about 7,000 U.S. dollars) , but only 45 million rupiahs. The 25-30% cut mentioned, is true according to ING headquarters. Mr. Cohen Stuart explained that, since ING’s insurance division was leaving the country altogether, it wanted to resolve the issue quickly and to the satisfaction of all parties involved. Therefore, it offered ING Aetna employees a very generous severance scheme, that was well above the minimum package required by local law. The proposed cut in severance pay was meant to speed up the process and induce quick consent from employees. Even if a cut was applied, the employee would still get much more money than what was required by law. According to ING this practice is by no means illegal¹⁴².

From BWI’s report, it seems that the resignation letter caused a lot of confusion for some employees, because the criteria in the letter were not explained to them. The whole process happened very quickly: the takeover by Manulife Indonesia was denied by Bram Boon, the president director of ING Aetna Life, even in late September 2003, while the acquisition would take place only a month later¹⁴³. When it became clear that all employees would get fired, rumours were that ING was meeting employees 20 at a time to prevent them from using their collective bargaining power to get a better deal. Some employees also believed that their management was approaching people individually to resign to avoid a large scale demonstration that could be heard of by ING headquarters in the Netherlands. ING headquarters say the first insinuation was definitely not the case because the severance pay was in fact very generous, and the second insinuation is also not true, because it is simply prohibited by Indonesian law to fire workers collectively; it can only be done individually¹⁴⁴.

¹⁴² Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

¹⁴³ Bram Boon in response to an article in Tempo Magazine, which announced the takeover by Manulife Indonesia. Source: BWI

¹⁴⁴ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

ING Aetna Life personnel was made redundant in a phased manner. This means that even if employees had signed their resignation letter on the 30th of November, they were free to continue working for the company under the new owner Manulife. This way, employees would get the chance to prove their worth to Manulife, who might be interested in hiring them. ING headquarters did not know how many workers were hired by Manulife, and they also did not know how this transition process went in practice¹⁴⁵. For instance, what happened to employees who decided to stay with Manulife to try their luck but were dismissed anyways? Did they get a temporary contract in the meantime? How much time was given to them to show their talent?

When asked about §8 of the resignation letter, which says that employees may not show the letter to any third party, ING headquarters in the Netherlands responded in a letter to SOMO that employees *were* allowed to discuss the contents of the letter and actually did. According to the company's own information, several workers took their resignation letter to a lawyer of good reputation, who looked at the conditions and advised them to sign, because they could probably not have gotten a better deal anywhere else¹⁴⁶. This was confirmed during the meeting between ING and SOMO. The question remains, then, why employees were asked to sign a letter which includes such a secrecy clause.

In the end, all 400 employees of ING Aetna Life Indonesia resigned from ING. According to an anonymous informant to BWI, many of them felt they were forced to resign. When signing the letter, three witnesses had to confirm their resignation and the letter was sealed with a 6000 rupiah stamp¹⁴⁷. This fact, plus the three above mentioned paragraphs in the letter, the short notice period, and the threats by management to cut on separation pay, made that many employees felt very uncomfortable with the whole resignation procedure.

In its comments on the resignation procedures in Indonesia, ING headquarters stressed that both the resignation letter -which was written by local lawyers- and the practical procedures followed were in line with Indonesian law, and that ING had not strictly applied paragraph 7 and 8 in practice. Paragraph 7, 8 and 10 were merely included in such severe words to avoid future legal problems. ING lamented the problems the merger of ING with Aetna caused, one of them being a surplus of employees¹⁴⁸.

Mr. Cohen Stuart told us that paragraph 7 does not mean that employees are not allowed to take ING to court. Whatever document they may have signed, employees are always free to bring a case against the ING Group. The fact that no employee has taken such steps

¹⁴⁵ Source: Meeting SOMO with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

¹⁴⁶ Source: letter from Ms. Miriam de Wolff to Irene Schipper from SOMO, 15 April 2004

¹⁴⁷ Which is in accordance with legal requirements, according to the ING, meeting SOMO with Mr. Arnaud Cohn Stuart, 3 September 2004.

