Racheline Maltese
Matthias Vollbracht

Trust Meltdown VI

The Financial Industry Needs a Fundamental Restart

Trust Meltdown VI

Racheline Maltese
Matthias Vollbracht

InnoVatio Publishing

1985 INNOVATIO Data Driven Solutions 2015

ISBN 978-3-906501-09-3

Contents

Preface

Introduction

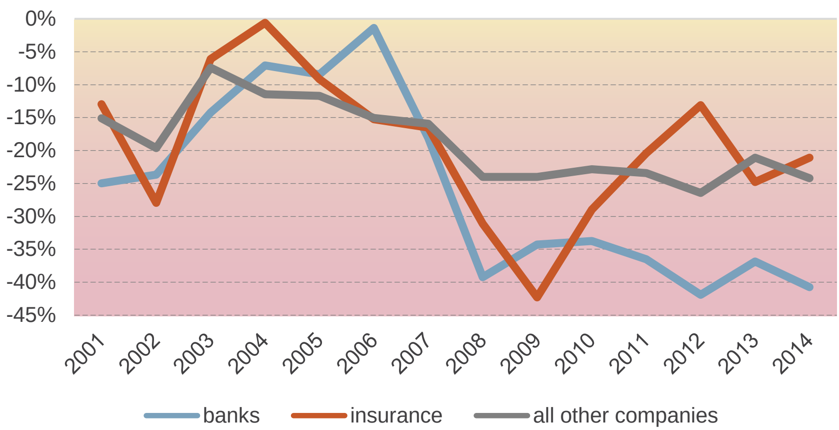
Introduction

Six years since the global economic crisis of 2007/2008, which was triggered by the collapse of Lehman Brothers and related shocks in the financial sector, and the trust meltdown has shifted from an event to a general condition.

Banks remain high risks to economies, customers, and shareholders, as little change has been seen in their behavior despite promises of reform and action by regulators. But with the industry viewing fines and lawsuits as an ordinary cost of doing business, scandals – whether they are about price fixing, tax evasion, or inappropriate sales actions – no longer surprise.

It is not just the banks that are suffering however. The insurance industry has recovered comparatively, but that still leaves the media's assessment far more negative than it was before the 2007/2008 crisis. With more than 20% of coverage negative on balance, this so-called recovery is hardly good news. Companies in other industries also continue to suffer, not just from global economic conditions, but from the condition of a lack of global trust, which many in the corporate world have contributed to by ignoring both common sense and key ESG values.

Long-term image of banks, insurers, and other companies

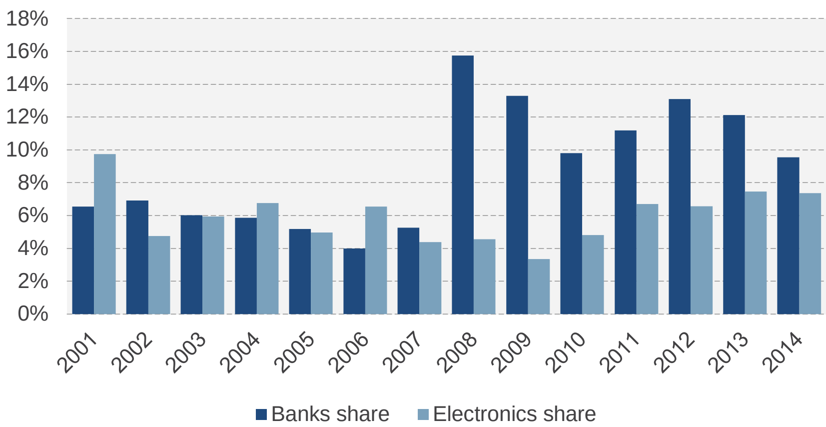


362,024 reports on companies on international TV news, January 1, 2001 – December 31, 2014

The trust failures of the corporate sector have, of course, spilled over to governments and politicians. Without regulatory action curbing corporate wrongdoing, especially in the financial sector, regulatory agencies look weak, and politicians look more interested in reelection or highly-paid lobbyist positions than solutions when they use Wall Street vs. Main Street rhetoric without looking for solutions that build strong economies for all.

The business as usual coverage on the trust meltdown regarding the financial sector has led to lower coverage levels recently. A measure is the relative importance of the banking industry compared to other sectors. Prior to 2007/2008, the electronics/IT industry received similar awareness levels on international TV than the banks. From 2009 to 2013, coverage on banks has outpaced awareness of the electronics/IT sector to a large extent. Last year, however, the gap has narrowed. And despite cyber risk issues, the electronics/IT sector – often referred to as the digital industry – is nearly on par with the banking industry. Also, the media has started dedicating attention to financial solutions coming from non-banks such as internet giants (Google) and mobile phone producers (Apple). In September 2014, Apple launched its new iPhone 6 and with it a mobile payment application. Although the product is not scheduled to be released in Germany before 2016, news coverage on the service attracted more media hits than total news coverage on the bank with the largest number of customers in Germany.

Long-term share of coverage on banks and electronics/ IT companies



338,495 reports on companies and industries on international TV news

Also emblematic of the trust meltdown has been the lack of evaluation of ratings agencies and consultancies, which have largely continued with business as usual since the 2007/2008 crisis. The media continues to not examine their methodologies or accuracy, and despite past failures the media still frames their advice as appropriate for action.

The reestablishment of trust will take time and proactive engagement. The cessation of harm is not enough. Corporations, businesses, and other stakeholders will need to break out of the business as usual attitude to create a new paradigm. Long-term commitment and transparency is key. Trustworthy behavior is good for business, and must be engaged on an ongoing basis, not abandoned if immediate praise does not result. Here, a “constructive news” approach, as favored by Ulrik Haagerup, would be of significant benefit.

The role of the media in this context has not been subject to in-depth-analysis so far. On the one hand, being a watchdog and highlighting wrongdoing and scandal clearly helps to inform the public and enable responsible decisions (e.g. switching client relations). On the other hand, experts argue that a focus on banks only when it comes to the causes of the financial crisis is not sufficient. The inflated American real estate market would not have been possible without the liquidity provided by the central bank and political pressure on government sponsored enterprises like Fannie Mae and Freddie Mac to meet affordable housing goals[1]. But as the media and the public seem to accept trust meltdown as the new normal, the question arises to what extend this still is an adequate narrative in reporting on the financial industry and whether there are role models of change, so that solutions of the problems become visible as well and put pressure on institutions to change for the better. This year’s trust meltdown report and its sister, the Global CSR index report, highlight individual examples of change for the better. If European banks incorporate reputation assessment into their day-to-day business procedures and Indian banks embrace strong regulation regarding customer protection and at the same time outperform many of their Western peers regarding shareholder value, signs of change are visible.

