



Kist: "Having to make profits and be efficient doesn't mean you are less altruistic."

■ Interview

Ewald Kist, chairman, ING

Doing well by doing good

The Dutch financial services group takes pride in being a good corporate citizen wherever it does business. And no one is a stronger advocate of this policy than the chairman, who argues that social responsibility pays bottom-line benefits.

Like any other publicly traded company, ING Group knows that its first obligation is to its shareholders. But the huge Dutch banking, insurance and money management conglomerate, which boasts €700 billion in assets and 50 million clients in 65 countries, tries to take its responsibilities to society just as seriously. Are these two sometimes-conflicting objectives compatible in the long run? Ewald Kist, chairman of the executive board, believes they are.

But for the two to coexist successfully, ING shareholders have to take a long-term view of business and recognize that there is more to corporate life than generating short-term returns. Kist argues that investors are prepared to embrace this philosophy.

Social responsibility can take many forms, of course—sponsorship of cultural, sporting or medical organizations, for example. Or, for a financial services company like ING, it can involve educating officials in the developing world about the way modern pension systems work. More often than not, though, it is a good deal more complicated than simply shelling out money and advice.

Ewald Kist

Chairman of the Executive Board
ING Group

Born: 1944 in the Netherlands

Education: 1967, Leiden University,
doctorate of law

Professional experience (highlights):

1969: Joined Nationale-Nederlanden

1986: President, Nationale-
Nederlanden-US Corp.

1989: Member of general manage-
ment, Nationale-Nederlanden,
Netherlands

1991: Chairman of general manage-
ment, Nationale-Nederlanden,
Netherlands

1993: Member, executive board,
ING Group

1999: Vice-chairman, executive
board, ING Group

2000: Chairman, executive board,
ING Group

Marathon runner and former
Olympic athlete

Take the way ING insures “uninsurable” risks, such as people with high-risk medical conditions like type 1 diabetes. Life insurance companies often refuse to provide coverage for people with serious illnesses. But ING finds this practice socially irresponsible and has joined other Dutch insurers in setting up a reinsurance company that specializes in standard risks, which allows it to insure these people at affordable premiums.

Then there is the environment. Environmental groups have accused ING and other banks of helping to destroy rainforests in Indonesia by financing new oil palm plantations, some of which were set up in areas where the forests had been destroyed—either legally or illegally—by logging or burning. ING responded publicly by declaring that it would not finance projects where the forest had been destroyed or where Indonesian laws and regulations had been breached.

But doesn't all this good corporate citizenship have a negative impact on the bottom line—and shareholder value? Not according to Kist, who says he's convinced that socially responsible behavior benefits ING and its shareholders over the long term by boosting its standing with customers and decision makers, who may give it more business as a result.

Social responsibility is not the only thing that sets ING apart. For example, rather than entering emerging and other new markets by acquiring local banks or insurers, the group prefers to use greenfield startups. And although the initial costs of doing that may seem high, Kist believes that, like his approach to social

responsibility, it will generate better returns in the long term. Kist shared these and other thoughts with *Outlook* on a rainy May afternoon in Amsterdam.

***Outlook:* Is being socially responsible purely altruistic, or does the company get something out of it?**

Kist: It's good for society at large, it's good for business and it's good for the company too.

How? Shareholders want a higher return, but doing what is good for society is not always profitable.

We don't just have shareholders—we have four groups of stakeholders: clients, investors, employees and society as a whole, and we have to take them all into consideration. But if we balance the four groups well, they all benefit, including the shareholders. In our first 10 years, we recorded a 16-fold increase in market capitalization. Our profit per share has increased by an average of 13 percent a year. At the end of the day, if shareholders don't like a company, they can take their investments and go. But that isn't happening with us.

But aren't shareholders increasingly focused on short-term profits, whereas you talk of longer-term performance?

I spend a lot of time talking with shareholders and analysts, and they increasingly like our longer-term focus. That's especially the case with the big institutional investors like the pension funds, and it is true of American analysts as much as of Europeans. If you take companies that are socially responsible and companies that are from the old days—namely, the quarterly moneymakers—I think that you'll see that in the long run, the socially responsible com-

panies are doing much better from a financial standpoint.

Can you measure the benefits to the company in precise financial terms?

You can't say that being socially responsible will bring in exactly so many extra euros. But you can expect to benefit in general terms—from a better reputation, a better standing with customers and decision makers. That can generate extra business in the long term.

What are the costs of being socially responsible?

It means there are some revenues you miss out on—from deals with the weapons industry, for instance. We also consider sponsorship of medical, cultural, educational and sports organizations or events to be part of being socially responsible. So the cost of that—about €20 million a year for us—has to be taken into account.

On the other hand, [sponsorships] strengthen our standing in the community and show we are a reliable company and social partner. We win business as a result of that. At ING our starting point is to say, Let's make this company a continuously growing, good company. The decisions I make [that] are good for society may also be good for my company. They may hurt the bottom line for a moment, but it may come back in another form in the long term. I basically think all these monies are well spent. I don't consider it as a cost but as a good investment.

What would be a good example?