¹⁴⁸ Source: Meeting SOMO with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

only proves that employees were generally satisfied with the dismissal procedure and the severance scheme offered¹⁴⁹.

SOMO suspects that the layoff of all employees was a buying condition from Manulife, which was included in the contract between the two companies. Reason for this might have been that Manulife wanted to avoid the trouble with personnel that ING Aetna had had after its own merger. ING's representatives further declined to comment on this.¹⁵⁰

According to ING, it is unfortunate but unavoidable that employees only heard about the sale plans after the deal was closed. This is the same for all companies in all industries. ING thinks it has informed employees as quickly as possible about the sale, and has given them a reasonable time span of four weeks to resign, including two weeks to review the letter¹⁵¹.

ING headquarters are surprised to hear the complaints from the report by Business Watch Indonesia. Their version of the ING Aetna story is in many ways the complete opposite of what BWI comes up with. For instance, ING says that its understanding was that the ING Aetna personnel were very satisfied with their severance schemes. One employee was quoted as having said that "ING has set a new standard for resignation pay"¹⁵².

The research on the resignation process in October and November 2003 ends up in two different stories. SOMO thinks that the dismissal procedure was probably legal, but is still uncomfortable with some aspects of the way the sale was handled.

To SOMO's opinion, it is not a usual procedure at a company sale, to agree with the buyer to dismiss all personnel on beforehand, and to hand over an 'empty' company without employees. The Dutch labour unions CNV and FNV have never heard of such a procedure either¹⁵³. Though this procedure might be legal, we do not think this is a desirable practice. Even if the employees are offered a chance to prove themselves to a new employer, as was the case for ING Aetna personnel, their workers rights are very weak under such a construction. It gives the new owner the possibility to change permanent contracts into temporary contracts, if they are offered a new contract at all. The ING was at first not acquainted with the number of personell who indeed got a new contract of Manulife. But further investigation by ING Headquarters tells us the following: Half of the people continued working for another 6 months, at the moment (September 2004) 20% is still employed by Manulife and most of these will be offered a fixed contract.¹⁵⁴

¹⁴⁹ idem meeting SOMO/ING

¹⁵⁰ idem meeting SOMO/ING

¹⁵¹ In total 4 weeks, but two weeks after receiving the resignation letter. idem meeting SOMO/ING

¹⁵² Idem, quote from Mr. Arnaud Cohen Stuart.

¹⁵³ Reaction by telephone of Mr. Leo Vlek, FNV Bestuurder ING and email correspondence of June 29 2004 and July 5 2004, of Mr. Erik Langeweg, CNV Bestuurder ING.

¹⁵⁴ Meeting SOMO / ING September 3, 2004.

SOMO can imagine that employees felt pressured to sign the resignation letter. After all, it took ING only 5 weeks to dismiss all its 400 employees, which is very efficient. Employees did sign the statement that: there was not any ‘*any duress or intimidation from any party*’, but a 25-30% cut in the severance pay (‘or inability to receive the 30% increase’, as the ING formulates it) if one refused to sign within two weeks, which is a short period of time, can be regarded as duress practised by the ING. Which means that the signing does not comply with reality.

In the report “ING in Society 2003”, the ING says that in cases of redundancy, ING’s policy is to engage in a consultation period, during which potential alternatives are sought¹⁵⁵. Two weeks time is very short for such a consultation period. It says that it also offers the services of an outplacement provider as an additional aid to assist employees to find new employment. None has mentioned that such an offer took place, but it hasn’t been investigated either.

