# Reputational Risk Management in Financial Services

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# Disclaimer

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This session will explore how financial services companies are managing reputational risk, not only at a transaction level, but also at the enterprise-wide level

We will discuss the importance of industry-wide dialogue and also the narrative to drive a culture of client-centricity

## Agenda

# Reputational risk…what is it, and why is it so important to manage?

Reputation is hard to build, yet easy to destroy

# Industry Dialogue

### Customer expectations

- ✓ Growth of competitive alternatives
- ✓ Ability to communicate instantly and broadly via social media

### Understanding culture

- ✓ Identify effective means to manage conduct risk
- ✓ Lead by example by modeling expected behavior
- ✓ Foster an environment for open dialogue

### Regulatory scrutiny

- ✓ Conflicts of interest
- ✓ Price transparency
- ✓ Product suitability
- ✓ Compensation practices

# Events that give rise to reputational risk

While almost any event has the potential to impact reputational risk, managing these themes can mitigate the risk

### Misconduct

- ✓ Misuse of information
- ✓ Unethical business practices
- ✓ Illegal or fraudulent activities
- ✓ Workplace violence
- ✓ Misrepresentation

### Unsound judgement

- ✓ Excessive executive compensation
- ✓ Aggressive tax evasion
- ✓ Questionable conduct by leaders
- ✓ Mismanaged crisis response
- ✓ Business activities contradictory to core brand values

### Operational frailty

- ✓ Poor customer relations
- ✓ Poor labor standards
- ✓ Poor execution of business strategy

### External attacks

- ✓ Cybersecurity / data breaches
- ✓ Social media attacks

An examination might once have begun with a review of policies and procedures, followed by a random sampling of client accounts to identify exceptions or violations

Regulators are now requesting comprehensive data sets to analyse and identify unusual accounts and activities

Regulators seek to understand patterns, underlying causes, and management’s ability to identify and monitor corresponding risks

## Regulators are shifting to a more data-driven approach

# Addressing regulatory expectations

- Business standards and code of conduct should underlie all policies and guidelines
- Employee training on conduct risk related matters
- Conduct risk reviews on core processes
- Whistleblowing protocols and complaints handling
- Mining data for insights and actions

# It all starts at the top of the house

### Tone

Senior management and boards should be actively involved in setting the appropriate “tone” regarding the development and implementation of effective reputation risk management practices

### Demonstrate

It is crucial for executives and board members to demonstrate a strong personal commitment to achieve and maintain effective control throughout the organization

### Events

Appropriate attention is required by boards and senior management to events that occur within their institution, as well as appropriate consequences for material breaches of internal policies that put the reputation at risk

This also includes a strong commitment to a corporate code of ethics and conflict of interest policy

# Effective reputational risk management

- Strategic alignment
- Cultural alignment
- Quality commitment
- Operational focus
- Organizational resiliency

A strong governance structure ensures that material reputation risks are considered at all levels of the organization with appropriate discussion, escalation and decision-making

- Board of Directors
- Senior Management Committees
- Transactional & Non-Transactional Committees

Proactive frameworks and appropriate policies and practices are necessary to manage reputation risk and ensure material reputation risks are identified and escalated appropriately

- Anti-Money Laundering
- New Products/Projects
- Code of Conduct
- Environmental
- Communications
- Whistleblower

- Abide by corporate policies and procedures
- Recognize the potential for reputational risk
- Follow due diligence processes
- Report or escalate incidents
- Always act with honesty and integrity
- Encourage employees, suppliers or other third parties to come forward with any concerns
- Provide various ways to report concerns, including confidential channels

**Guiding principles are the foundation of managing reputational risk**

Financial institutions must have the structure and mechanisms for coordinating response activities

- Roles & Responsibilities
- Multiple Scenarios
- Enterprise-wide

**Handling significant interruptions to business operations immediately following a crisis event**


# Driving the right culture…a narrative

"A culture that fosters poor leadership, poor decision-making or poor behavior will undermine the governance framework of the entity"

Source: EY, Royal Commission Final Report – Where to next?

