

AEGON

Overview of controversial business practices in 2008

Maike Kokke

AEGON

**Overview of controversial
business practices in 2008**

Maike Kokke

Amsterdam, April 2009

Colophon

AEGON

Overview of controversial business practices in 2008

April 2009

By: Maaïke Kokke

Cover Design: Annelies Vlasblom

Funding

This publication is made possible with co-funding from the Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO)

Published by



Stichting Onderzoek Multinationale Ondernemingen
Centre for Research on Multinational Corporations

Sarphatistraat 30

1018 GL Amsterdam

The Netherlands

Phone: + 31 (20) 6391291

E-mail: info@somo.nl

Website: www.somo.nl

This document is licensed under the Creative Commons Attribution-NonCommercial-NoDerivateWorks 2.5 License.

Introduction

This company report has been prepared by SOMO (Centre for Research on Multinational Corporations). It provides an overview of business practices that could be regarded as unsustainable or irresponsible which occurred (or might have been addressed) in 2008.

The overview below describes only controversial practices and not the positive achievements of a company in the same year. Information on positive achievements can usually be found in a company's annual and/or sustainability report and on the company's website. The purpose of this report is to provide additional information to shareholders and other stakeholders of a company on controversies that might or might not be detected and reported by the company itself.

This report does not contain an analysis of a company's corporate responsibility policies, operational aspects of corporate responsibility management, implementation systems, reporting and transparency, or total performance on any issue. For some controversies, it is indicated which standards or policies may have been violated and a brief analysis is presented. Apart from this, the report is mainly descriptive.

The range of sustainability and corporate responsibility issues eligible for inclusion in this overview is relatively broad and mainly based on the OECD Guidelines for Multinational Enterprises. These Guidelines are used as a general frame of reference in addition to the company-specific standards.

Sources of information are mentioned in footnotes throughout the report. The main sources were obtained through SOMO's global network of civil society organisations, including reports, other documents, and unpublished information. Media and company information databases and information available via the Internet are used as secondary sources where necessary. Aegon has been informed about the research project in advance and was given two weeks to review the report and provide corrections of any factual errors in the draft version.

The overview of controversial practices in this report is not intended to be exhaustive. Instead, it focuses on a limited number of issues and cases that might merit further attention or reflection. Where information about the latest developments, either positive or negative, was unavailable, it is possible that situations described in the overview have recently changed. Taking into account these limitations, SOMO believes that the report can be used for improvement and for a more informed assessment of a company's corporate responsibility performance.

For more information, please contact SOMO:

SOMO (Centre for Research on Multinational Corporations)
Sarphatistraat 30, 1018 GL Amsterdam, The Netherlands

Tel. +31 (0)20 6391291
Fax +31 (0)20 6391391
e-mail: info@somo.nl
website: www.somo.nl

Company overview

AEGON is one of the world's largest life insurance and pension groups, and a provider of investment products. Accounting for over 50% of the earnings of Aegon, the largest line of business is offering life insurances and other insurance products such as accident and health cover. Other lines of business are individual savings & retirement products, pensions and asset management, institutional products such as guaranteed investment contracts and funding agreements to banks, pension funds, municipalities and private companies, life reinsurance and general insurances such as car, liability, household insurance and fire protection. Products are sold through the Group's distribution network, which includes direct marketing, agents, banks, brokers, independent financial advisors and other partners.¹ In 2008, AEGON's earnings were severely affected by the global financial crisis. Earnings before tax declined 40% to EUR 1.57 billion.²

Table 1: Earnings overview AEGON

Lines of business	Earnings before Tax (EUR million)	
	2008	2007
Life and Protection	911	1,295
Individual Savings and Retirement Products	(146)	496
Pensions and Asset Management	508	498
Institutional Products	405	332
Life Reinsurance	(63)	114
General Insurance	45	47

Source: AEGON Annual Report 2008

With headquarters in The Hague, the Netherlands, Aegon's is active in over twenty markets throughout the Americas, Europe and Asia, with major operations in the United States, the Netherlands and the United Kingdom. The cases described in this report refer to Aegon in the United States and in the United Kingdom.

AEGON's operating companies in the United States are grouped together under a single financial services holding company, AEGON US Holding. Business is conducted through subsidiaries of two companies: AEGON USA Inc. and Commonwealth General. AEGON USA's primary subsidiaries include:³

- ❑ Transamerica Life
- ❑ Transamerica Financial Life
- ❑ Merrill Lynch Life
- ❑ Merrill Lynch Life Insurance Company of New York
- ❑ Monumental Life
- ❑ Stonebridge Life
- ❑ Stonebridge Casualty
- ❑ Western Reserve Life

¹ Aegon website, About Aegon, <<http://www.aegon.com/base/Templates/Standard.aspx?id=26&epslanguage=en>> (March 2009).