Another criticism of SOMO has to do with the general strategy of the ING Group, that has had big consequences for the ING Aetna business unit in Indonesia. In total, ING operated insurance activities in Indonesia for 5 years only¹⁵⁶. After the merger with Aetna Life, ING Aetna Life Indonesia was given nearly three years to become a profitable business and to reach the top 5 of the largest Indonesian insurance companies. As soon as it became clear that ING Aetna would not become profitable in the short run, the business unit was closed, a decision based on the long-term vision of ING. Resulting in many of 400 employees losing their jobs. In their comments on the sale of ING Aetna Life, ING representatives said that they find such measures ‘very unfortunate’, but really inevitable¹⁵⁷. In reality, such a measure is a logical consequence of ING’s corporate strategy, which does not have an inevitable character at all, but is the result of a conscious decision.

The speed at which reorganisations, mergers and sales in Indonesia occurred ended up is having a destabilising effect on the lives of many employees. The ING Group did not show a long-term commitment to its insurance activities in Indonesia, which is a prerequisite for any type of business to have a beneficial effect on the society in which it operates. Instead of presenting the sale of ING Aetna as a typical case of “such is life”, the ING Group could think about taking a different approach to new business opportunities, in which a commitment to long-term business relations is the starting point. Or, in the words of former CEO Ewald Kist:

“[As a company, you should] try to develop a country with your presence”¹⁵⁸.

¹⁵⁵ page 24, ING in Society.

¹⁵⁶ Source: Het Financieele Dagblad, ING verkoopt Indonesische verzekeraar aan Canadees, 23 October 2003

¹⁵⁷ Source: Meeting with Ms. Miriam de Wolff (Manager Public Affairs) and Mr. Arnaud Cohen Stuart (Corporate Communication & Strategy / Public Affairs), 29 June 2004

¹⁵⁸ Source: Fem de Week, ING: Het spijt me, maar we zijn geen soft cluppie, 21 December 2002

2.4: Conclusion part 2

In Indonesia, ING has indeed respected both local and international regulations and its own internal CSR standards, as far as SOMO can conclude from putting the research of BWI together with information from ING's headquarters in Amsterdam. The BWI research was rather critical of ING's operations in Indonesia, including on the four topics that are important CSR issues in developing countries (corruption, privatisation, labour rights, and the environment). There were many suggestions of unethical behaviour on the part of ING Indonesia, but hard proof was missing.

Transparency about ING's operations in Indonesia was generally lacking. Countrymanager Irwan Habsjah was not open for a discussion with BWI, fearing they were too critical. Employees only agreed to be interviewed under the strict condition that their names would not be revealed. Because of the lack of inside information, it was hard for BWI to get an adequate picture of ING Indonesia's CSR policy and practice, and to verify the information they got from external sources.

As said before, SOMO thinks that local NGO's should be able to do their own research without the help of their Dutch colleagues. Local management should therefore be more willing to cooperate and engage in stakeholder dialogue without interference from Dutch headquarters. Local CSR issues can and should be solved locally as much as possible.

There is not yet a good picture of how the sale of ING Aetna Life affected employees. A survey among a large number of former employees could possibly clarify if they were indeed satisfied with the generous severance scheme, as ING says, or if they perceived the dismissal procedure as confusing and in violation of their basic labour rights, as BWI suggests. Did employees feel free to consult third parties? Did they feel intimidated by management to sign the resignation letter? Did they feel they had the option to sue ING if they were not satisfied with the dismissal procedure? And, before October 2003, did employees feel free to organise themselves in a labour union? The answers of ING headquarters to all these questions are the complete opposite of the findings of the BWI research, and therefore we do not think it is possible to draw any conclusions about the reality at this stage.

SOMO

Centre for Research on Multinational Corporations

Irene Schipper and Stéphanie van de Wiel

Keizersgracht 132
1015 CW Amsterdam
Tel: +31 (0)20 639 12 91
Fax: +31 (0)20 639 13 21

info@somo.nl

www.somo.nl

Annex 1: ING Group Business Principles

1. Personal Conduct

ING expects the highest levels of personal conduct by all its employees, whatever their position. It is acknowledged that all effective business relationships, inside as well as outside the Group, depend upon honesty, integrity and fairness.