# Drivers of misconduct

Drivers of conduct that can harm clients, employees, business reputation and the integrity of the market

- ✓ Human resources decisions are not based on a "balanced scorecard"
- ✓ Product lifecycle not guided by client need and suitability
- ✓ Individuals and leadership are not responsible or held to account for poor conduct
- ✓ Manual and complicated processes and procedures
- ✓ Complex, discounted or "growth at all costs" business model
- ✓ Disparate subcultures or problematic prevailing culture
- ✓ Weak systems for monitoring and surveillance
- ✓ Conflicts of interest are not identified or managed

## Know your client

Issues pertaining to corruption, terrorist financing, and money laundering are a global issue that are becoming prevalent; KYC policies and practices have now evolved into important tools to combat illegal transactions and minimize reputational risk

# Attributes of a strong risk culture

### Acknowledgement

- ✓ Challenge
- ✓ Openness
- ✓ Confidence

### Transparency

- ✓ Communication
- ✓ Tolerance
- ✓ Level of insight
- ✓ Measure and monitor culture and client outcomes

### Respect

- ✓ Cooperation
- ✓ Adherence to rules
- ✓ Empower employees to focus on good client outcomes

### Responsiveness

- ✓ Speed of response
- ✓ Level of care
- ✓ Accountability

# Perspectives on conduct risk in the management of financial assets

Conduct risk including questionable sales practices and breaches of fiduciary duty has shot to the top of the regulatory agenda in the management of financial assets, and the repercussions are rippling out across firms and markets

# Conduct risk crosses functions and lines of business

An issue in one area can easily affect others.

This creates challenges for activities such as risk identification, assessment, monitoring, and remediation

Ensure each affected party has the information required to make decisions and complete required activities

Handoffs between various groups in charge of risk oversight need to be carried out smoothly and efficiently

**Measure**

**Monitor**

**Report**

# So how does a financial institution manage reputational risk?

**Measure**

# Risk impact and tolerance

- Holding capital or stress testing specifically for reputational risk is difficult or practically impossible
- Risk appetite should incorporate qualitative and quantitative metrics to monitor activities that may impact reputational risk (e.g., regulatory, compliance, technology, clients complaints etc.,)

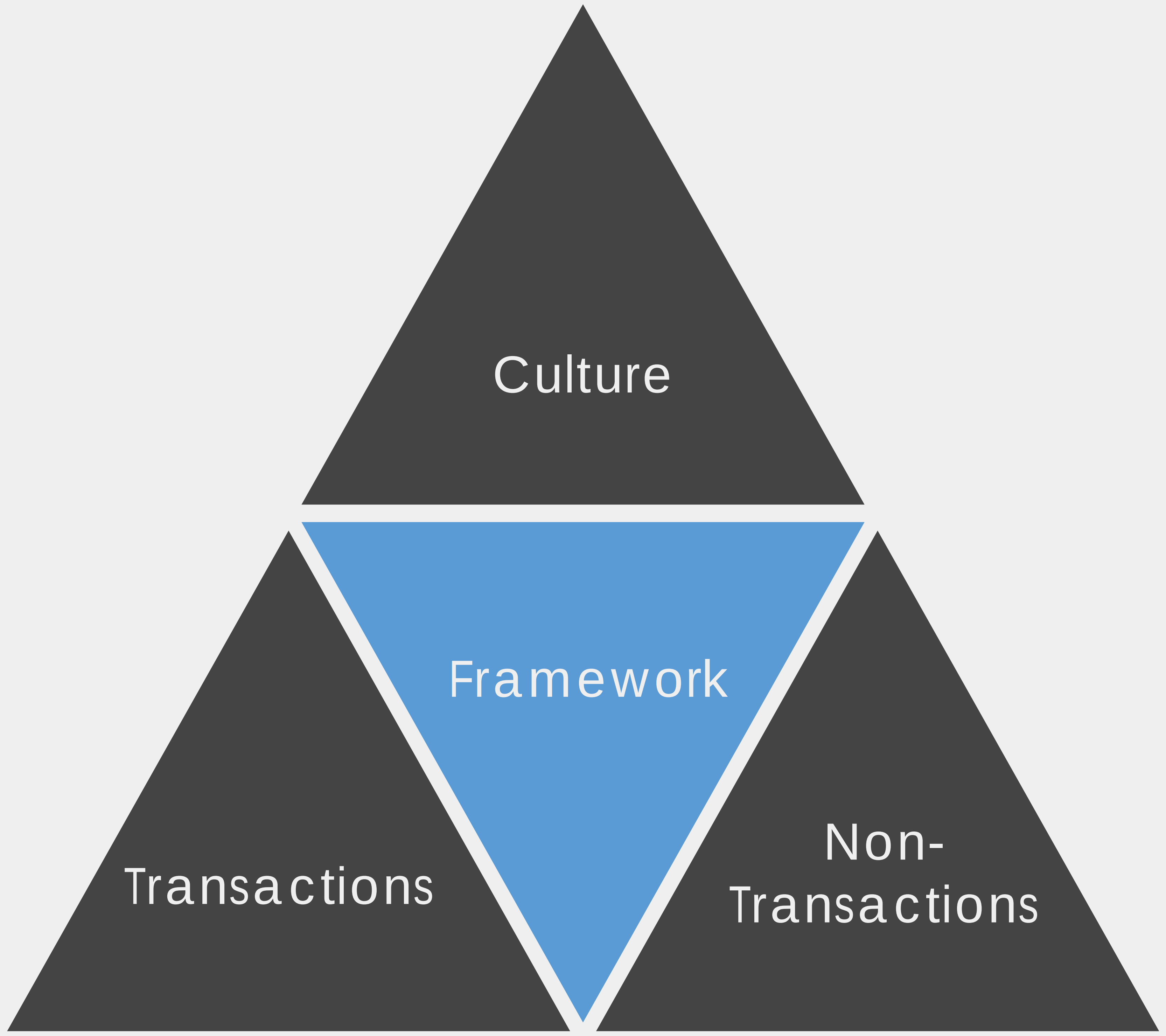
**Risk Appetite – It's not if you can, it's if you should**

