Grant Thornton
An instinct for growth™

Managing reputation risk

Grant Thornton's professionals can work with you to develop and execute a risk management program for your most important asset — trust.

Why reputation risk is important

The Office of the Comptroller of the Currency has identified eight risks that banks need to manage: credit, interest rate, liquidity, market, operational, compliance, strategic and reputation. **Although it is called out as a separate category, reputation risk events are frequently associated with events in one or more of the other categories.** Reputational risk is often a result of questionable judgement, operational shortcomings or bad conduct. Reputation loss can be viewed as the multiplier that makes other risk events much more costly than they otherwise would be. Risk mitigation involves addressing the underlying problem and also addressing the reputational consequences. However, there are also external events that are not found in any other risk category — deliberate reputational sabotage, unfounded rumors and accusations, political scapegoating, or guilt by association when a peer company has an incident. **The growth of social media has accelerated the reputational damage cycle, and is making the speed and magnitude of the potential impact ever greater.**

Leading practices in reputation risk management

Leading institutions have found ways to predictably and reliably enjoy favorable market and public perceptions. Some achieve this happy state by maintaining a low risk profile in all of the other categories of risk. However, this is not always the best course for the business, since taking on risk is necessary to achieve the goals of the enterprise. Furthermore, even a firm with a low risk profile can find its reputation challenged by events outside its control. Thus, a robust reputation risk management program needs to be embedded within the enterprise risk management framework, even if the business is low risk. That means that all the elements of risk management need to be addressed, including the control environment, risk assessment, governance, communication and monitoring.

Keys to successful reputation risk management

Because reputation risk is difficult to quantify, executives struggle to understand their vulnerabilities and develop effective mitigation programs. It is easy to overestimate or underestimate risk. Management needs to establish a baseline by having a clear-eyed view of how their institution's stakeholders currently perceive it. **Measures include the level of litigation, legal and regulatory issues, customer complaints, social and news media criticisms, and pressure group campaigning.** Institutions should also review their risk register for items that have a particularly dangerous reputational multiplier. The use of scenarios helps gauge this. With this understanding, the firm can build a plan for reputational resilience that is balanced with hard-edged commercial considerations. One strategy is to strengthen the importance of trustworthiness within the culture. Another is to build the brand so there is a reservoir of goodwill. A strong brand reinforces the culture and also influences how stakeholders view an unexpected event. In a crisis, the firm will be best served if it has a rapid-response capability. It will need to demonstrate ownership, communicate decisively and fix the problem swiftly. In today's accelerated communication environment, the window for getting control of the narrative can be very short — sometimes just minutes. This can only happen if there is advance preparation. There also needs to be a plan for regaining trust in the event it is lost.

How can we help

Grant Thornton LLP provides a full spectrum of tailored services to help financial institutions develop a reputation risk management program. We work closely with them to help structure a reputation risk management maturity assessment; develop a target state roadmap; and manage the planning, design and execution of an initiative to enhance the function.

We specialize in working with clients to identify, remediate and resolve their risk management gaps so they meet and/or exceed regulatory requirements.

Our risk management services

Grant Thornton offers insights and practical risk management solutions tailored to all three lines of defense. Our teams consist of former financial services executives, regulators, compliance officers and senior leaders who have served in key risk management roles in financial services, and have experience working with institutions of all sizes.

Our experience includes:

- Enterprise risk management
- Operational risk management
- Risk assessment and risk appetite
- Governance and board oversight
- Benchmarking
- Internal controls
- Building a first line of defense
- Credit risk management
- Allowance for loan and lease losses and current expected credit loss
- Stress testing and Comprehensive Capital Adequacy Review/Dodd-Frank Act Stress Testing
- Reputation risk management
- Outsourcing or co-sourcing of activities
- Model risk management
- Third-party risk management
- Data management and reporting
- Regulatory requirements
- Internal audit

Our financial services sector experience

Grant Thornton's Risk Center of Excellence within the Financial Services Advisory practice has experience working with a number of sectors in financial services, including:

- Banks, trusts, and agencies/branches of foreign banks operating in the U.S.
- Insurance companies
- Asset management and securities
- Markets and infrastructures

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Benefits of working with our team

- Dedicated Risk Center of Excellence providing thought leadership and delivery of risk advisory services to clients.
- Leading-edge experience gained working with 13 of the largest banks in the United States and 17 of the 20 largest global banks.
- Broad and deep industry experience with all types of financial institutions.
- Knowledge of current emerging financial services challenges and regulatory mandates that call for risk management solutions.
- Ability to leverage Grant Thornton's tools and leading industry practices to shorten project time frames and reduce overall project costs.
- A risk management team that can be deployed locally based on our client's geographic requirements and footprint.

Contacts

Jose Molina
Principal
Financial Services Advisory
T 1 312 602 8330
E jose.molina@us.gt.com

Nigel Smith
National Managing Principal
Financial Services Advisory
T 1 212 542 9920
E nigel.smith@us.gt.com

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Connect with us

grantthornton.com
@grantthorntonus
linkd.in/grantthorntonus