[1](http://www.presidency.ucsb.edu/ws/index.php?pid=21697#axzz1jh10frXI)

Section 1

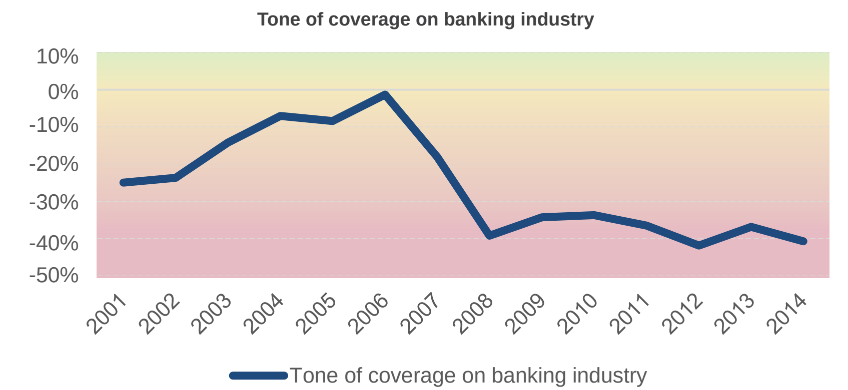
The Banking Industry as Emblematic of the Trust Meltdown

Trust Meltdown

Introduction

One of the arenas in which the trust meltdown is most visible is in the banking industry. Media coverage of the banking industry highlights the different constituencies that interact with banks and showcases the comprehensiveness of today's trust problems.

In many ways, the trust meltdown now looks like a permanent condition. Tone for the banking industry on international TV news was actually worse in 2014 than at the height of the initial trust crisis in 2007/2008. The claim that banks are engaging in problematic, trust-damaging behaviors is now shown as a given, with little clear effective will to change this being demonstrated by the industry or its regulators. Banks have become fodder for speeches from politicians on making change to benefit society, but too often politicians are shown to be embroiled in banking scandals (as in the case of Hypo Alpe-Adria) rather than fixing them.



45,761 reports on the banking industry on international TV news, January 1, 2001 – December 31, 2014

Consumers, who have little power and few choices in the face of the banks, must now decide if banks are worthy custodians of their money, while corporate managers and entrepreneurs must consider the stability of the banking system when evaluating their own business choices. Additionally, investors must consider whether banks are profitable and able to effectively maintain value and create wealth.

Meanwhile, positive coverage of non-bank financial services suggests journalists expect these non-banks to take over business, as traditional banks prove themselves unable to adjust to the trust meltdown.

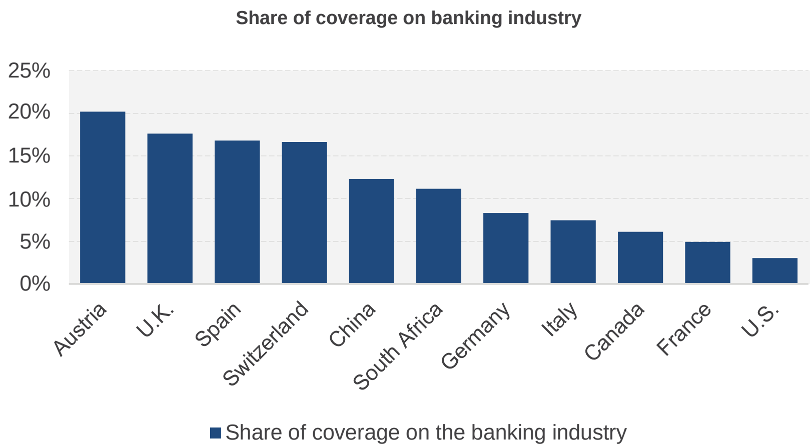
Ultimately, banks are emblematic of the faith consumers, corporations, and investors are asked to place in financial institutions, markets and regulatory authorities. An analysis of media coverage regarding the industry over the last year unfortunately highlights the extensiveness of the trust meltdown and the way the industry is coming up short.

Global Television News on Banking Industry

Reaching the Consumer

Television news reaches the broadest audience of non-expert consumers. It has the largest impact on the perception consumers have of the economy and the banking industry. Media Tenor's research has shown it has a significant impact on feelings of economic confidence, with economic confidence measures following the tone of coverage on television news. Even individuals who do not watch the evening television news broadcasts are affected by its content, as TV news forms the basis for perceived wisdom and water cooler chat about what the world today looks like.

During 2014, the banking industry has represented a significant share of the discussion on international TV news in all analyzed markets.



4,634 reports on banks and the banking industry, out of 26,094 corporate and business-focused reports on international TV news, January 1 – December 31, 2014.

Levels of banking visibility in both the market with the highest share of industry coverage (Austria) and the lowest share (the U.S.) are indicative of trust-related problems.

In the U.S., low levels of coverage reflect the degree to which U.S. TV news has framed the banking crisis and the trust meltdown as complex issues beyond the concern of most consumers. Only the most severe incidents of misconduct or financial instability from banks receive coverage on U.S. TV news. More often, coverage of the banking industry has looked at cybersecurity events that have compromised account and credit card information.

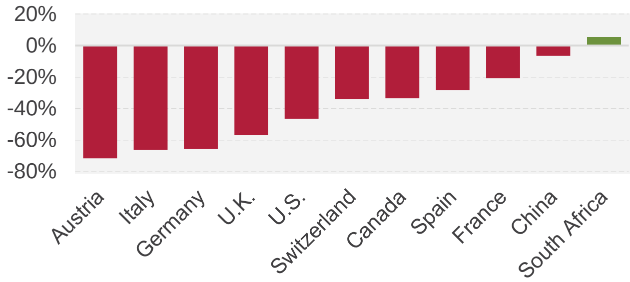
Other covered topics have included high credit card interest rates, student and housing loan concerns, and the overall quality of consumer banking products. Political campaign coverage on the local and state level, as well as jockeying towards the 2016 presidential election, has led to some limited discussion of banking regulation. Specifics have been thin on the ground, however, with little coverage beyond Wall Street vs. Main Street rhetoric. Here, the trust meltdown has been contributed to by a lack of acknowledgement of the importance of regulatory actors in a functioning, trust-based system.

Meanwhile, in Austria, the high level of coverage on the banking industry is largely attributable to coverage of the Hypo Alpe-Adria scandal, which The Wall Street Journal has referred to simply as a “mess” (August 24, 2014). While this scandal may seem confined to Austria at first glance, it highlights the global interconnectedness of the banking industry and the risks that have come with that under-regulated globalization. With links to the Balkans, Germany, and the U.S., the Hypo Alpe-Adria scandal highlights the degree to which trust requires active engagement of corporations, businesses, markets, and regulatory authorities. Without full, proactive participation of any of those constituents, finger-pointing about wrongdoing and multiple overlapping lawsuits can seem to overtake solutions to building a more secure banking system.

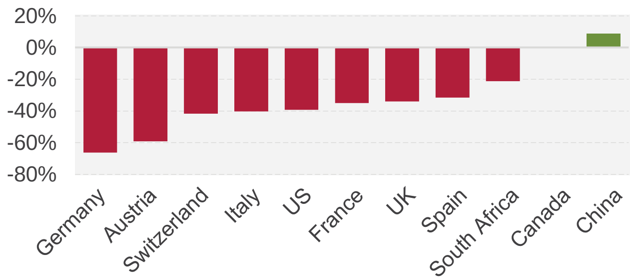
Additionally, the Hypo Alpe Adria / Bayern LB cases have exposed the degree to which politicians are involved in banking roles such as chairmanships and committee functions. This has had a negative result, either because they have not understood the complexity of the banking issues at hand or have not acted in the public good.

