

Negative Brand Incidents in Wholesale Financial Services

Viewpoint

Negative brand events in wholesale operations have limited effect on retail brand perception for diversified FSP's.

Denials and excuses will degrade the trust and credibility of brand in diversified financial services organizations.

Dynamics

- All financial services providers are susceptible to a negative brand event
- The method by which an FSP manages a brand incident has a direct affect on the length of time the incident remains public
- The media is the new trusted source for information and if FSP's have contradictory views, they stand to lose credibility

Predictions

- FSP's that underestimate the media's influence will be at risk during a significant brand event
- FSP's with well developed disaster plans will be able to control the media's portrayal of significant brand events
- Brand value will be undervalued at FSP's and not be considered during the development of operational risk

Recommendations

- Create a brand recovery plans that can be activated immediately following a significant brand event
- Identify the areas most susceptible to significant brand events and implement risk management programs
- Do not directly contradict the media, but provide the raw data that that the media can interpret in a positive way

Ralph Silva

"Denials and excuses will degrade the trust and credibility of brand in diversified financial services organizations."

Viewpoint

Retail clients seek out large FSP's in part because they offer security through diversification and an ability to absorb losses. When negative brand events occur in wholesale banking, the retail operations are minimally affected. Allied Irish Bank (AIB) underwent intense media scrutiny when it lost \$750 Million in February 2002 through the unauthorized activities of John Rusnak working at the company's Allfirst subsidiary, however intense the scrutiny the operations were not significantly affected. The diversified nature of AIB insured its financial future and the rapid reaction to the situation secured the positive brand image in the eyes of the retail client base.

When the media degrades the brand integrity by illustrating wholesale organizational inadequacies, retail clients are undaunted. There is no mass exodus or measurable change of assets under management, in fact even the market capitalization quickly rebounds when operations returned to normal.

Controlling the message throughout the lifecycle of a negative brand incident is key to a rapid recovery of brand integrity. Control revolves around the rapid availability of information that the media can use to formulate the story. The media is under tremendous time pressure and will opt for simple and quick methods of getting data even if sources are not independent, therefore, financial services providers should become the source of information.

The media is perceived as an independent and reliable source of information that puts at risk the trust that financial services providers have taken years to establish. Contradictory messages do not benefit the financial services provider when most clients will put greater trust in the media that is perceived to have no vested interest in the outcome.

In an era when countless media outlets are competing for a client base that is interested in being the first to know, the pressure is tremendous. The media is often the first source of information for financial services clients, FSP's must be just as quick to assist the media and reassure clients. This rapid reaction is the difference between maintaining a trust relationship or damaging long term retention and attainment efforts.

Dynamics

Lifecycle of a negative brand event

It is near impossible to remove all risk associated with internal operations, therefore, it is only reasonable to assume that at some point, an FSP will undergo a negative brand event. FSP's have a tendency to react to events in one of two ways, as a reaction to events or for the better prepared, a proactive approach.

In the first scenario, the media is initially in control and the FSP attempts to minimize collateral damage by addressing issues as they are presented to the general public. Within this scenario media bases its reporting on archival data and publicly available information available through various sources as websites.

Event Lifecycle Scenario 1 – Reactionary			
Event			
	The amount of time for disclosure is based on national rules		
Public disclosure			
	Normally to regulating body		
Initial media disclosures based on the media's archived data and publicly available information			
	Investors	Wholesale Clients	Retail Clients
	Publicly listed companies will see a movement in the stock price during the next available trading session	Proactively contact relationship managers for further information and status of relationships	Wait and see attitude, they do not initiate any transactions.
Follow-up disclosures and clarification with companies representatives			
	Accuracy improves, message more controlled		
	Investors	Wholesale Clients	Retail Clients
	Stock value begins to stabilize	Wait and see attitude based on product need, they will still do transactions, however, will consider alternatives	Request further validation and want assurances as to relationship
Media drop the story as interest diminishes			
	Investors	Wholesale clients	Retail clients
	Stock valuations normalize	Are product centric and will base decisions based on individual product specifications	Forget about the situation and continue as usual

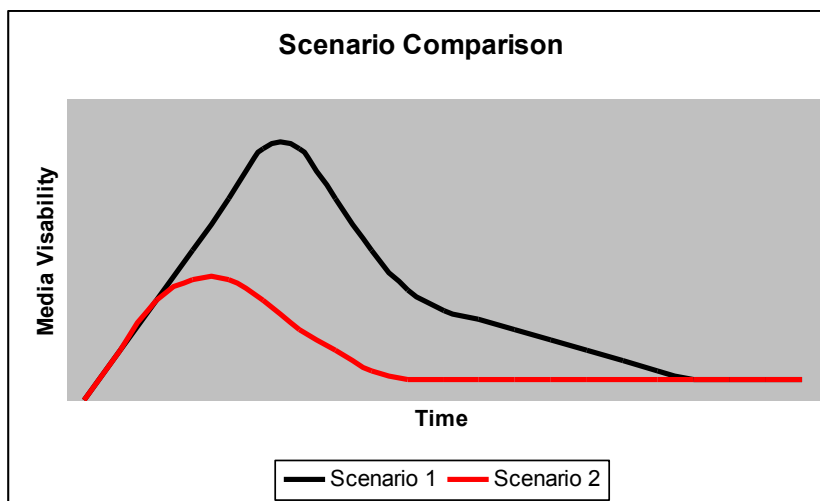
Sources available to the media are often limited, therefore, with the lack of better options, the media will opt to use data provided by the FSP even though it is not independent. In the second scenario, the FSP is proactive and controls the media message. As the media is looking for information, the FSP makes sure that the media gets only what supports the organizations view on the situation. Although this will not discourage the press from highlighting the negative impacts, they will be presented with the corporate view, thus compelled to use it.