We're involved in educating officials in several emerging-market countries, such as China, Mexico and Poland, about pension reforms and setting up state-of-the-

art pension schemes. For example, I sit on the advisory committee helping the city of Beijing with its pension arrangements. This may not pay off immediately. But it does in the longer run. Countries like to have our insights and [as a result, they] treat us well.

Has being socially responsible ever caused you problems or forced you to make difficult choices in some countries?

Yes. Some people say we shouldn't be in China because of human rights problems there. I don't buy that argument. I think we are better to enter it and help develop it by bringing outside values and ways of doing things in. It's a little like holding the Olympic Games in Beijing. The world's cameras will be turned on the country and help to foster change. Similarly, we didn't exit South Africa under the apartheid regime. We thought it was better to be involved and try to change it that way. We did get out of Myanmar, though, because of the military regime.

What about business and social problems like child labor?

Many people say we shouldn't give loans to companies that use children. The dilemma we face is that if we don't, children will be put back into the gutters. We think it is better to go in and try to change by getting companies to educate the children involved.

Who sets the principles ING abides by?

We involved all of our top 200 managers, then transmitted the message to employees. Business units have to report yearly on how socially responsible they are being in their area.

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"The September 11 attack on the US has driven home that there is more to life than profitability and quarterly figures."

Are other large companies starting to take social responsibility more seriously?

I sense so. Enron has made a difference. Businesspeople, investors and customers increasingly want a new balance. The September 11 attack on the US has also helped change attitudes. It's a nervous, uncertain world out there, and people are looking for stability, certainty and sound business partners. It's driven home that there is more to life than profitability and quarterly figures.

Wouldn't you be able to be more socially responsible if you were a mutually owned company rather than a publicly traded one?

No. As a listed company, we have to think about shareholders as well as our customers, and about our image in society. Mutual companies only have to think about their clients, which is a much smaller community, so in some ways they are more limited than we are.

But they don't need to make a profit and can afford to be more generous as a result.

In theory, perhaps. But in practice, I don't think that is the case. There are some very rich mutuals around. And because they have to think about a smaller constituency, they are under less pressure to give back to society. They may have it easier than we do, but that doesn't make them more socially responsible. Having to make profits and be efficient doesn't mean you are less altruistic.

You've talked a lot about what ING does in other countries. How do you approach new markets?

It depends on whether it is an emerging or mature market. Wherever possible, we like to go into the emerging markets of Asia, Latin America and Eastern Europe

on our own. They are liberalizing and want more foreign banks and insurance companies to come in, and we want to be there. But there are few banks or insurance companies that are worth buying and that would give us a solid base. In Eastern Europe, for instance, they were, until recently, controlled by the state and were inefficient. So we developed the greenfield concept of going in on our own.

Is that because you have had bad experiences making acquisitions in some markets in the past?

No. Nationale-Nederlanden, the insurance company that was one of the companies that joined forces to form ING, has been internationalizing for 20 years and is used to doing business abroad. So we have the experience and skills needed to go into markets on our own.

What happens with countries where this approach is not allowed?

In that case, we go in through a joint venture with a local partner. That's what we have done in China, for example.

You have occasionally made acquisitions, though, haven't you? Even in emerging markets?

In Poland we bought Bank Slaski. But that was a well-run institution that had already made the transition from a Communist way of working. Most of the time, you have to think twice about buying local outfits, especially banks. Just think about China and Japan. I'd be very nervous about what I would find in the books after I'd bought [a bank in one of those countries].

How do you actually set up and manage your new operations?

We have a special team of people who have cut their teeth in green-

field sites. After three or four years in country one, we move them to country two and so on. So in Shanghai, we brought in people from other greenfields, typically from Taiwan, because they have the language and feel for the country and so on. So we develop people and then move them on to the next country, which means that the 16th country we enter benefits from earlier experience.

What about mature markets?

There you can either buy a company or set up a new operation, depending on what's available and what you want to achieve. So we bought DiBa, the direct bank, in Germany. In the US, we set up a new operation. But we always like to do new things in those mature markets.

Is top management brought in from group headquarters?

Wherever possible, we have local leadership with input from the international side of ING. So DiBa is headed up by a German, but there are non-Germans on the board. If it's a greenfield, we may start with an international manager but then quickly bring in a local person. The locals often have better contacts with the key decision makers in the country in question and a better knowledge of the way the market works.

If you go in as a greenfield startup—whether on your own or as a joint venture—doesn't it take years to get established?

We start off with simple life insurance and sell it via agents in the local market. Or we team up with local distributors, like we did in Korea and Mexico. Then we might take a stake of 5 percent or 10 percent in them to seal the deal. We have a loss for three or four years

but then start making good profits. And we aren't held back by outdated infrastructures or staff inherited from the old system.

Three or four years of losses sounds like a lot.

Because of our long-term philosophy, we can live with that because we know we will do well over time. We have the money to do it and the vision to do it. And analysts and investors accept that because they know we are building for the future. As a group, we have net profits of more than €4 billion. We're a large international company, but we are still building for the future. We need to carry on expanding. ■