In 2014, the image of banks remained dire around the world and worsened in many markets.

Tone of coverage on the banking industry: 2013



Tone of coverage on the banking industry: 2014



6,119 reports on banks and the banking industry on international TV news, January 1 – December 31, 2013. / 4,634 reports on banks and the banking industry on international TV news, January 1 – December 31, 2014.

Risks are Myriad

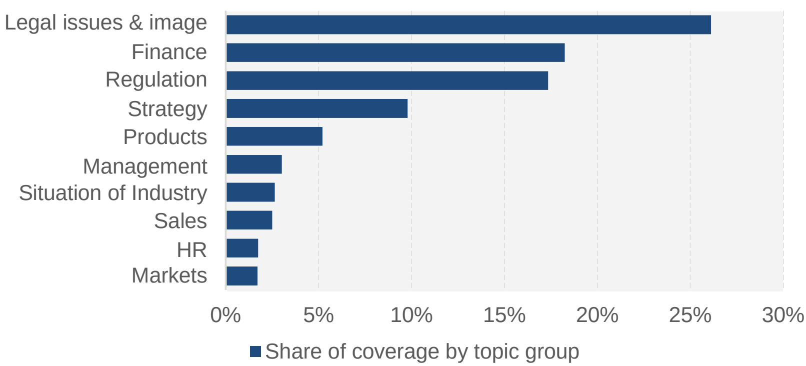
Negative TV news portrayals of the banking industry, however, extend far beyond problems specific to the U.S. and Austrian market. In fact, of TV evening news markets analyzed, the coverage of the banking industry was overwhelmingly negative on 80% of them. The only exceptions were Canada, where banks had a generally neutral image and were largely visible only on expert comment on the economy and markets in general, and China, where the television news broadcasts rarely offer any criticism of any industry or issue.

This international negativity has been driven by a range of issues, including a large number of lawsuits and regulatory actions in multiple markets. Particularly visible has been regulatory and legal action related to the Libor and Euribor rate scandals, in which banks and individual bankers were accused of colluding in the reporting and setting of borrowing rates, in a manner that provided an inaccurate assessment of the overall health of the banking system. One blogger at The Wall Street Journal's website described Libor-related concerns as capable of causing "a terrifying financial crisis" (Jesse Columbo, June 3, 2014). Even for the general audience of the evening television news that might not have a strong understanding of the importance of Libor and Euribor activities, words like collusion, fraud, and scandal were frequently used and effective in conveying a strongly negative picture of the banking industry.

Other issues that reflected negatively on the banking industry in 2014 included lawsuits about mortgage-related issues that have lingered since the 2007/2008 financial crisis; concerns about excessive pay levels and golden parachutes for banking executives; reports of wrongdoing by individual employees that have ranged from sexual misconduct to trading incompetence; persistent worries about capitalization levels; alarms about the impact of regulations on the ability to do business; doubts about profitability; and intense media scrutiny on high-profile and complex litigations.

Coverage on tax-fraud related cases were also high profile and suggested intentional wrong-doing by the industry, as opposed to just wrong-doing.

Share of coverage on TV news by topic group for the banking industry 2014

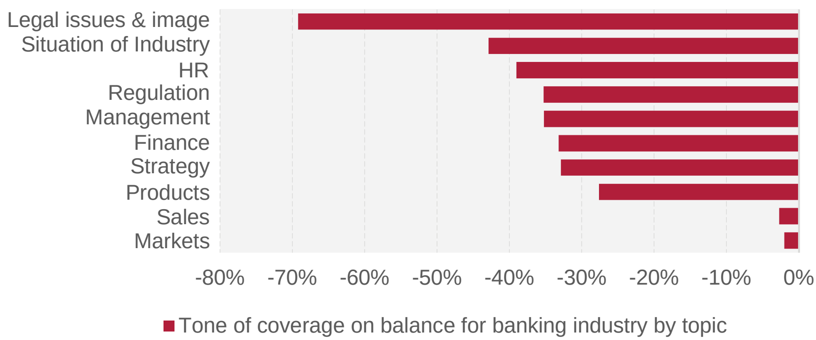


4,634 reports on banks and the banking industry on international TV news, January 1 – December 31, 2014.

In fact, when international TV news was looked at in aggregate, over 25% of the coverage focused on legal issues. The financial condition of banks and regulatory issues represented the next most visible topics. Ultimately, less than 40% of TV news coverage focused on how banks do business or the products they offer. The broad, consumer-focused TV news audience was left with the impression that banks spend more time dealing with legal and regulatory issues and trying to convince governing authorities of their solvency than they do helping consumers protect and grow their money.

Should the business of banks really be fighting lawsuits?

Tone of coverage on TV by topic group for the banking industry 2014



4,634 reports on banks and the banking industry on international TV news, January 1 – December 31, 2014.

A review of the coverage tone for these topic groups paints an even more alarming picture of the banking industry. In every single topic group category, the share of negative coverage outweighed the share of positive coverage, often by a very significant margin. Legal issues were framed as catastrophic; the situation of the industry was strongly criticized; and banks were portrayed as struggling to meet regulatory requirements, even while protesting that their viability was in danger from these requirements.

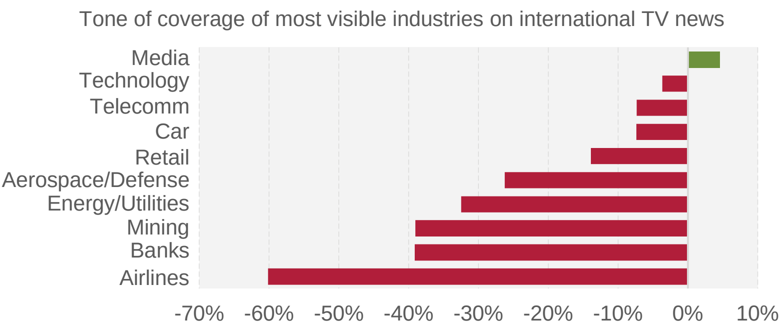
Aspects of banking of most interest to consumers – that is, the quality of banking products such as loans, checking accounts, credit cards, and savings plans – were also portrayed negatively. This provides little incentive for consumers to actively seek out banking products if their quality is described as poor, as the institutions offering them are portrayed as untrustworthy.

With almost 8% of U.S. households considered unbanked and 20% considered underbanked in 2013 (https://www.fdic.gov/householdsurvey/) and with similar numbers visible throughout the high-income economies of

North America and Europe (http://www.cgap.org/blog/measuring-financial-exclusion-how-many-people-are-unbanked), the negative image of banks and banking products is a direct obstacle to increased consumer engagement and banking profit growth in economies of all sizes.