Event Lifecycle Scenario 2 – Proactive			
Event			
	The amount of time for disclosure is based on national rules		
Company recovery plan activated			
	All areas of the firm are notified and brought into action		
Public disclosure			
	To regulatory body as well as to the media		
Initial media disclosures based on the media’s archived data and pre planned data that includes a defense			
	Investors	Wholesale Clients	Retail Clients
	Publicly listed companies will see a movement in the stock price during the next available trading session (should be less pronounced)	Wait and see attitude	Further validation is requested by clients
Media drop the story as interest diminishes			
	Investors	Wholesale clients	Retail clients
	Stock valuations normalize	Are product centric and will base decisions based on individual product specifications	Forget about the situation and continue as usual

Scenario Comparison

The principle difference between the two scenarios is the point when the corporate view is presented. In Scenario 1, the view is presented much latter in the process and significant time is afforded the media to formulate it's own opinion, an opinion that is likely negative. In scenario 2, the corporate image is presented early and thus the media is compeled to present opposing sides.

As the media is in the business of reporting events that are out of the ordinary, it has a tendency to gravitate towards the negative. This attitude continues until the story interest subsides or the situation has been corrected. In a negative brand event, the longer it takes the financial services provider to react, the more time that is provided the media to continue its negative perspective, thus increasing the time it will take to recover the brand. The following graph illustrates the correlation between time and media visibility for both scenarios.



Media's reporting criteria

The criteria by which the world's media judges a story worthy of broadcast or publication is extremely important for corporate communications departments of diversified financial services providers. A good understanding will assist in better preparation and as a result in more effective brand recovery campaign as well as a better reaction to competitive events.

The three principle areas of importance to a diversified brand are:

1. Deals of substantial capital value – A large merger or acquisition, significant secondary offer, large and unusual block trade on capital market activities are all subject to media scrutiny. Eg. HP merger, Credit Suisse announcing \$3.5 Billion to be spent on acquisitions.
2. Human interest – A rough trader, senior executive compensation plan, change international expansion plans and, annual meetings are all examples of human interest stories that the media will follow. Eg. John Rusnak of AIB and Nick Leeson of Barings trading.
3. Deals that involve national or internationally recognized brands – Partnership agreements, management agreements or buyouts are all newsworthy events. Eg. French La Poste financial operations and their competitive treasury activities.

The majority of interest stories originate in the wholesale banking operations. Wholesale has greater appeal to the media because it is susceptible to all three of the principle reporting criteria.

The media as a trusted independent source

Although clients often have long term trust based relationships with financial services providers, this trust does not outweigh the trust that clients put on media sources. Most clients have grown up in the media age trusting the credibility and independence of the news. At the same time, most clients, especially retail clients, are cynical of large organizations and distrustful of authority. The result, the media is seen as an independent source with no vested interest.

Media message ≠ Financial Services Message = Media Message seen as true

This is the situation that an FSP must avoid, conflicting messages will result in the media perspective being adopted while the credibility of the FSP is degraded. It is essential to

allow the media to manage the delivery of the message and the financial service provider support and clarifies the message.

This trust clients put in the media can be used to advantage, if the media message and the FSP message are the same, the credibility of the FSP is strengthened.

Media message=Financial Services Message=Financial Services Credibility Increases

The media has a global reach today, an FSP is no longer insulated from global operations however, must be ready to adapt to operational failures on a global basis. AIB's trading problems occurred in the US, however had greatest visibility in Ireland, the Barings situation took place in Singapore however had greatest media impact in the UK. Both are good illustrations of the pervasive nature of the media today.

Impact of a Significant negative brand situation

A significant negative event effects the firm in many ways. The chart below outlines some of the areas that are principally affected.

	Client Retention	Short Term Client Attainment	Long Term Client Attainment
Wholesale	Minimal	Moderate	Minimal
Retail	Minimal	High	Nil
Competition	Strengthened	Moderate	Nil

Wholesale

Wholesale client retention is tied into product renewals, indicating that competitive options are often considered before renewal. With the possible exception of the products that expire at or shortly after the negative brand incident, the wholesale client will be minimally affected.

Barings is a good example, in February of 1995, Nick Leeson a derivatives trader at Barings in Singapore accumulated trading losses of over one billion dollars. Client retention levels, measured as average length of relationship, were identical only a few years latter as they were prior to the incident.