² Aegon Annual Report 2008, <http://www.aegoncorporatereporting.com/annualreport/userfiles/pdf/aegon_ar08_complete_report.pdf> (March 2009).

³ Ibid.

AEGON USA companies are present in five lines of business:

- ❑ Life and protection products
- ❑ Individual savings and retirement products
- ❑ Pensions and asset management
- ❑ Institutional products
- ❑ Life reinsurance

AEGON UK is AEGON's principal holding company in the United Kingdom. It was registered as a public limited company at the beginning of December 1998. AEGON UK's leading operating subsidiaries are:

- ❑ Scottish Equitable (trading as AEGON Scottish Equitable)
- ❑ AEGON Asset Management UK
- ❑ Origen Financial Services
- ❑ Positive Solutions (Financial Services)
- ❑ HS Administrative Services
- ❑ Guardian Assurance

AEGON UK has three lines of business:

- ❑ Life and protection products
- ❑ Pensions and asset management
- ❑ Distribution

Investment Issues

AEGON Ethical Equity Fund

AEGON Asset Management is a UK based fully owned subsidiary of Aegon that manages around £42 billion of assets in the UK. It offers private investors three ethical funds:⁴

- ❑ Ethical Cautious Managed Fund
The objective of this fund is to provide a combination of income and long term capital growth by investing in a range of UK equities, bonds and cash, which meet the fund predefined ethical criteria. Equities will be limited to a maximum of 60% of the portfolio value at all times.
- ❑ Ethical Corporate Bond Fund
The primary investment objective of the Ethical Corporate Bond Fund is to maximise total return by investing in Sterling denominated bonds issued by a company or organisation which meets the fund's predefined ethical criteria. Investments may encompass investment grade corporate bonds, cash and up to 10% of the fund in high yield bonds.
- ❑ Ethical Equity Fund
The AEGON Ethical Equity Fund is a fund of which the primary investment objective is to maximise total return by investment in equities and equity type securities in companies based in the UK, principally conducting business in the UK or listed on the UK stock market which meet the fund's predefined ethical criteria. The fund primarily has assets in industrial companies, financial institutions, and in energy companies.

AEGON screens this three ethical funds as follows: "We operate a stringent ethical screening process, which screens out those companies that do not meet our strict ethical criteria."⁵ The screening process contains ethical criteria on 12 subjects; animal welfare, military, nuclear power, environment, political donations, genetic engineering, gambling, alcohol, tobacco, pornography, banks and oppressive regimes. The criterion with regard to oppressive regimes consists of two aspects, explaining that AEGON's ethical funds don't invest in companies that:⁶

1. operate in countries with poor human rights records
2. have no established management policies on human rights issues

This criterion is rather general but after making inquiries at AEGON, the company gave the following additional information about the definitions of 'operate' and 'poor human rights records':⁷

We don't have an exact definition for 'operate'. But in our analysis, we pay close attention to the nature of a company's operations when assessing possible risks. In the mining sector, for example, we would make a distinction between 'production' & 'exploration' versus simply holding a licence for a given area which might allow some form of development in the future (...)

We use a variety of sources and data to determine a particular country's human rights record. These include:

⁴ AEGON Asset Management website, private investors, Ethical funds, <http://www.aegonam.co.uk/private_investors/funds/ethical_funds/index.html> (March 2009)

⁵ AEGON Asset Management website, private investors, Ethical funds, <http://www.aegonam.co.uk/private_investors/funds/ethical_funds/index.html> (March 2009)

⁶ AEGON Asset Management website, Private Investors, Ethical Screening Process, <http://www.aegonam.co.uk/pdf/pdf_private/general/ethical_screening_pi.pdf> (March 2009).

⁷ S. Clow, AEGON N.V., e-mail message 15 April 2009.