Additionally, the topic areas in which banks have a less negative image – sales and markets – do little to inspire consumer confidence. Rather, the fact that banks continue to perform well in terms of demand and in the stock and bond markets can seem particularly egregious to consumers bombarded with negative information about the industry. If these companies are badly run, pose a danger to the economy, do not follow the rules, and are not being careful with their money, why should the marketplace continue to reward them?

Tone of coverage by industry 2014



26,094 corporate and business-focused reports on international TV news, January 1 – December 31, 2014.

Are Banks Life-Threatening?

While it would be easy to dismiss international TV news' negativity as being a function of general corporate negativity, an industry-by-industry comparison shows just how dire the situation is. Only airlines had a worse image in 2014, and this was the result of an unusual level of high-profile air disasters.

While the share of crashes, as compared to the number of planes in the air continued to drop (http://www.cnn.com/2014/12/29/travel/aviation-year-in-review/), the missing Malaysia Airlines 370, the shootdown over the Ukraine of Malaysia Airlines 17, an AirAsia crash in December, and major crashes for both Air Algerie and TransAsia Airways, brought significant, ongoing, and extremely negative coverage to the industry.

Although banks fared better than that, they still fared worse than the mining industry, which received coverage on fatal accidents and strikes that resulted in protestor deaths in South Africa. In short, banks had an image in the same range as an industry which has a rate of death for workers at least 6 times that of other industries (http://www.bls.gov/iif/oshwc/osh/os/osar0012.htm for U.S. statistics. Numbers for other nations are unclear, but suggest an even higher level of risk. http://www.who.int/bulletin/volumes/85/9/06-037184/en/).The implication that banks are as dangerous to life as high risk employment options and an industry that has been beset by life-threatening disasters is disturbing.

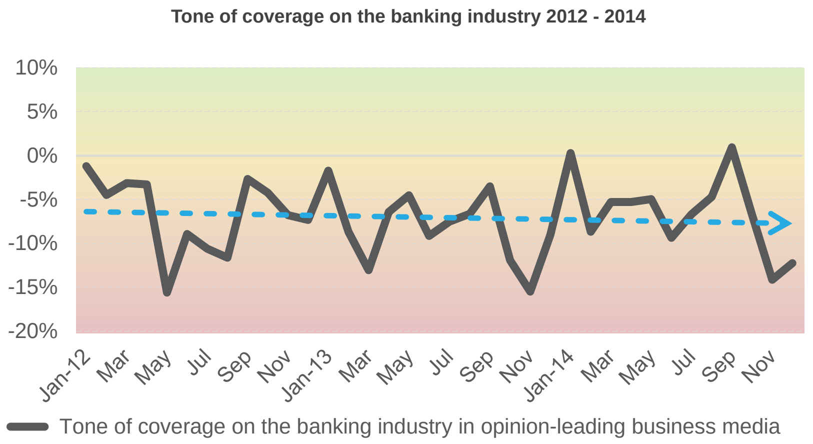
Banks also faced severe issues around ESG (Environment, Social, and Governance) topics, underlining trust problems. During 2014, 4.9% of ESG coverage on international TV news for banks and the banking industry was explicitly positive; this compared with 12.3% of coverage regarding ESG for all companies on international TV news that was positive. The news was also bad when it came to negative coverage, with over 65% of ESG-related coverage for the banking industry having a negative tone, compared with 56.2% of ESG coverage for companies overall.

Opinion-leading Business Media on the Banking Industry

The Corporate Community is More Muted in its Concern

International opinion-leading business media has also offered extensive coverage on the banking industry. This coverage has also helped to highlight key issues facing the industry and the depth and breadth of the trust meltdown. In contrast to international TV news coverage of the banking industry, coverage in opinion-leading business media mainly reaches corporate executives, small- and medium-sized business owners, and investors. This coverage can have an impact on the banking products, services, and providers other corporations select and also impacts corporate confidence outlooks on the economy.

While the tone of coverage for the banking industry is more positive in opinion-leading business media compared to TV news, tone has generally been negative and has declined since 2012. While the 2007/2008 crisis may be over, confidence is anything but restored.



64,922 reports on banks and the banking industry in opinion-leading business media, January 1, 2012 – December 31, 2014

These ongoing and growing levels of negativity are, in part, attributable to which banks have received the most visibility in opinion-leading business media. Large international banks that have faced regulatory issues, lawsuits, and ongoing concerns about capitalization levels and solvency have received the highest levels of visibility. While these topics have been met with less criticism and alarm than international TV news, their persistent visibility highlights trust risks for the industry.

One key issue has been the international investigation into banking products, set up to effectively aid tax evasion. The U.S., in particular, has been pursuing this issue aggressively. While some banks have been able to achieve an acquittal, the message remains that banks have been intentionally involved in criminal activity that harms national interests. Of course, the fact that there has been demand for such products showcases the systemic nature of the problem. It is not just banks behaving badly, but banks responding to the broader trust risk environment.

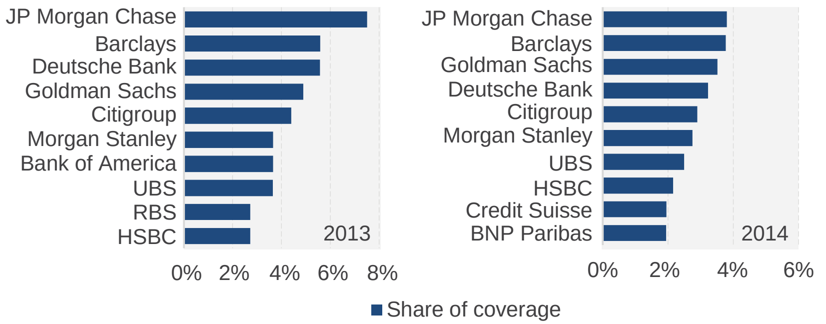
Additionally, media audiences that consume both television news and opinion-leading business news, may form additional concerns about the severity of the trust meltdown, because of the discrepancy between how banks are portrayed on TV and how banks are portrayed in opinion-leading business media. If television news says the problem is severe, but business media presents it as more mild, which media source should audiences believe? Is media directed at a business audience more informed and helping to quell unnecessary alarm, or does business-focused media's lower level of concern about the banking industry suggest a pro-business bias that overlooks the concerns of Main Street?

Is there an industry leadership vacuum?

Of the ten most visible banks on opinion-leading business media, only two have positive images. However, this positivity is marginal, and does not reach the recommended level of at least 10% positive coverage on balance. The other eight banks have marked levels of risk, deriving from a range of topics.