Short term client attainment is affected by a negative incident, wholesale clients are risk adverse and wait to check the status of the incident. In the longer term, the effects are minimal. A wholesale client is often a financial professional and although they do not forget the incident, the financial goals are more important. It is reported that to this day, Barings clients still mention the incident that happened over 7 years ago, however, still continue to do business if the products under consideration fulfill needs.

Retail

Retail clients are loyal clients, often with client retention levels measured in decades for products such as savings accounts. Although some clients are concerned and contact the FSP, once reassured, they continue the relationship.

In the case of AIB, many clients did contact the branch, once reassured they maintained

the relationship and no measurable reduction in clients were experienced.

The largest affect of a significant brand situation is in the area of short term client attainment. For retail clients that are looking for a new FSP, or for a new product such as a mortgage or credit card, they do not consider the brand in question. AIB saw client attainment numbers reduce over the first few months but quickly recovered to pre incidence level. Another example is the Barings mutual fund products, while intermediaries may mention the Leeson incident, retail clients purchasing the funds are not concerned.

Competition

Competitors are often the biggest gainers from a negative incident. Client retention is strengthened in the retail operations because clients feel that they are with an FSP that does not have similar problems. In fact, many retail client become more accepting of operational inefficiencies within competitors. This does not last very long, however, but does present an opportunity for competing organizations to launch new brand building campaigns.

Wholesale client attainment, at least in the short term, becomes less expensive as client are less accepting of the problem brands. In the long term, wholesale clients concentrate on products and the brand issues of the past are less relevant.

Risk management and Brand Value

Financial services providers have by enlarge not developed good brand valuation techniques which has resulted in a lack of risk controls associated with brand incidents. While the long term effects of poor risk management for retail loans can be devastating to the bottom line over the course of several years, a single rogue trader can drastic change the brand perception in just a single day. Although the financial loss is less significant, the effect is much greater.

Distinction between wholesale and retail brands

The distinction between corporate and retail brands is not clear cut in the eyes of the external observer. Although posing a risk when major negative incidents occur, it may also provide opportunities for brand development.

During normal operations, the diversification of operations increases the brand integrity significantly. On the other hand, the media will not make any distinctions during significant events, thus posing risk to the brand integrity. In the case of AIB, if Michael Buckley (CEO) had not emphasized the difference between the two areas, much greater damage to the retail operations would have been experienced. To illustrate the point, the European press was reporting that AIB suffered the loss, when in fact it was Allfirst, an AIB wholesale subsidiary, a distinction that took several hours to become clear.

Perceived link between wholesale and retail brand			
Media	Investors	Wholesale Clients	Retail Clients
Strong	Strong	Minimal	Moderate

Predictions

- **FSP's that underestimate the media's influence on its clients will be at risk during a significant brand event.** Financial services providers that contradict the media in the belief that clients will trust the firm above all will begin to experience brand degradation and a loss of client trust. Those firms that respect the influence of the media will be able to use the media to strengthen the relationship with its clients. During a negative brand incident, firms that are open and honest with the media, that provide all the information needs in a timely fashion and remove hurdles will assure that the message to its clients will have limited negative impact.
- **FSP's with well developed disaster plans will be able to control the media's portrayal of significant brand events.** Financial services providers that rely on the experience of senior executive to react during a significant brand event will lengthen the time that the media will cover the story and thus increase the negative impact on the company. Firms that have well prepared plans with trained personnel and available resources that can be actionable quickly, will see minimum affects on the brand integrity.
- **Brand value will be undervalued at FSP's and not be considered during the development of operational risk.** Financial services providers will continue to develop risk management systems for areas that have a high capital risk, not a significant brand risk. Wholesale banking will continue to be the source of significant brand events that threaten the reputation of the FSP.

Recommendations

- **Create brand recovery plans that can be activated immediately following a significant brand event.** Prepare your message, your people and your collateral in advance and keep it up to date and ready for immediate activation. Communicate the plans to all areas within your operations and assure that everyone knows what they can and more importantly, can not say to external sources and clients. Consider a diverse number of event possibilities including distant operations and plan for each separately.
- **Identify the areas most susceptible to significant brand events and implement risk management programs.** Put emphasis on operational risk management for events that can directly affect brand perception with a particular emphasis on the wholesale operations that are far more appealing to the media.
- **Do not directly contradict the media, but provide the raw data that that the media can interpret in a positive way.** Support the media's need to get information by being accessible and having raw data that the media can interpret. Avoid public contradictions but rely on data and interaction with media sources to control the message. Let any corrections come from the media itself.

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Report: Leveraging Operational Risk Management for Greater Returns
By Douglas McKibben (06 February 2002) [rpt-0102-0000]

Report: Regulators on the March – Financial Services Beware!
By David Furlonger (22 January 2002) [rpt-0102-0000]

Methodology

Example text for methodology statement: Findings are based on a Gartner consumer mail survey of a representative sample of 40,000 adults, aged 18 years and older. Results were balanced to match Census Bureau data on key demographic and socio-economic factors, and projected to be representative of both total households and total adult population. Survey data is from the first quarter of 2001, with supplemental data from earlier periods.

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