

The weight of blame

The public's perception of banks has hit rock bottom, and politicians have pounced on the opportunity provided by the crisis to increase their own popularity. So banks face not only loss of business but also increased regulation. **Duncan Wood** assesses their options in this sticky situation



In an article that has become notorious for its description of Goldman Sachs as “a great vampire squid wrapped around the face of humanity”, *Rolling Stone's* July issue accused the bank and its alumni of manipulating policy and markets to enrich themselves and impoverish everyone else. The 12-page feature might have been a lurid assault on the banking industry, but it shouldn't have come as a shock – it's just the foam on a huge wave of public anger.

From blogs and online comments, to conversations at home and at work, banks are being denounced as evil and criminal, and bankers themselves are ‘thieves’ and ‘incompetents’. A switchboard operator at one PR consultancy that was contacted for this article volunteered her own suggestion about what should be done with the banking industry: “Personally, I think they should all be lynched.” She's not alone in that belief.

In the past, banks might have argued their most important stakeholders are their customers, investors and regulators – probably in that order – and if their reputation with those groups was in good shape, they could afford to ignore the feelings of the wider public.

The crisis has changed that. Public anger means politicians want to be seen to be taking action – and that means introducing new rules that have the potential to damage bank profitability and destroy certain businesses. It also means some bank employees have become disenchanted with the industry (*see box*). In this environment, if the general public

believes bankers are fraudsters, crooks and con men, it matters.

“There has been enormous reputational damage,” says Larry Walsh, global practice leader for reputational risk at Marsh Risk Consulting in New York. “There was already a general movement against big banks and big business, with people becoming less brand-loyal, so this seeming meltdown on Wall Street couldn't have come at a worse time. The attitude among the public is going to support increased regulation – and the nature of banking businesses is going to change.”

Some firms have tried to measure the change

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in public attitudes. New York-based BrandAsset Consulting has built a database based on periodic surveys of consumers in the US and other countries – more than 700,000 individuals have contributed their views on 22,000 different brands. Over the past few years, the firm has been tracking changes in the way consumers in 12 countries perceive individual banks and the banking industry generally, and has found the elements of brand identity that are

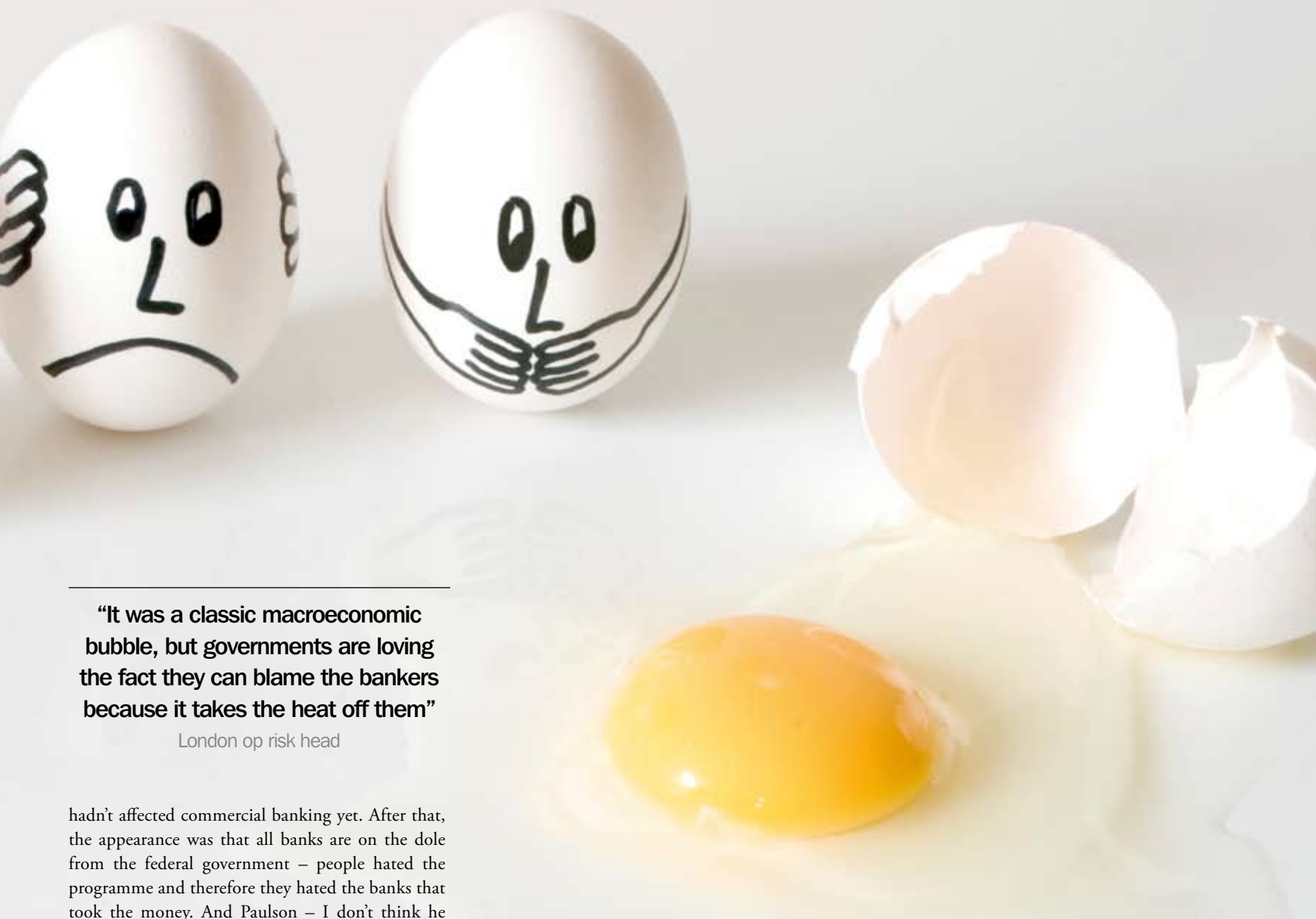
most closely correlated with shareholder value have plummeted – even among people who are involved in the financial services industry in some way.