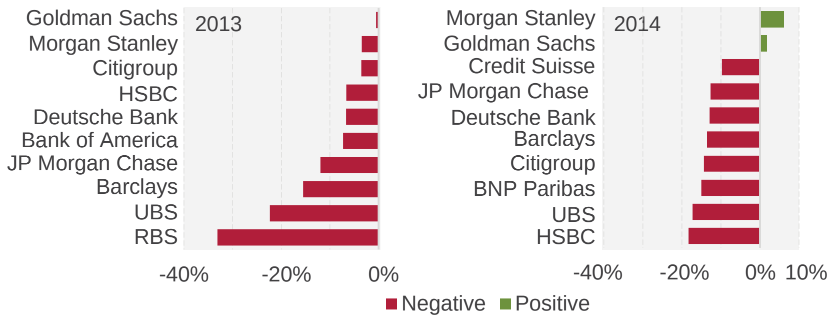
When compared to 2013, the news look even worse – while a few banks were able to improve their image through better profits and concerned cultural change, many of the most visible banks had a worse image in 2013 than the year before.

Coverage on banks



13,686 reports on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Tone on banks



13,686 reports on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

In 2015, banks will need to make extreme changes to restore trust. First, it must be clear that they provide a real service to the economy – both individuals and consumers. Only making money out of money through complex, abstract instruments has little benefit outside of lining the pockets of bankers themselves. Regulators, political leadership, and central banks struggling to stabilize economies and fight recession will increasingly no longer tolerate profits from activities that harm the common good.

Banks will need to enact cultural change and support workplace diversity, see that leadership is not financially rewarded for failure, provide products that make sense and benefit the economy, act mindfully with regard to

ESG, comply with existing regulations, and help build future regulatory frameworks.

Of course, banks will also need to stop lots of behavior too. Products that are seen to abet criminal acts, hostile and dangerous work environments, and selfishness that is about profit at the expense of society, have to. Fighting legal crises can no longer be seen as just an ordinary cost of doing business.

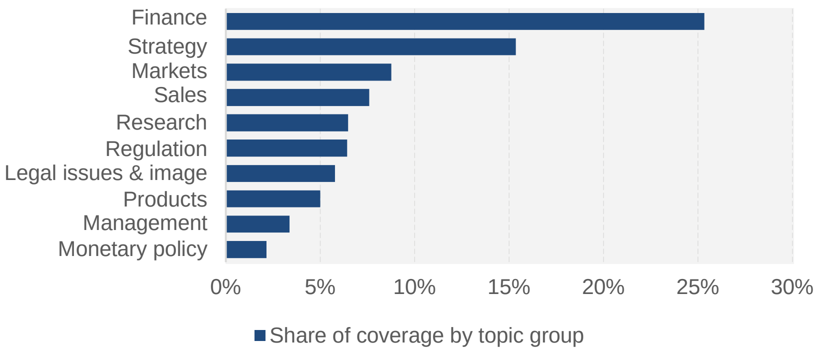
Some banks are starting to make change, but they must take a multi-pronged approach that includes acknowledging problems, identifying core values, specifying strategy and tactics to operate by those values, penalizing those in violation, and showcasing where they have made improvements, as well as acknowledging areas in which they are still failing.

The Banking Activity Picture

Unlike television news, coverage in opinion-leading business media focuses more on banking activities. Finance, however, is a key topic as concerns about solvency and systemic relevance (“too big to fail”) remain critical. Stress tests in Europe and the U.S. have highlighted potential issues at many banks and have resulted in coverage about the quality of stress test design and administration, as well as coverage of capital raising by various institutions.

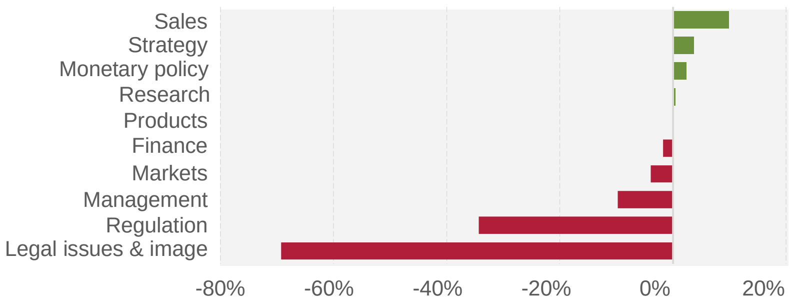
This stress test coverage is central to the trust meltdown discussion because of the way in which it combines bank functionality, economic security, and regulatory performance. Although overall results were better than anticipated, numerous banks were reported to have failed the European Central Bank’s stress tests in 2014. Subsequent coverage of this round of stress tests also highlighted errors and inconsistencies in the process, with the European Central Bank and the European Banking Authority coming up with significant differences in some of their examinations. Analysts, however, noted this did not call the entire process into question – unlike past years. That is hardly an overwhelming vote of confidence even in light of an improvement.

Share of coverage in business media by topic group for the banking industry 2014



13,686 reports on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Tone of coverage in business media by topic group for the banking industry 2014



13,686 reports on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Problems around stress tests are visible in the negativity for banks, regarding both finance and regulation. Legal issues, however, once again produced the most negative coverage. This coverage that was most in line with that on television media, suggested that business media was aware of and in agreement with risks facing banks, but was willing to provide a more diverse picture of the industry despite this risk.

Coverage of the banking industry also included significant attention to national and international leadership, with strong visibility for figures like U.S. President, Barrack Obama, German Chancellor Angela Merkel, ECB President Mario Draghi, and Japanese Prime Minister Shinzo Abe. This highlighted the strong ties the industry has to political and economic function and the general global condition of trust.

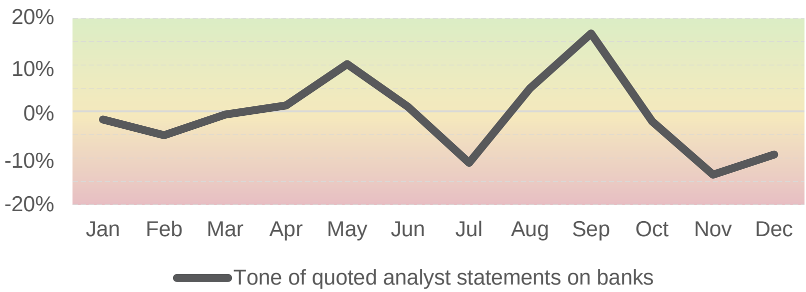
ESG coverage for the industry in opinion-leading business media also indicated trust risk, although the discrepancies were less severe than on international TV news. During 2014, 5.6% of ESG coverage in opinion-leading business media, for banks and the banking industry, was explicitly positive; this compared with 8.1% of coverage regarding ESG for all companies portrayed in opinion-leading business media that was positive. The news was also bad when it came to negative coverage, with over 59.8% of ESG-related coverage for the banking industry having a negative tone, compared with 51.1% of ESG coverage for companies overall.

Quoted Financial Analyst Statements on the Banking Industry

Analysts Grew Skeptical of Industry Over 2014

While financial analysts produce large volumes of comprehensive research, only limited parts of this research and insight is presented in opinion-leading business media. What content from financial analysts journalists choose to include in their coverage provides a perspective, not just on analyst opinion, but on the media agenda and the overall image presented of any protagonist. Over the last year, quoted financial analyst tone on the banking industry has fluctuated significantly. The trend, however, has been downward, as tone has moved firmly into negative territory in response to results reporting. In predictions for 2015, several analysts polled by Barron's mentioned banking stocks as investments to avoid.

