

## » Portugal: The reputational crisis in the banking sector

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*When a leopard dies, it leaves its skin. When a person dies, he leaves his reputation.*

This saying was first used thousands of years ago, but it has survived into modern times thanks to the wisdom of popular Chinese culture. This proverb is embodied in Portugal with the 9 December 2014.

When he entered Parliament room no. 6, Ricardo Salgado faced a wall of photographers who, synchronised to the second, set off their flashes continuously for several minutes.

There were even journalists sat on the floor and on the wooden steps because there was not enough room for so much curiosity. These were Ricardo Salgado's first statements in eight months; the first since the disappearance of the historic Banco Espírito Santo. "What was Salgado going to say? Who was he going to attack? How would he defend himself and how would he justify the collapse of BES?". The former banker responded with a long, unhurried 50 page speech; 40 minutes which can be summed up in two lines: "When a leopard dies, it leaves its skin. When a person dies, he leaves his reputation."

It would be very difficult to write about the Portuguese financial system without recalling this episode. In just seven years Portugal has witnessed the disappearance of four national banks. They were all considered untouchable - as were their reputations and the reputations of the executives who ran them. If there is one lesson that these events have taught national banking it is the

importance of reputation and credibility, which, ultimately, are not just indicators of image or communication methods for attracting customers. Because when they fail, customers react.

### THE VALUE OF REPUTATION

We can examine the case of Banif. In December 2015, a Sunday of football, a sacred night for lovers of that sport and prime time for television audiences, a news item appeared reporting that the bank could be at risk and that it would close that very same week. At that time this was just gossip, but that gossip, which would become reality some weeks later, cost 900 million euros in deposit withdrawals, transferred from Banif to other banks in just one week. This is just one example of the potential cost of a single phrase that affects the reputation of the banks. Analysing the data, there will be few sectors in which these numbers are so visible. This is because, ultimately, in banking a reputation is worth many billions of euros.

Recover the reputation! This is the current priority for Portuguese banking. Or at least it should be. Without this, and without embarking on a long path of dialogue and recovery of the trust of its different stakeholders, it will be more difficult to recover the profitability of the business. This is the same as saying, in a more technical language, that reputation is currently a type of devalued asset. And the rules say that in these cases it is necessary to recognise the losses and create provisions for them. In other words, the reputation must be rebuilt in order to restore financial balance.

In Portugal, the BES case took place two years ago and profoundly changed the way in which the Portuguese see the banks and their directors, especially due to the size of the Espírito Santo Group and because in this case it involved criminal activity by what was the largest Portuguese financial empire. This fact has inevitably resulted in great harm to the reputation of the entire financial system.

However, this is not the only example. Years earlier, in 2009, the country had already witnessed the moment in which José Oliveira e Costa, ex-Chairman of BPN, entered Parliament, accompanied by prison officials, to testify at the Commission of Inquiry investigating the BPN case.

By referring to these specific bankers we are not laying all the blame on them, but these episodes cannot be wiped from the timeline of events which have inevitably led to the current situation in the financial sector and which have added to the vocabulary of the Portuguese people expressions such as "bad bank" and "toxic assets".

In 2008, the BPP also became bankrupt. Four years later, with the country needing financial rescue and with the new capital ratio demands, the BPI, BCP and Banif were bailed out using the



recapitalisation funds of the Troika. Of the three, one ended up collapsing: Banif, which after failing to liquidate its debt ended up being sold for next to nothing to Santander Totta.

This seems more than enough for such a small country, but yet there's more. We could also discuss the public disputes between the shareholders of large banks; Novo Banco, the reborn version of the BES, which is still for sale after a failed attempt; and even la Caixa Geral de Depósitos, which is getting ready to receive a new capital increase. Analysing the figures, the Portuguese State has injected almost eight billion euros into public banking since 2008.

## GLOBAL CHALLENGE

This is the situation in Portugal, but it is not an isolated case in terms of the difficulties of the financial sector and the liabilities of reputation. The world had already changed on 15 September 2008 with the collapse of Lehman Brothers and its impact is still being felt today, eight years later.

The study "Confidence in Banks, 1979-2011", by Gallup, a North American opinion poll company, shows that in October 2010 the confidence of Americans in the banks had fallen to 18%, the lowest level ever. That year, for example, the Bank of America, the largest bank in the United States, posted losses of more than two billion dollars.

Concern about the value of reputation is not, however, exclusively an issue for current times. The first definition of Reputational Risk was developed by the United States Federal Reserve in 1995: "... is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions". This is a broader definition than it might seem at first glance, especially if we take into account the number of communication platforms that have emerged over the last 20 years, mostly digital, and where crises can be born or fuelled.

No mathematical formulas have emerged over these 20 years to resolve reputational crises. These are resolved with actions and words, and it is here where communication and the entire potential value of strategies come into play. From the more traditional media to the social networks, not forgetting the codes of social and corporate responsibility and, of course, ethics and transparency in leadership, all of these elements are fundamental steps in the difficult path that the institutions must follow to restore high levels of trust and reputation, which are, as in any business, the greatest competitive advantages.

However, we must recognise that if we are to obtain results and create a genuine commitment to the different stakeholders of the banks, the strategy must be global. This is true from the onset because even though CEOs have custody of the reputations of the businesses, these reputations will only be enhanced if there is a

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commitment to and harmonisation with all the structures of the organisation. The picture would be incomplete if we failed to also mention the role of the customers. Is the public ready to manage money, especially in times of difficulty? Is it ready to challenge the banks? Customers are the first signatories of banking practices, and the more knowledge they have about basic staples such as money and its management, the greater will be the monitoring of the banks. This, consequently, will make them more permeable to any type of crisis. The latest rankings from the North American credit rating agency Standard&Poor's show that Portugal has a financial literacy rate of 26%, compared to the global average of 33%. This may seem like mere percentages but, truth be told, the figures show that many people, in addition to not knowing how to

manage their family budget, may be legitimising bad management. Shouldn't this be a basic part of our education? We teach our children to manage the coins in their piggy bank and to handle small amounts. But from there, what?

## FIRST THE WORDS. THEN THE NUMBERS

"We will probably be the last generation to use credit and debit cards", says John Stumpf, CEO of Wells Fargo, one of the most valuable banks in the world. Stumpf, who is always quoted when he talks about the digital revolution in banking, argues that bankers must be more excited about the changes. Why? Because they allow a commitment to the customers to be generated, always on-line, at any time and in any place.

This is undeniable. Stumpf is right. The banks are changing. The branch is the on-line bank and the bank managers are now just screens. The era of the bank as we have known it for hundreds of years has come to an end. And that of communication too. Why not use this change to start again?

The most pessimistic will say that the digital revolution could put an end to the business, but it is not difficult to see that the banks that do not readily adapt will disappear.

So we must see the transformation as an opportunity rather than a threat. If the new communication channels create new and better paths towards customer commitment, and if it is necessary to create this participation in order to recover trust, why not take advantage of the new platforms and the new media channels to reach out to the customers and earn reputation points?

That is the challenge, and it is a challenge on a global scale. And the response will be seen over time: the immediate time in which the answers must be given... and the time necessary to rebuild the reputation of the banks. We must also see the survival of the aforementioned proverb over time: "When a leopard dies, it leaves its skin. When a person dies, he leaves his reputation." Especially if you are a banker or bank employee, regulator or simply a bank customer.



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