These ‘financially involved’ people trust banks less (down 20% for Europe and 22% for their counterparts in the US, according to the firm's surveys) and they also perceive them as less “durable” – the august, respectable deposit-taking institutions of yesteryear are now seen as fly-by-night betting shops.

Turning point

It didn't have to be this way, says Wayne Abernathy, executive vice-president for financial institutions policy at the American Bankers Association (ABA). On October 13 last year, the then Treasury secretary, Hank Paulson, called the heads of nine big banks into a meeting in which he told them they would be compelled to accept an infusion of public funds. Some of the banks needed it, some didn't. Between them, they ended up taking \$125 billion, in return for equity. Over the months that followed, more than two hundred smaller banks also received public money – whether they asked for it or not. Abernathy argues the public mood turned decisively against banks at that point.

“That is where you really saw a nosedive in the public perception of banks. Paulson called in those nine major financial institutions and told them they would be taking taxpayer money. Up until that point, we had been successfully making the case there was a meltdown on Wall Street but it



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hadn't affected commercial banking yet. After that, the appearance was that all banks are on the dole from the federal government – people hated the programme and therefore they hated the banks that took the money. And Paulson – I don't think he thought twice about what the reputational impact would be when forcing banks to take money from the federal government, especially banks that didn't need it,” he says.

Since then, life has become much harder for the ABA's Abernathy, who oversees the association's work on regulatory affairs: every time regulators have a close call to make, he says, the decision goes against the banks.

“We are vulnerable to populist excesses where people recommend ideas that, on second thoughts, might not seem so good. But it's hard for us to make our case. When you have a negative reputation, people don't take those second thoughts. So we end up having to respond to a lot of really bad ideas that have a certain kind of populist appeal.”

As an example, the public relations head for one large consulting firm says a recent equity market

controversy – first brought to public attention by an article in the *New York Times* – prompted one US senator to rush out a statement condemning the practice and calling for an immediate ban on the same day the article was published. The next morning, the senator's staff got in touch with the consultancy to ask for a briefing on what the practice actually involved.

The fact banks have shouldered most of the blame for the crisis suits regulators and politicians down to the ground, says the head of op risk with one London-based financial institution – he argues the credit bubble was inflated by too-low interest rates, and that investors and consumers were happy to feast on the cheap money banks were able to provide as a result. “It was a classic macroeconomic bubble, but the governments are loving the fact they can blame the bankers

because it takes the heat off them. And the consumers won't admit to the fact they loved the boom as well – were they criticising the banks for lending them cheap money? No, they weren't,” he says.

A senior figure at one trade association in London goes further, accusing politicians of deliberately stirring up public anger to promote a range of regulatory responses that are unconnected with the causes of the crisis – such as reining in pay in the sector, corraling the entire derivatives market and dismantling pre-crisis moves towards lighter-touch regulation.

What is to be done

But the story behind the public's anger is somewhat irrelevant now. The question is, can banks do anything about it? For Ed Lebar, chief executive of

LIFE AFTER THE MELTDOWN

It's rare for a derivatives trader to enter into a swap that is guaranteed to lose money, but when pupils at a state school in Kingston, south-west London, returned to class in September, they found exactly that – their new maths teacher had chosen to swap the financial rewards of the trading floor for the job satisfaction of the classroom. This former JP Morgan derivatives trader is one of a growing number of refugees from the world of high finance that have opted not to return, says Michael Moran, chief executive at Fairplace, a London-based firm that helps redundant workers find a new role.

"This guy was in his forties, had already made quite a lot of money trading derivatives, and decided that he wanted to do something that was, to him, more worthwhile," he says. He was the second of Moran's derivatives trading clients to opt for a career teaching maths rather than trying to force their way back into finance. Other clients have pursued more personal passions – one set up a garden centre; another became a football statistician.

It's still more common to see jobless traders seeking a new desk at another firm, but Moran says he's seen an increase in clients who are disenchanted with life in the markets – and part of the reason is the industry's sudden unpopularity. "In the social strata, bankers realise they are now somewhere below estate agents – they're not popular. When they were making money, I suspect that might not have mattered, but now it does, and I don't think there has been a lot of sympathy in the UK for bankers who have been made redundant," he says.