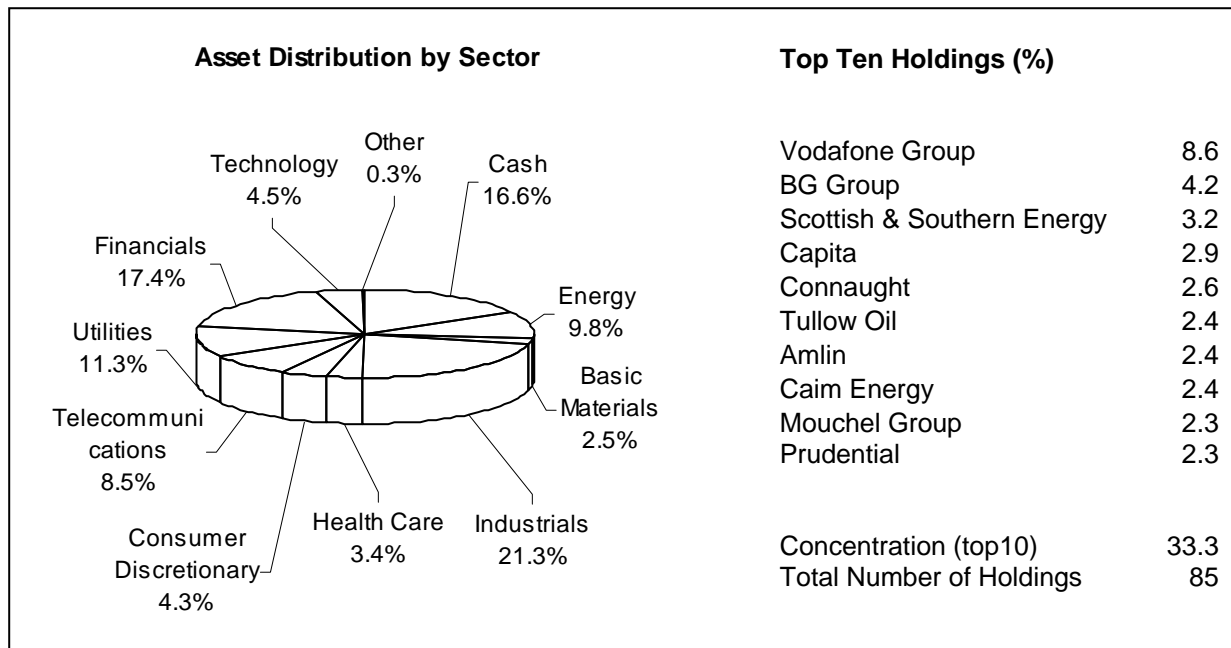
- ❑ Ethical Investment Research Service (EIRIS)
- ❑ Human Rights Watch
- ❑ World Bank
- ❑ Freedom House
- ❑ US State Department

From these sources, we have developed databases of our own, which enable us to track potential risk. In any analysis, we take into account a number of factors, including:

- ❑ the sector and sub-sector the company is operating in;
- ❑ the nature of its operations and business;
- ❑ and, the policies and management systems it has in place.

Research reveals that the AEGON Ethical Equity Fund does invest in a company that operates in countries with poor human rights records, and that does not have publically available established management policies on human rights. This company is Tullow Oil plc. Tullow Oil is present in the top 10 holdings of the AEGON Ethical Equity Fund. On 31 December 2008, 2.4% of the total holdings of the fund were invested in this company (Figure 1). The most recent data indicate that on 30 January 2009, 2.9% of the total holdings of AEGON Ethical Equity Fund were invested in Tullow Oil, making it the fourth biggest holding in the fund.⁸

Figure 1: Composition AEGON Ethical Equity Fund 2008



Source: AEGON Asset Management Website

Tullow Oil is one of the largest independent oil and gas exploration and production companies in Europe. The Group has 90 licences in 22 countries, with operations in Africa, Europe, South Asia and South America. Current production is 60,000 barrels of oil equivalent per day.⁹ The largest core area is Africa, which represents over 50% of Tullow Oil's production and sales revenue and more than

⁸ Monthly Factsheet AEGON Ethical Equity Fund, 30 January 2009, <http://www.aegonam.co.uk/pdf/pdf_adviser/factsheets/ethicalequity.pdf> (March 2009).

⁹ Tullow Oil Website, 'about us', <<http://www.tulloil.com/tlw/aboutus/>> (April 2009).

80% of the Group's reserves and resources.¹⁰ Table 2 shows the countries in which Tullow Oil operates and which activities the company executes there.

AEGON states to use information of, amongst others, the EIRIS when defining countries with poor human rights records. EIRIS researches the human rights performance of companies which own operations in countries where the human rights of the population are deemed to be at serious risk. These countries are categorised in an A list and a B list, with the A list covering those countries where human rights abuses are considered to be particularly prevalent. EIRIS defines the following countries as countries with serious human rights risks:¹¹

- ▣ *A list:* Afghanistan, Algeria, Angola, Azerbaijan, Belarus, Burma, Burundi, Cameroon, Chad, China, Colombia, Congo (Democratic Republic of), Cote d'Ivoire, Cuba, Egypt, Eritrea, Ethiopia, Equatorial Guinea, Haiti, Iran, Iraq, Laos, Lebanon, Libya, Nepal, Nigeria, North Korea, Pakistan (with Kashmir), Russia, Rwanda, Saudi Arabia, Somalia, Sudan, Swaziland, Syria, Togo, Turkmenistan, Uganda, Uzbekistan, Vietnam, Zimbabwe