Tone of quoted analyst statements on banks 2014



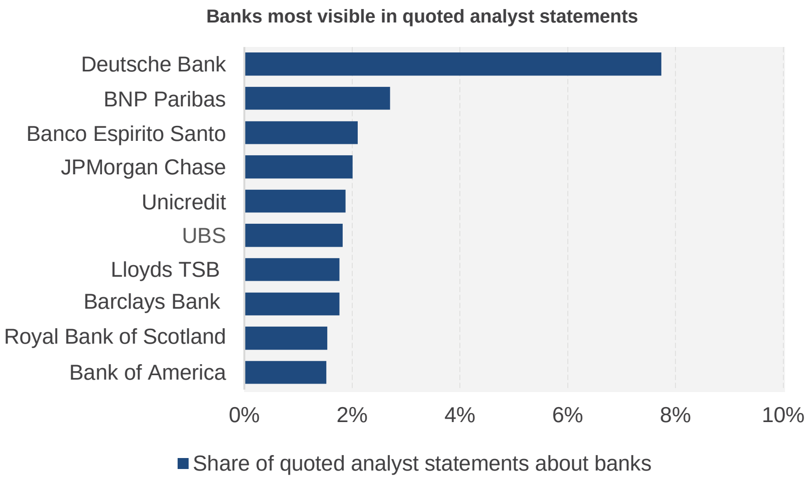
5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Scandal Was a Chief Driver of Analyst Attention and Quotation

The ten banks that were most visible in quoted financial analyst statements during 2014 were banks that faced significant upheaval and scandal, on which journalists sought out expert opinion on what would happen next.

BNP Paribas's visibility was tied in large part to its guilty plea on criminal charges related to transactions with countries under sanctions. The situation was so severe that the bank wound up paying nearly US$9 billion in penalties and terminating over a dozen employees, including its North American head of ethics and compliance. The bank also agreed to have an outside monitor oversee changes to its compliance systems.

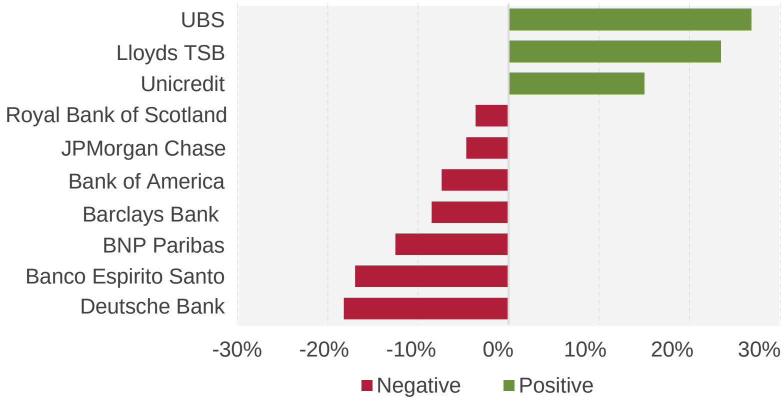
In many ways, BNP Paribas's troubles were emblematic of the trust meltdown – not only was the bank found to have behaved badly, but the very people who were supposed to prevent this bad action were found to be involved. This raised key questions in the vein of Quis custodiet ipsos custodes? That is, who watches the watchers?



5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Financial analysts were negative overall, on seven of the ten most visible banks. Even those that had positive analyst assessments, however, were not without risk around legal and regulatory issues. UBS, for example, faced probes related to tax evasion in multiple countries. Analyst positivity, despite these concerns, suggested that ESG were not really a part of analyst considerations. Rather, legal and regulatory issues mattered to analysts when there was a large – or larger than expected – financial penalty attached. Overall, legal problems were framed as just part of the business reality for banks. No call for change was visible.

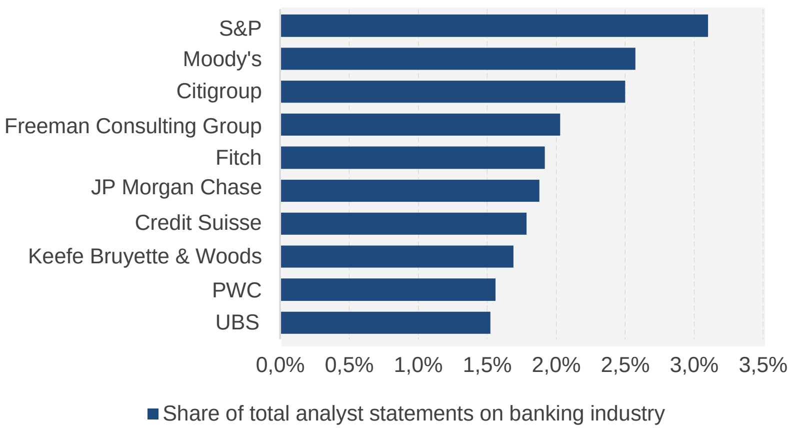
Tone on banks in quoted analyst statements



5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

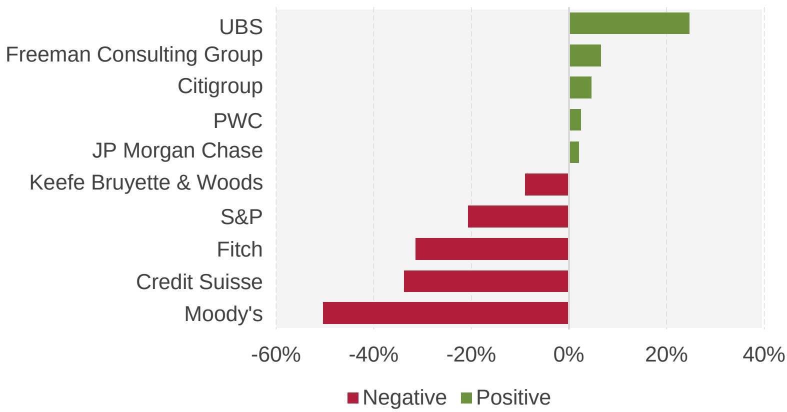
Some of this lack of significant criticism about the industry's woes arguably comes from the degree to which quoted financial analysts were often speaking about their peers. Despite Chinese walls between analyst comment and trading departments in banks, analysts criticizing legal problems of banks would have looked hypocritical, considering these analysts were often employed within banks facing similar legal woes.

Analysts most often quoted on banks



5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Tone with which analysts were quoted on banks



5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

While major ratings agencies like S&P and Moody's most often commented on the banking industry, half of the financial analysts who were most frequently quoted on the industry in 2014 were also active players in the banking industry themselves, raising the question of the possibility of even subconscious conflicts of interest.