Reputational Risk Management

**Monitor**

## Transactions

- ✓ Sales & Trading
- ✓ Corporate Banking
- ✓ Commercial Banking
- ✓ Wealth Management
- ✓ Retail Banking
- ✓ Global Investments




## Non-Transactions

- ✓ Conduct
- ✓ Environmental, Social & Governance
- ✓ Information Security
- ✓ Procurement & Suppliers
- ✓ Change Management
- ✓ Business Continuity / Crisis Management

Report

# Effective and appropriate reporting

- Have an internal triage and escalation process to ensure material is reviewed by the appropriate audience
- Dedicated reporting, analysis, and monitoring of conduct risk metrics to identify concentration of activities
- Ensure enterprise, regional and line of business coverage in reporting
- Provide Senior Executives/Board a periodic summary of key issues/incidents for awareness
- Easy to read business and enterprise dashboards

# How potential impacts can be mitigated

### Understanding vulnerability

- ✓ Vulnerability assessment
- ✓ Analyze key stakeholder perception of the company

### Building resilience

- ✓ Strengthening corporate culture
- ✓ Making adjustments to operations or strategy
- ✓ Strengthening the brand
- ✓ Building crisis preparedness

### Resolving a crisis

- ✓ Well established and effective crisis management capabilities
- ✓ Fast and transparent communication is vital

### Regaining trust

- ✓ Thorough reflection on the causes of an incident and outcome
- ✓ Acknowledgment of stakeholder expectations
- ✓ Implementation of hard-edged business decisions that are right for the company over the long term.

# Achieving resilience

Reputation risk may be high on company agendas, but the depth of engagement is often cyclical. Constant vigilance and preparedness is required to ensure corporate resilience

By embedding reputation risk management more effectively, companies can reduce the likelihood of highly damaging surprises and avoid gradual erosion of their brand overtime. This can also strengthen their response capabilities

# Way forward

### People

Building a diverse workplace, and a corporate culture that represents the core values and mission of the organization will inspire employees to become brand ambassadors, both internally and externally

### Processes

Adopting a culture of training and education deep within the organization to enhance processes will enable organizations to be proactive in managing risk

### Systems

Developing real-time feedback loops that capture gaps in products and services to stay abreast of operational risks that lie at the heart of reputational risk, such as customer complaints

# Thank you

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*"It takes many good deeds to build a good reputation, and only one bad one to lose it"*

\- Benjamin Franklin