- ▣ *B list:* Armenia, Bahrain, Bangladesh, Bhutan, Brunei, Cambodia, Central African Republic, Congo (Brazzaville), Djibouti, Guinea, India, Indonesia, Israel (with Occupied Territories), Jordan, Kazakhstan, Kyrgyzstan, Liberia, Maldives, Mauritania, Morocco, Oman, Philippines, Qatar, Sri Lanka, Tajikistan, Tunisia, Turkey, United Arab Emirates, Yemen

As Table 2 shows, Tullow Oil is active in several of these countries, that is: Angola, DRC, Cote d'Ivoire, Equatorial Guinea, Pakistan, Uganda, Bangladesh, Congo (Brazzaville), Liberia, and Mauritania. In all these countries, Tullow Oil has an interest of far more than 5%, which is the limit that EIRIS applies when researching oil, gas and mining companies. 10 out of the 21 countries in which Tullow Oil is active can be defined as countries with poor human rights records. 31 of the 90 licences of Tullow Oil are in these 10 countries. Below, two cases are specified; Equatorial Guinea and the Democratic Republic of the Congo.

¹⁰ Tullow Oil Annual Report 2007, <http://annualreport2007.tulloil.com/overview/where_we_operate.html> (April 2009).

¹¹ UNEPFI, EIRIS Human Rights Countries of Concern, <http://www.unepfi.org/humanrightstoolkit/EIRIS_human_rights_countries_of_concern.pdf> (April 2009).

Table 2: Tullow Oil's operations per continent

Country	Activity	Tullow's Interest
Africa		
Angola	Exploration	1 licence: 50%
Congo (Brazzaville)	Development & Production	1 licence: 11%
Congo (DRC)	Exploration	2 licenses: 48.5%, 48.5%
Côte d'Ivoire	Exploration & Development & Production	4 licenses: 21.3%, 31.5%, 85%, 22.4%
Equatorial Guinea	Exploration & Development & Production	2 licences: 14.25%, 14.25%
Gabon	Exploration & Development & Production	16 licenses: between 3.75% and 60%
Ghana	Exploration	3 licences: 31.5%, 49.9%, 22.9%
Liberia	Exploration	3 licences: 25%, 25%, 25%
Madagascar	Exploration	2 licences: 50%, 100%
Mauritania	Exploration & Development & Production	7 licences: between 16.2% and 83.8%
Namibia	Development	1 licence: 70%
Senegal	Exploration	1 licence: 60%
Tanzania	Exploration	2 licences: 50%, 50%
Uganda	Exploration	3 licences: 50%, 100%, 50%
South Asia		
Bangladesh	Exploration & Development & Production	1 licence: 30%
Pakistan	Exploration & Development & Production	7 licences: between 30% and 95%
South America		
French Guiana	Exploration	1 licence: 97.5%
Guyana	Exploration	1 licence: 30%
Suriname	Exploration	2 licences: 40%, 40%
Europe		
Netherlands	Exploration	7 licences: between 10% and 50%
Portugal	Exploration	3 licences: 80%, 80%, 80%
United Kingdom	Exploration & Development & Production	22 licences: between 6.9% and 100%

Source: Tullow Oil website

Tullow Oil in Equatorial Guinea

One of the countries Tullow Oil is active in is Equatorial Guinea in which it has production, development and exploration interests. Tullow Oil holds a 14,25% interest in two offshore production licences, covering the Ceiba field and the Okume Complex. Production from the Okume Complex commenced in December 2006 and reached production levels of approximately 70,000 barrel of oil per day in March 2008. Production levels from the Ceiba field were on average approximately 40,000 barrel of oil per day during 2008.¹²

Equatorial Guinea is internationally considered an oppressive regime. The country achieved independence from Spain in 1968 and has since been one of the world's most tightly closed and repressive regimes of the world. The country is ruled by Teodoro Obiang Nguema, who has been described by a variety of human rights organisations as among the worst abusers of human rights in Africa. Parade Magazine considers the president of Equatorial Guinea to be the 13th worst dictator in the world, after Kim Jong-Il of North Korea and Omar Al Bashir of Sudan, among others.¹³

¹² Tullow Oil website, Operations, 'Equatorial Guinea', <<http://www.tulloil.com/tlw/operations/af/equatorialguinea/>> (March 2009).

¹³ Parade Magazine, The World's Worst Dictators, no date, <<http://www.parade.com/dictators/2008/>> (March 2009).

Freedom House, a non-profit organization striving for democracy and freedom around the world through a vast array of international programs and publications, judges Equatorial Guinea to be one of the worst 20 repressive regimes in the world. The eight worst regimes received the Freedom House survey's lowest ratings: 7 for political rights and 7 for civil liberties. Equatorial Guinea received a 7 for political rights and a 6 for civil liberties.¹⁴

In November 2008, a special rapporteur of the United Nations on torture and other cruel, inhuman or degrading treatment or punishment visited Equatorial Guinea and found several human rights violations such as corporal punishment in prisons and torture by police forces and signs of non-functioning of the administration of justice such as endemic corruption. His recommendations were:¹⁵

'I would advise the international community, including trans-national corporations, to ensure that, in their development cooperation and business practices, they are not complicit in violations of human rights by state authorities. In my assessment, unless an overall plan establishing rule of law is adopted and implemented, limited projects make little sense.'