Other recruitment consultants report a similar phenomenon. "Outside of this sector, taxpayers are feeling a little bit sore about having put in £1.3 trillion worth of support and I have spoken to people in the investment banking community who – for the first time ever – almost feel guilty about their work," says Matthew Jaquiss, managing director with London-based financial recruiter Eames Consulting. The inevitable consequence, he says, is that morale in the industry has suffered – former high-flyers have had their wings clipped.

Riding out the storm

But in other ways, reputational issues aren't having much impact on investment bank employees and the job market. Consultants say senior bankers are generally seeking to ride out the storm rather than take early retirement or leave the industry, while junior employees, recent graduates and MBAs



Michael Moran,
Fairplace

might simply choose to take a sabbatical, or delay entry into the market until opportunities improve.

Individual firms are also largely untarnished. Goldman Sachs might have suffered a volley of slings and arrows this year, but its allure is undimmed, says Jaquiss. "I think there are two sorts of people: those that want to work for Goldman Sachs and those that don't. Goldman is still viewed as a fantastically well-run organisation where the best of the best work – and you either aspire to that or you don't."

Belinda Walmsley, associate director at recruitment agency Joslin Rowe in London, says the same is true of other firms who have taken a battering in the court of public opinion. "I don't think any of the premier names have been weakened to the extent that someone would come to us and say they would work for Bank X but not Bank Y."

Potential employees are differentiating between banks that performed well in the crisis and those that didn't – but this isn't a reputational issue, says Dan Hudson, chief operating officer at Execuzen in London. "It's not about reputation. At the end of the day, it is numbers that count. People want to work for a business with positive momentum, where there is ambition and a budget to keep growing."

As a result, candidates are quizzing potential employers more pointedly on issues relating to performance, strategy and job stability – and banks that don't have a great story to tell are finding it more difficult to attract people.

One recruiter singles out RBS – which has had its compensation policy restricted by the government – as an example. "We have seen people that would like to exit RBS because they feel they would get paid better elsewhere and would also stand a better chance of keeping their jobs elsewhere. We have also seen evidence that selling RBS to candidates is increasingly difficult. They will be back, I'm sure, but at this point in time, RBS is not the most attractive bank in the world."

BrandAsset Consulting, the industry's fundamental problem is that it has allowed itself to be defined by its critics.

"The primary function of banks has got lost. They have been swept up in the defensive mode as opposed to really talking about what it is they do – which is basically lending money to support businesses, helping to create jobs, financing innovation. These are incredibly important roles at a time when the economy is stagnating, but this story isn't being told."

One of the reasons it's not being told – or not getting across effectively – is that much of what banks do is fairly complicated and the scope for it to be misunderstood or misrepresented is huge. The London-based trade association staffer says: "It is incumbent on industry to go the extra mile – to talk to the public about products, to explain risk. People need to be able to judge what financial assets can deliver and the role banks play in the economy."

But the op risk head is skeptical that banks would be able to get this message across. "Academics might make that argument, but in the real world that kind of story wouldn't serve anybody in the media," he says. "They want to dramatise failure, not preach success."

Banks don't have to rely on reporters to do their communication work, though, says Anne Rivers, director of brand strategy at BrandAsset Consulting. The firm has identified tens of different 'touchpoints' – ways in which banks communicate with their customers or the wider public – that can be used as a vehicle to rebuild trust and change perceptions. They range from face-to-face transactions to market-

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ing material and even social networking sites such as Facebook. Used effectively, these touchpoints can help banks rebuild the damage done by the crisis, she says.

To some, this sounds dangerously like using spin and presentation to put a gloss on things. "I think a lot of institutions see reputation risk management as simply managing communications and I think that is nonsense," says the op risk head "I mean, it is part of it – but a small part. Managing a reputation is really about basic compliance, conduct of business, and clarity and cleanness of operations. It is all the basic things that drive a good, solid business model – and if you're not doing those things, there is no point telling people you are."

Jenny Rayner, director of Abbey Consulting, a UK-based reputational risk consultant, sees it the same way: "There is a perception that banks exist to line their own pockets and clearly that's not true – they have a strong social role – but the man in the street might not see it that way right now. Banks could take the PR route to dealing with this but that could end up looking a bit cosmetic and actually further undermine the public's trust. What they



really need to be doing is looking carefully at how they run their businesses and ensuring they act with integrity at all times," she says.

She advocates taking action in three key areas – first, tackling pay, so senior management and traders aren't being rewarded for taking short-term risks; second, on risk management itself so banks are run more responsibly; lastly, on board composition, ensuring the industry's last line of defence is stocked with people who genuinely understand the banking business.

But all of that sounds much like the remedies already being pushed forward by regulators anyway – so perhaps rebuilding reputation is simply going to require the industry to do what it's told and hope for no more blow-ups. "It is the kind of thing you can't do quickly and easily," says the ABA's Abernathy. "Day in, day out you just have to keep doing the right thing, communicating with your customers and continuing to provide good, solid services." ▢

