STEEL CITY RE

Reputational Risk Management By The Numbers

Reputation risk, linked to governance and operational failures, is the peril of economic damage from angry disappointed stakeholders.

"Reputation resilience check-list for risk managers, treasurers, and board risk committee members."

Reputational risk carries tangible consequences evidenced throughout a company's profit and loss statements, stock price, sales, cost of capital, employee morale and external business relationships. In addition to their impact on the company's cash flows, reputational crises can do tremendous and sometimes irreparable personal damage to individuals in leadership positions, including the CEO and board members.

One look no further than the record number of CEOs who have lost their jobs in the past year (according to PwC) or the numerous board members who have lost their seats – often on multiple boards – in the aftermath of a reputational crisis.

Reputational risk management is often misunderstood. So to be clear, aspirational marketing is not reputation risk management. However, reputation risk management, authenticated for stakeholders through third-party attestations and insurances, is powerful marketing.

This white paper provides a basic checklist for risk managers, treasurers, and board risk committee members seeking validation of their governance and operational practices, from a reputational risk perspective.

Steel City Re

Steel City Re, backed by Tokio Marine Kiln, provides advisory services and reputation insurances. We have pioneered synthetic measures of reputational value that inform our solutions. These measures are also used by Wall Street for equities arbitrage strategies, Lloyd's and other insurers for both parametric risk transfer and insurance captive compliance.

Through our advisory services, we help deploy state-of-the-art reputation risk governance and enterprise risk management solutions, and we model potential losses. Our risk financing and risk transfer services comprise pricing and underwriting support for insurance captives and risk transfer through insurances.

Effectively Managing Reputational Risk

Reputation risk management requires the ability to communicate an authentic story that preemptively wins the battle for the minds of stakeholders and earns a company and its board the "benefit of doubt." When a crisis hits, will stakeholders consider it an anomaly in an otherwise well-run company or will they wonder if it is symptomatic of larger issues?

Reputation value is based on the expectations of stakeholders and reputation crises occur when real-life performance doesn't live up to those expectations, leaving stakeholders disappointed and angry, and reacting in ways that have a tangible impact on corporate cash flows and executive tenure. Reputation risk management is an integrated operational, treasury, communications and governance process that mitigates stakeholder disappointment through an authentic story that is simple to understand, credible, and completely convincing.

The Consequences of Failure

Ninety percent of the S&P 500 refer to reputation in their SEC filings as a material risk – but most never describe their strategy for mitigating it. When boards disclose reputation as a material risk without truly understanding it or appropriately mitigating it, they are putting themselves and their companies in greater peril.

That is probably why, for the year ending June 2019, according to *Agenda*, 25 lawsuits were filed or amended in federal court, that alleged, at least in part, board-level responsibility in connection with corporate reputational damage. That's an increase from only six the preceding year.

It is also probably why there was more turnover among chief executives last year at the top 2,500 public companies than at any point since Strategy&, a PwC consulting business, started collecting statistics.

And recent statements by the Business Roundtable about the purpose of corporations, as well as in Justice Department policy guidelines placing a greater focus on individuals within companies it investigates, have made the job of CEOs and board members much more complex.

These individuals are now targets, not only in courts of law, but in the court of public opinion. Individual reputations are far more vulnerable and, when damaged, more difficult to restore. The financial impact in lost future income for these corporate leaders can be in the millions of dollars.

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A Reputation Risk Management Checklist

Managing and meeting expectations, and then letting stakeholders understand and value all that is being done, is the essence of managing reputation risk. The road to forging corporate reputational resilience consists of seven milestones, informed by the behavioral economic risk model linked (click) here:

- **The board of directors** comprehends the true nature of reputational risk – economic damage and go-forward losses resulting from the behaviors of angry and disappointed stakeholders, as opposed to merely negative media coverage.
- **A board committee** oversees the corporation's enterprise-wide policies, practices and procedures that mitigate and manage reputational risk.
- **Senior management** sets appropriate stakeholder expectations by bridging risk management and marketing silos—so that aspirational messaging doesn't outpace actual performance.
- **Treasury** understands the peril is to cash flows rather than balance sheet and is prepared to fund reputation losses with insurance captives or risk transfer solutions.
- **Risk management** continually assesses stakeholder expectations, taking into consideration rapidly changing cultural and political events, and has a clear understanding of the full spectrum of operational and financial strategic options to manage and mitigate potential losses from those perils.
- **The company** deploys preemptive, simple, easy to understand expressive risk management strategies such as warranties and insurances to inform and substantiate the marketing department's messaging. Communications activities support risk management with signals of governance integrity.
- **Key stakeholders** appreciate and value the company's enterprise-wide mitigation and governance efforts.

For more information on reputational risk management and Steel City Re, click here.

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