The majority of transnational companies present in Equatorial Guinea are oil companies. Oil production in Equatorial Guinea has been severely criticised for propping up the repressive dictatorship and encouraging corruption, deteriorating the human rights situation in the country even more. After all, the government's newfound wealth has increased its repressive capacities.¹⁶

Tullow Oil in the Democratic Republic of the Congo

As table 2 shows, Tullow Oil is also active in the Democratic Republic of the Congo (DRC). In July 2006 Tullow Oil signed a production sharing agreement to gain a 48.5% operated interest in Blocks I and II in the Albertine Rift Basin in the DRC. These Blocks cover some 6,500 sq km onshore and offshore the DRC part of the Albertine Rift Basin which is in the East of the country and extends into neighbouring Uganda. While the validity of the award of these licences has been disputed by the Congolese Oil Ministry, Tullow Oil is now working closely with the current government officials.¹⁷

The Democratic Republic of the Congo is a country with a poor human rights record, especially in the Eastern part of the country where Tullow Oil operates. Here mass killings, rape and torture are the everyday reality. Overall, conflict and humanitarian crisis in the Democratic Republic of Congo have taken the lives of 5.4 million people since 1998.¹⁸

The European Union demanded attention for the Human Rights situation in the Democratic Republic of Congo during the 8th meeting of the United Nations Human Rights Council that took place from the 2nd till the 18th of June 2008. The United Nations Human Rights Council, an inter-governmental body within the UN system made up of 47 States responsible for strengthening the promotion and protection of human rights around the globe. The European Union expressed its concern about the persistent severe human rights situation in the Democratic Republic of the Congo, especially in the

¹⁴ Freedom House, The worst of the worst, the most repressive societies 2008, May 2008, <http://www.freedomhouse.org/uploads/special_report/62.pdf> (March 2009).

¹⁵ United Nations High Commissioner for Human Rights, UN Special Rapporteur on Torture concludes mission to Equatorial Guinea, <<http://www.unhcr.ch/hurricane/hurricane.nsf/view01/1B0338BE0E0AA8ACC12575060034DBB6?opendocument>> (March 2009).

¹⁶ Brenda Mc Sherry, The Political Economy of Oil in Equatorial Guinea, African Studies Quarterly, Volume 8, Issue 3, Spring 2006, <<http://web.africa.ufl.edu/asq/v8/v8i3a2.htm>> (March 2009). And John Blender, *Blind eye on Africa: Human rights, Equatorial Guinea and Oil*, 16 August 2003, Global Policy Forum, <<http://www.globalpolicy.org/security/natres/oil/2003/0816blind.htm>>.

¹⁷ Tullow Oil website, Operations, 'DRC', <<http://www.tullowoil.com/tlw/operations/af/congodrc/>> (March 2009).

¹⁸ IRC, Special Report Congo, January 2008, <<http://www.theirc.org/special-report/congo-forgotten-crisis.html>> (March 2009).

eastern side of the country. In addition, the Netherlands demanded attention for the 'war on women' on the widespread sexual violence in the DRC.¹⁹

The 2008 Human Rights Report on the Democratic Republic of the Congo, written by the Bureau of Democracy, Human Rights and Labor of the US Department of State describes the situation in DRC as follows:

*'In all areas of the country the government's human rights record remained poor, and security forces continued to act with impunity throughout the year, committing many serious abuses including unlawful killings, disappearances, torture, and rape. Security forces also engaged in arbitrary arrests and detention. Harsh and life-threatening conditions in prison and detention facilities, prolonged pretrial detention, lack of an independent and effective judiciary, and arbitrary interference with privacy, family, and home also remained serious problems. Security forces retained child soldiers and compelled forced labor by civilians. Members of the security forces also continued to abuse and threaten journalists, contributing to a decline in freedom of the press. Government corruption remained pervasive. Security forces at times beat and threatened local human rights advocates and harassed UN human rights investigators. Discrimination against women and ethnic minorities, trafficking in persons, child labor, and lack of protection of workers' rights continued to be pervasive throughout the country. Enslavement of Pygmies occurred.'*²⁰

Tullow Oil's Policy on Human Rights

AEGON's ethical screening process states to filter out companies that are active in countries with poor human rights records but also companies that have no established management policies on human rights issues. Tullow Oil does not have a publicly available policy on human rights issues. The company states on its website:²¹

'We are working on enhancing our policy in this area and will roll this out across the Group in 2007.'