While it is recognised that limited corporate hospitality is given and received as part of building normal business relationships, employees should avoid accepting hospitality or gifts which might appear to place them under an obligation.

Bribery of any form is unacceptable. No undeclared offers or payments will be accepted or solicited by ING employees, or made by ING employees to third parties, and employees are required to avoid any contacts that might lead to, or suggest, a conflict of interest between their personal activities and the business of the Group or create an appearance of conflict of interest.

ING expects all its employees to respect the rule of law and abide by applicable laws and regulations. Furthermore, ING employees are expected to avoid doing business with any individual, company or institution if that business is connected with activities which are illegal or which could be regarded as unethical.

All employees are expected to handle information with care. In particular, the confidentiality of all proprietary information and data processing should be safeguarded in accordance with applicable laws and regulations. Proper and complete records must be made of all transactions on behalf of ING.

ING employees may not enter into - and must avoid the appearance of engaging in - securities transactions based upon insider trading or misuse of confidential information.

2. Employee Relations

Relationships with employees in all parts of ING are based upon respect for the individual. The Group aims to provide all its employees with safe conditions of work, and competitive terms of employment. ING is committed to equal opportunities and the avoidance of discrimination. Sexual or racial harassment is unacceptable. Personal career development will be encouraged through progressive personnel and training arrangements.

3. Environment

ING recognises that certain resources are finite and must be used responsibly. Therefore, it pursues a two-pronged, internal and external, approach designed to promote environmental protection. Its external policy is aimed at anticipating developments in the environmental field related to commercial services and the professional management of environmental risks. Internally, the policy is aimed at controlling any environmental burdens caused by ING itself.

4. International Operations

As an international financial services provider, ING operates within the context of foreign laws and regulations, and with corporate and private customers from a range of backgrounds and cultures. It is important, therefore, that ING respects diverse cultures, while maintaining adherence to these Business Principles.

ING is committed to respecting the rule of law. The prime consideration is that ING is a commercial organisation and its activities are therefore business orientated. ING does not intervene in political or party political matters. Nor does it make gifts or donations to political parties. However within the legitimate role of business ING reserves the right - after careful consideration - to speak out on matters that may affect its employees, shareholders or customers.

5. Communications & disclosures

Within the bounds of commercial confidentiality, ING places the greatest importance on open and transparent communications with its customers, employees and shareholders, as well as society at large.

ING makes every effort to ensure full, fair, accurate, timely and understandable disclosure in reports and documents that it files with, or submits to its regulators and in other public communications ING makes.

6. Community Relations

Wherever ING operates, it recognises that good relations with its local communities are fundamental to its long-term success. The Group's community relations policy is founded upon mutual respect and active partnership, aimed at sustaining lasting and trusting relationships between the Group's operations and local communities.

Cultural, sport and environmental activities are a central part of ING's community relations policy, and individual employees are encouraged to play a positive role in community activities.

7. Economic Policy

As a commercial organisation, ING believes that it must provide an adequate return for its shareholders. It supports a market economy as the most effective means of achieving the best returns for its customers, investors and employees, as well as for the countries and territories where it operates. Criteria for credit and investment decisions are primarily economic and, while respecting the wishes of clients, also take into account a range of social and environmental considerations.

8. Competition

ING recognises the many benefits of a competitive environment. However the best markets flourish only within an ethical framework, and no one in ING is permitted to disparage a competitor, or to use unethical means to obtain any advantage for ING.

Any changes or waivers of these Business Principles will, to the extent required, be promptly disclosed as required by applicable laws, rules and regulations.