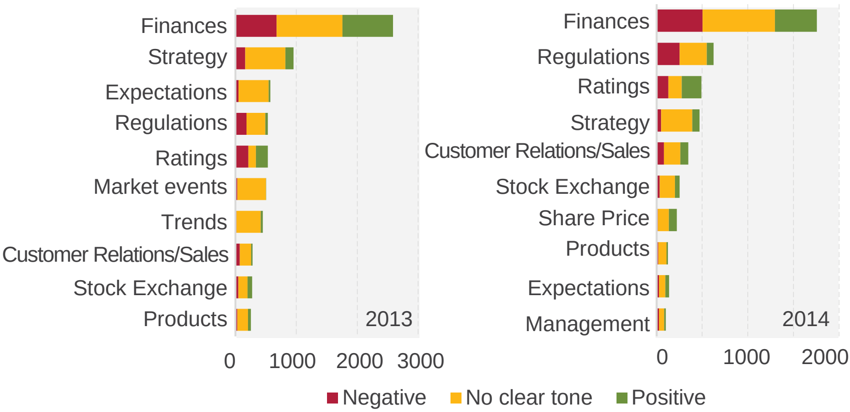
It is particularly worth noting that UBS, which was one of the few banks receiving a positive image from quoted financial analysts, was also one of the banks whose analysts were also providing a positive outlook from the industry, at least in terms of how their research was being quoted by the media. This does not represent wrongdoing, but it does represent a trust question for media audiences trying to understand the accuracy and truthfulness of the banking industry image presented by the media and analysts.

The Influence of Regulation Grows

In 2014, regulations were the fourth most visible topic in quoted financial analyst statements on the banking industry. Most coverage was focused on the financial condition of banks, as analysts were most often quoted in response to quarterly financial reporting and more general concerns about solvency.

In 2014, however, this changed. While the focus and tone distribution on the financial condition of banks remained largely the same, regulatory topics became the second most prominent subject of analyst quotations. Negativity was pronounced as analysts commented on banks' abilities to meet regulatory requirements and concern was also raised about the impact of regulation on banking profits.

Tone on volume of quoted analyst statements on banks by topics

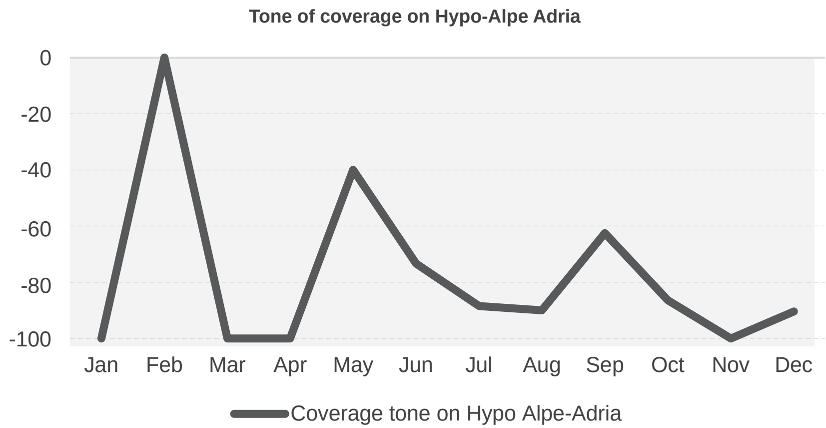


9,259 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2013. 5,323 quoted analyst statements on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Trust Crisis: Hypo Alpe-Adria

As previously mentioned, the Hypo Alpe-Adria scandal has been emblematic of the interconnectedness of countries, companies, and institutions when it comes to the trust meltdown.

At first glance, the bank's problems seem to be isolated to itself. After all, the tone of the media coverage Hypo Alpe-Adria has experienced over the last year is particularly severe. There has been no positive coverage for the bank on international TV news and in opinion-leading business media over the last year. Occasional moments of neutrality has been the best the bank has been able to achieve.



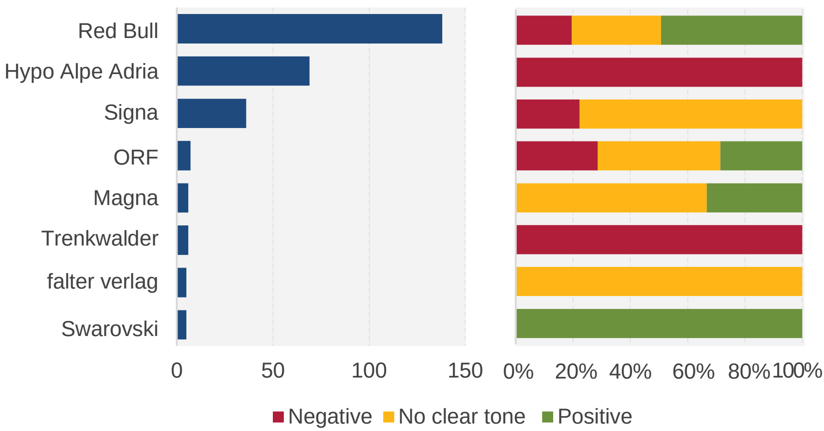
153 reports on Hypo Alpe-Adria on international TV news and in opinion-leading business media, January 1 – December 31, 2014

Unfortunately, the problems the bank has faced have an impact far beyond its own reputation. This is the very definition of a trust meltdown – when problems with one company, industry, or country cascade to reflect the reputation of institutions and economies around it.

In the case of Hypo Alpe-Adria, the bank was the second most visible company in Austria over the last two years. Only Red Bull, the energy drink producer and sponsor of extreme sports, had more visibility and a broader international reputation. But as coverage of the banking scandal expanded, the extreme negativity faced by the bank (100% of all reports on TV were negative), quickly overshadowed the positive (albeit with some risk) image of Red Bull.

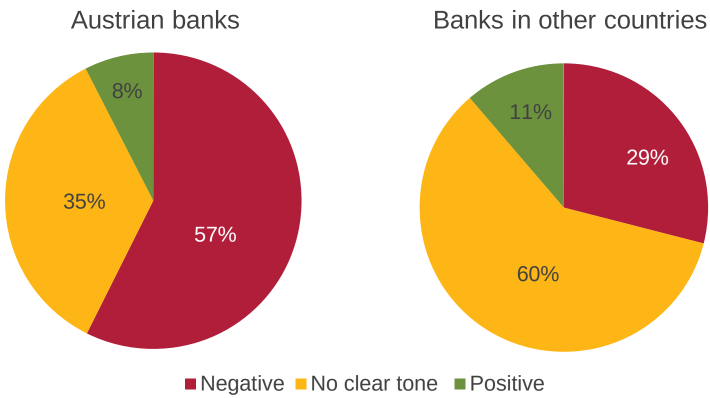
Not only did the negativity for Hypo Alpe-Adria impact the overall image of Austrian companies, it also explicitly harmed the image of the banking sector for the country as a whole. The level of negativity for banks in Austria was, in fact, twice that for banks in other countries, showcasing how a single bad actor can cause an erosion of trust on a much broader level.