However, to this date no human rights policy can be found on the website of Tullow Oil. A phone call inquiry to Tullow Oil on 13 March 2009 learned that the information on the website of Tullow Oil is outdated and that a new website will be launched in May 2009. Tullow Oil also said that they do have an internal document on human rights but that this document is not publicly available. Tullow Oil indicated that therefore they could not send the internal document or any other information on human rights for the purpose of this research.²² AEGON states it did see the human rights policy of Tullow Oil, but the company does not give any information about the content of the policy either.²³

The only publically available information about the efforts of Tullow Oil with regard to human rights is that Graham Martin, an Executive Director and Tullow's General Counsel, was appointed with responsibility for Human Rights issues in 2006. The CSR Report of Tullow Oil²⁴ gives some

¹⁹ Website Dutch Ministry of Foreign Affairs, Actueel, Kamerstukken, 'Kamerbrief inzake achtste reguliere zitting VN mensenrechtenraad', 8 July 2008, <<http://www.minbuza.nl/nl/actueel/brievenparlement.2008/07/Kamerbrief-inzake-achtste-reguliere-zitting-VN-men.html>> (March 2009).

²⁰ 2008 Human Rights Report: Democratic Republic of the Congo, 25 February 2009, <<http://www.state.gov/g/drl/rls/hrrpt/2008/af/118995.htm>> (March 2009).

²¹ Tullow Oil Website, CSR, Evolving our CSR Report, <<http://www.tulloil.com/tlw/cr/evolving/>>(March 2009).

²² Phone conversation with Caragh Whale, EHS (Environmental, Health and Safety) Technical Assistant of Tullow Oil, Friday 13 March 2009. Her role involves managing and reporting on statistical EHS information, Crisis Management Team administration, intranet EHS/CSR content management and Secretary of the CSR Committee.

²³ S. Clow, AEGON N.V., e-mail message 15 April 2009.

²⁴ Tullow Oil CSR Report 2007, <<http://www.corporateregister.com/a10723/toplc07-csr-uk.pdf>>, Tullow Oil CSR Review 2006, <http://www.tulloil.com/tlw/siteware/pdf/csr_review_ar2006.pdf> (March 2009).

information about its efforts regarding human rights as well (Box 1). Information in the CSR report of Tullow Oil for the year 2007 shows that Tullow Oil did not have a human rights policy yet in 2007 in contrast with what its current website indicates. Graham Martin says in this report that *'We are planning to formalise our human rights policy and make this available on our website.'* Information of AEGON on the Ethical Equity Fund indicates that Tullow Oil was already part of the fund at least since the second quarter of 2007, when it was certain that Tullow Oil did not yet have a human rights policy.²⁵

Box 1: Publicly available information Tullow Oil on Human Rights

Tullow Oil CSR review 2006:

In addition, we have recently formalised and updated the Group's Human Rights and Anti-Bribery policies, which apply to all employees, contractors and agents of the Group. Tullow appointed Graham Martin, General Counsel and an executive Director of the Group, as the nominated director with responsibility for Human Rights issues.

Tullow Oil CSR report 2007:

'We also recognise that, as we grow, we have to prepare more formal positions on issues such as climate change, human rights and biodiversity.' Page 6.

'In 2007, external testing with our advisors shows that we currently have no human rights violations. Our operations work around the local infrastructure and we would never displace local communities. Where possible, we provide employment for our neighbours and do not discriminate. Our Teams manage the business sensitively and our ethical commitment means we work against corruption including extortion and bribery. We are planning to formalise our human rights policy and make this available on our website.' Graham Martin, General Counsel and Company Secretary. Page 7.

Goal of Tullow Oil for 2007: *'Align with UN Global Compact 10 principles and Voluntary Principles on Security and Human Rights.'* and *'Publish formal positions on human rights and HIV/AIDS'*. Page 7.

'Tullow recognises the importance of human rights and, following the appointment of Graham Martin, Tullow's General Counsel, as the nominated Director with responsibility for human rights, we tested our current position using external advisors. This review established that Tullow does not have human rights violation issues amongst either our own staff or other personnel involved in our operations.' Page 25

'As Tullow continues to grow, there is a need to have a clear position on human rights issues both internally and externally, and we have set a target to have a position on the United Nation's Global Compact and the Voluntary Principles on Security and Human Rights within three years.' Page 26.

Conclusion

In 2008, the AEGON Ethical Equity Fund had a 2.4% stake in the company Tullow Oil, making Tullow Oil part of the top 10 holdings within this fund. AEGON has developed an ethical screening process, containing investment criteria that are used to compose the AEGON Ethical Equity Fund. One of the criteria in this screening process is:

The fund does not invest in companies that:

- operate in countries with poor human rights records, and
- have no established management policies on human rights issues

²⁵ Ethical Investment Focus, summer 2007, p. 14-15,

<http://www.selftrade.co.uk/market-data/funds/pdf/fund-research/AEGONEthicalInvesting.pdf> (March 2007).