February 2004

Source: ING website, last consulted on 4/6/2004

[http://www.ing.com/ing/contentm.nsf/attid/6898619C3C4A8E86C1256E6E0044D203/\\$FILE/ING%20Business%20Principles%20EN.pdf?OpenElement](http://www.ing.com/ing/contentm.nsf/attid/6898619C3C4A8E86C1256E6E0044D203/$FILE/ING%20Business%20Principles%20EN.pdf?OpenElement)

Annex 2: The Equator Principles

We will only provide loans directly to projects in the following circumstances:

1. We have categorised the risk of a project in accordance with internal guidelines based upon the environmental and social screening criteria of the IFC as described in the attachment to these Principles (Exhibit I).
2. For all Category A and Category B projects, the borrower has completed an Environmental Assessment (EA), the preparation of which is consistent with the outcome of our categorisation process and addresses to our satisfaction key environmental and social issues identified during the categorisation process.
3. In the context of the business of the project, as applicable, the EA report has addressed:
 - a) Assessment of the baseline environmental and social conditions;
 - b) Requirements under host country laws and regulations, applicable international treaties and agreements;
 - c) Sustainable development and use of renewable natural resources;
 - d) Protection of human health, cultural properties, and biodiversity, including endangered species and sensitive ecosystems;
 - e) Use of dangerous substances;
 - f) Major hazards;
 - g) Occupational health and safety;
 - h) Fire prevention and life safety;
 - i) Socioeconomic impacts;
 - j) Land acquisition and land use;
 - k) Involuntary resettlement;
 - l) Impacts on indigenous peoples and communities;
 - m) Cumulative impacts of existing projects, the proposed project, and anticipated future projects;
 - n) Participation of affected parties in the design, review and implementation of the project;
 - o) Consideration of feasible environmentally and socially preferable alternatives;
 - p) Efficient production, delivery and use of energy;
 - q) Pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management.

Note: In each case, the EA will have addressed compliance with applicable host country laws, regulations and permits required by the project. Also, reference will have been made to the minimum standards applicable under the World Bank and IFC Pollution Prevention and Abatement Guidelines (Exhibit III) and, for projects located in low and middle income countries as defined by the World Bank Development Indicators Database, the EA will have further taken into account the then applicable IFC Safeguard Policies (Exhibit II). In each case, the EA will have addressed, to our satisfaction, the project's overall compliance with (or justified deviations from) the respective above-referenced Guidelines and Safeguard Policies.

4. For all Category A projects, and as considered appropriate for Category B projects, the borrower or third party expert has prepared an Environmental Management Plan (EMP) which draws on the

conclusions of the EA. The EMP has addressed mitigation, action plans, monitoring, management of risk and schedules.

5. For all Category A projects and, as considered appropriate for Category B projects, we are satisfied that the borrower or third party expert has consulted, in a structured and culturally appropriate way, with project affected groups, including indigenous peoples and local NGOs. The EA, or a summary thereof, has been made available to the public for a reasonable minimum period in local language and in a culturally appropriate manner. The EA and the EMP will take account of such consultations, and for Category A Projects, will be subject to independent expert review.

6. The borrower has covenanted to:

- a) Comply with the EMP in the construction and operation of the project;
- b) Provide regular reports, prepared by in-house staff or third party experts, on compliance with the EMP, and;
- c) Where applicable, decommission the facilities in accordance with an agreed Decommissioning Plan.

7. As necessary, lenders have appointed an independent environmental expert to provide additional monitoring and reporting services.

8. In circumstances where a borrower is not in compliance with its environmental and social covenants, such that any debt financing would be in default, we will engage the borrower in its efforts to seek solutions to bring it back into compliance with its covenants.

9. These principles apply to projects with a total capital cost of \$50 million or more.

The adopting institutions view these principles as a framework for developing individual, internal practices and policies. As with all internal policies, these principles do not create any rights in, or liability to, any person, public or private. Banks are adopting and implementing these principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

Exhibit I: Environmental and Social Screening Process

Exhibit II: IFC Safeguard Policies

Exhibit III: World Bank and IFC Specific Guidelines

Source: Equator Principles website, last consulted on 4/6/2004

<http://www.equator-principles.com/principles.shtml>

Annex 3 : CSR statement on Deforestation

Dated 21 December 2001.

Dutch title: Beleid duurzaam ontbossing/houtkap.
(Policy sustainable deforestation/logging)