Visibility and tone of Austrian companies



Basis: 139,953 reports about companies, managers and industries, in 21 international TV news shows, 315 about Austrian companies

Coverage tone on Austrian banks vs. banks in other countries



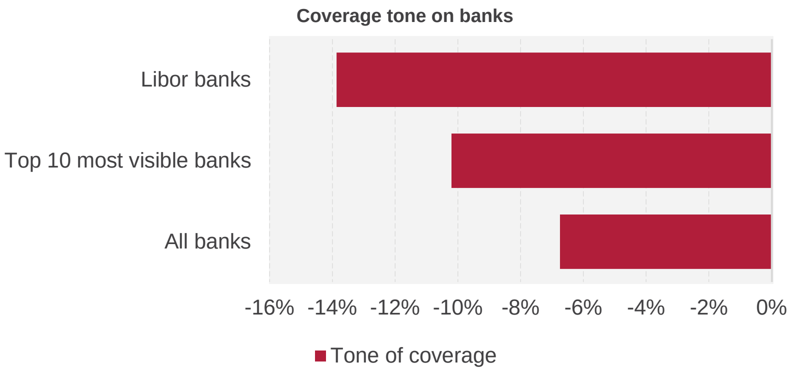
20,547 reports on banks and managers in 39 international media

Trust Crisis: The Libor Scandal

Sixteen banks, representing seven different countries, were the main focus of the Libor scandal and investigations in multiple countries. The Libor crisis had significant impact on the assessment of the banking industry for all media audiences. Even the general audience, which did not necessarily have a strong understanding of the importance of Libor, could understand that something was seriously wrong with so many major names involved. The idea of powerful businesses acting in concert for their own benefit is something Main Street reacts particularly strongly too. Detailed understanding of what was wrong was hardly necessary for these audiences to understand that something was wrong.

Additionally, the Libor crisis represented such a major trust blow, because it was a story that just would not go away. With investigations transpiring in multiple jurisdictions – and sometimes by multiple agencies within a single jurisdiction – every time media audiences thought the story was over, coverage would reemerge. Additionally, the ongoing settlements created the suggestion that banks were happy to pay to make their problems go away, but that fundamental change may not have been part of the resolutions. Coverage of Libor-related problems, which have already been going on for several years, will likely continue into 2015.

That is a problem for several reasons. On balance, the banks implicated in the Libor scandal had an image twice as negative as the industry as a whole, as well as more negative than the overall tone for ten most visible banks for the industry (which contain five of the Libor-scandal banks).



13,686 reports on banks and the banking industry in opinion-leading business media, January 1 – December 31, 2014

Here, it is clear that despite the way the opinion-leading business media have treated scandal largely as a routine cost-of-doing business fact for the banking industry, negative coverage of legal issues has had an overarching impact on the state of trust.

Conclusion

The trust meltdown in the banking sector is the result of multiple problems that can seem unrelated. After all, there is no direct link between problems as disparate as the Libor crisis, sexual harassment in investment banking community, and the misrepresentation of mortgage assets. However, all such problems arguably stem from similar cultural problems at banks that suggest a high tolerance for inappropriate behavior, ineffective penalties, and a general belief that being a banker makes one above the rules.

And regardless of which media is relied on to form an impression, the banking industry faces significant negativity because of these problems. In addition to legal issues and regulatory concerns, financial performance and solvency are also fundamental parts of the image risk picture and the trust crisis.

To resolve this negativity and restore trust in the industry, change is necessary at multiple levels. Most obviously, banks need to resolve current legal concerns, engage in better governance, conform to regulatory requirements, and conduct themselves in ways that are mindful of ESG concerns.

However, restoration of trust in the banking industry also requires effective regulation with useful requirements, meaningful penalties for non-compliance, and efficient, accurate enforcement that is mindful of the globalized marketplace.

Additionally, media can help to address the trust problem by looking at the sometimes large discrepancies in the way banks are covered, depending on the media audience. A more consistent picture of the risks the industry faces, as well as the risks the industry poses to the rest of the financial system would help to build trust, simply because media audiences could feel more confidence in the information they are receiving. This would also help to reduce concerns about theoretical conflicts of interest between investment banking and other parts of banking institutions.

Authors

Racheline Maltese works as a researcher at Media Tenor International focusing on the media portrayal of economic and political issues; she has been with the company since 2002. Her academic and professional background includes a journalism degree from The George Washington University and a stint in the Computer Assisted Reporting unit of the Associated Press. In addition to her work with MTI, she is widely published on pop-culture topics, and her work has appeared in media outlets like Salon as well as in academic texts from McFarland. She is based in New York City.

Matthias Vollbracht is Director of Business Research at Media Tenor International in Zurich/ Switzerland and Managing Director of Awareness Metrics, a platform for reputation risk and investment signal solutions.

His research focuses on the impact of media on public opinion, stakeholder groups and the reputation of institutions and individuals. Furthermore, he explores the influence of media on asset prices and economic behavior, like investor and consumer confidence.

Matthias Vollbracht has been working for major international clients with focus on reputation management, agenda-setting, target systems, crisis communication, management reputation, financial communication, and CSR. He has developed reputation insurance solutions based on empirical risk assessment.

He holds degree in economics from the University of Mainz and has worked as a business journalist.

Trust Meltdown VI

When the global economic crisis hit in 2007/2008 it seemed, at first, to be a sudden event, not the start of a long-term change in the way we view our key corporate, governmental, and social institutions. Unfortunately, that crisis ushered in the start of the global trust meltdown, which has been exemplified by a loss of faith in banks, regulators, and governments.

Banks are now portrayed in the media with a level of negativity in line with industries that have been framed as posing an active risk to the lives of their customers and employees. Regulators are often viewed as ineffectual, while the quality of corporate evaluations from ratings agencies aren't even examined.

Media Tenor's Trust Meltdown VI provides a scientific perspective on the state of trust around the world. With analysis focused on North America, Europe, Asia, and Africa, Trust Meltdown VI looks not just at causes, but at potential solutions. These include improved transparency and communications, a renewed focus on ESG that goes beyond green-washing, and the potential benefits of positive news.

Every year the trust meltdown continues presents lost opportunity, stability, and revenue. The ongoing nature of the trust meltdown also increases the amount of investment, work, and time it will take leading institutions and corporations to emerge from these conditions and return to benefitting to our social frameworks.

For over 20 years Media Tenor's mission has been to contribute to objective, diverse, and newsworthy media content by bringing together the diverse parties. Media Tenor's global research projects include analyses of election campaigns, investor relations, public diplomacy, corporate communications and other topics critical to news makers and news audiences.

Alfred Herrhausen, CEO Deutsche Bank 1930-1989
"Most time is lost by not fully thinking things through"

Kofi Annan Trust Meltdown 1, 2009
"There are many who rightly see the crisis as the consequence of failure to put economic policies at the service of the common good. In a highly interconnected world beset with shared problems, we cannot afford to get this wrong."

Mediatenor
strategic - media - intelligence

19.80 € - 24.80 Sfr – 26.80 $
ISBN 978-3-906501-09-3

INNOVATIO
Data Driven Solutions

InnoVatio Publishing
Hanoi New York Pretoria Rapperswil