However, Tullow Oil is a company that operates in countries with poor human rights records, of which Equatorial Guinea and the Democratic Republic of the Congo are the most evident examples. Other examples of countries with severe human rights problems in which Tullow Oil operates are Angola, Cote d'Ivoire, Pakistan, Uganda, Bangladesh, Congo (Brazzaville), Liberia, and Mauritania.

In addition, Tullow Oil does not have human rights policies that are externally accessible. Tullow Oil states to have an internal document on human rights, but the lack of transparency makes it impossible for external parties to verify if this document contains 'established management policies on human rights issues'.

Of course, the fact that Tullow Oil operates in countries with poor human rights records and does not have a publicly available human rights policy as such does not mean that Tullow Oil is involved in human rights violations and no evidence for possible involvement was found. But the investment criteria of AEGON Ethical Equity Fund on oppressive regimes is also not based on involvement in human rights violations. According to the criteria, the operating presence of companies in countries with poor human rights records and the absence of policies on human rights are the deciding factors for leaving companies out of the ethical funds of AEGON.

Therefore, the fact that AEGON Ethical Equity Fund invests in Tullow Oil is a violation of the criteria AEGON claims to use when selecting investments for its ethical funds.

Political Involvement

Contributions to political campaigns

For the 2007 Corporate Responsibility Report of AEGON, the Global Reporting Initiative (GRI) G3 Guidelines served as a framework.²⁶ The G3 Guidelines outline a disclosure framework that organisations can voluntarily adopt, containing principles and performance indicators to define the quality and content of the CR report. The Guidelines hold performance indicators on economic, environmental, and social aspects. The social performance indicators go into labour practices and decent work, human rights, society, and product responsibility. One of the performance indicators on society indicates that a CR report that is drawn up according the GRI G3 Guidelines should contain information on ‘the total value of financial and in-kind contributions to political parties politicians and related institutions by country’.²⁷ AEGON's 2007 Corporate Responsibility Report covers many GRI indicators relating to the company's main areas of activity in the CR field. However, it does not say anything about its political contributions. The screening process of the ethical funds of Aegon Asset Management does have a criteria on political donations.²⁸ This criteria reads as follows: ‘The funds do not invest in companies that have made political donations of more than £25,000 in the last year’.

In the US political system, some political candidates rely heavily on private donors to finance their campaigns. Fundraising is often a significant activity for the campaign staff and the candidate, especially in larger and more prominent campaigns. Campaign finance by companies is a controversial issue, raising concerns about corruption by way of donations that are intended to influence policies or decision making for private benefits. Because of these concerns, corporations are not allowed by law to make direct financial contributions to federal candidates. Nevertheless, they may establish Political Action Committees, or PACs. Corporate PACs raise voluntary contributions from employees. Companies are required to report PAC activities regularly to the Federal Election Commission. The Commission then posts details on its website, making it a transparent process.

AEGON USA set up such a Political Action Committee, called AEGON USA LLC PAC. For the election cycle 2008 (which contains the years 2007 and 2008) the Aegon USA LLC PAC paid an amount of \$ 210,000 on contributions to political candidates.²⁹ Its Board of Directors includes Patrick S. Baird, CEO of AEGON USA, and several other senior executives. The PAC's stated mission is to support candidates of both parties who are in a position to advocate proposals that recognize the company's business interests. When deciding which candidates to support, the Board of Directors takes into account a number of strict criteria. These include:³⁰

- ❑ The candidate's voting record and position on issues affecting the insurance industry and business environment generally;
- ❑ Whether the candidate is in a position to support AEGON's stance on important issues, including whether the candidate represents a state in which AEGON has a presence; the

²⁶ For more information see the GRI G3 Guidelines:
<http://www.globalreporting.org/NR/rdonlyres/ED9E9B36-AB54-4DE1-BFF2-5F735235CA44/0/G3_GuidelinesENU.pdf> (March 2009).

²⁷ GRI G3 Performance Indicators on Society, Aspect SO6,
<http://www.globalreporting.org/NR/rdonlyres/A6A44E7F-5D57-4340-B521-69CCCA70DC2/0/G3_IP_Society.pdf> (March 2009).

²⁸ AEGON Asset Management website, Private Investors, Ethical Screening Process,
<http://www.aegonam.co.uk/pdf/pdf_privatei/general/ethical_screening_pi.pdf> (March 2009).

²⁹ <www.campaignmoney.com>

³⁰ S. Clow, AEGON N.V., e-mail message 9 April 2009.

legislative committees on which the candidate serves; and whether the candidate holds a leadership or policy making position.

- ❑ The candidate's chance of winning the election, as well as the impact of any contribution;
- ❑ And, the integrity and character of the candidate.

Money donated by the PAC comes from personal, voluntary employee contributions.³¹ The vast majority of these employee contributions come from employees with an executive position within AEGON. The biggest donations to the AEGON USA LLC PAC are made by Patrick Braid; the CEO of AEGON USA.³²

This information shows that, even though it is illegal in the United States for companies to make direct donations to political campaigns, AEGON's PAC does make political donations that intend to support candidates that are in the position to advocate proposals that recognize AEGON's business interests. In other words, AEGON's PAC makes political donations that are 'conducive to' AEGON's business interests.³³ Ultimately, these donations are intended to influence policies or decision making for private benefits, while that is exactly why direct contributions by companies are illegal in the United States. The difference between direct donations made by AEGON and donations through the PAC, is that the donations made by the PAC come from personal, voluntary contributions from executives of AEGON in stead of from the company AEGON itself.

Conclusion

The screening criteria of the ethical funds of AEGON Asset Management on political donations states that 'the funds do not invest in companies that have made political donations of more than £25,000 in the last year'. This criteria indicates that AEGON considers political donations made by companies unethical as well, and even though AEGON does not make direct political donations it does make indirect donations that have the same aim as direct contributions would have.

In spite of this indirect policy contributions of \$ 210,000 through the AEGON USA LLC PAC that are clearly made in AEGON's interest, AEGON does not have a policy on political donations, nor does it say anything about public donations in its annual report or CR report of 2007. The GRI G3 Guidelines that AEGON supports, advise companies to enter information on political donations in its CR report. Considering its substantial contributions to political campaigns in the US and in order to increase its transparency, it would greatly improve the CR policy of AEGON when information on its political donations would be published. It is therefore an important point of notice and advisable that AEGON formulates a policy on political donations.

Lobbying

In addition to campaign contributions to elected officials and candidates, AEGON spends money to lobby congress and federal agencies in the US as well. In the year 2008 AEGON Americas spend a total of \$1,500,000 on lobbying.³⁴ Table 3 indicates the issues the lobby activities of AEGON focus on.

³¹ S. Clow, AEGON N.V., e-mail message 9 April 2009.

³² www.campaignmoney.com

³³ Greg Tucker, AEGON, Telephone Conference, 15 April 2009.

³⁴ Open Secrets, <http://www.opensecrets.org/lobby/clientissues.php?iname=AEGON+USA&year=2008> (March 2009).

Table 3: Lobby spending Aegon USA

Issue	Number of Reports
Retirement	12
Insurance	8
Taxes	7
Banking	4
Economics & Economic Development	4
Housing	3
Disaster & Emergency Planning	2
Fed Budget & appropriations	2
Finance	1
Consumer Product Safety	1
Copyright, Patent & Trademark	1
Immigration	1
Trade	1

Source: Open secrets website

It can be argued that lobbying is undesirable because it allows companies with particular interests to gain special access to law-makers. This creates situations in which a government regulatory agency created to act in the public interest instead acts in favor of the commercial or special interests that dominate in the industry or sector it is charged with regulating. In general, lobbying by companies has a diminishing effect on governmental regulation. Since the financial crisis that started in the US in 2007, it became clear that especially lobbying by the financial industry can lead to a corruption of the financial system because the interest of companies and governments were merged at the expense of the public interest which governments were responsible for. According to Nobel prize winner Joseph Stiglitz, “Much of the inadequacy of current regulations and regulatory structures is the result of financial markets’ political influence”³⁵ Equally, Charlie Mc Creevy, Commissioner for Single Market and Services of the EU and responsible for financial regulation said : “In the case of legislators, I am convinced that over the years there has been too much ‘regulatory capture’ by the sell side of the financial services market: Their lobbies have been strong and powerful”.³⁶ In the context of the financial crisis the lobby of Aegon on the subjects insurance, taxes, banking, housing, federal budget and appropriations, and finance can be considered to be the most influential.

Conclusion

Given the considerable amount of money AEGON spends on lobby and the ethical pressure that the financial crisis puts on this issue, the lobby practices of AEGON can be considered an important point of notice. AEGON does not have a policy on lobbying but with regard to the attention the financial crisis puts on lobbying and its potentially negative effects, it would improve the CR policy of AEGON when it would formulate a policy on lobbying, especially regarding transparency about its positions, activities and lobby budget.

³⁵ Joseph Stiglitz, Professor, Columbia University, Testimony to House Financial Services Committee, October 21, 2008 at <http://www.house.gov/apps/list/hearing/financialsvcs_dem/stiglitz102108.pdf>

³⁶ Corporate Europe Observatory, Would you bank on them?, February 2009, <<http://www.corporateeurope.org/docs/would-you-bank-on-them.pdf>> (March 2009).