

SA industries urged to take note of impact of reputational damage

It is important for the local banking sector - and any organisation with a large clientele base reliant on immediate access to critical services - to ensure effective public response protocols are incorporated into business continuity management to mitigate the risk of severe reputational damage.

This was highlighted after the week-long computer glitch that delayed payments between UK based Royal Bank of Scotland (RBS) and its subsidiary brands, NatWest Bank and Ulster Bank, affecting at least 15 million personal banking customers.

Ray Stride, managing director of Global Continuity South Africa - a group company of JSE-listed Metrofile Holdings Limited says while the details of the glitch are unclear at present, it appears to be related to possible negligence around the testing software upgrades before implementation in the live environment.

Huge financial loss

"This was compounded by inadequate contingency plans that did not provide a clear public response protocol required to identify and contain any reputational damage. When an organisation plans to change anything in a production environment they need to ensure that it is tested properly, and also make certain there is the option to revert to the old system if a fault occurs," Stride says.

The actual cause of the technical error loses its relevance now as company directors and other involved partners suffer the consequences of reputational damage and the subsequent financial losses following the event.

Stride says the banks will not only have to compensate customers for any financial losses experienced as a result of delaying the process of payments of bills, access to accounts or the receiving of wages, but will also have to pay for the additional staff presence due to the extension of operating hours, which included NatWest branches opening on a Sunday for the first time in its 44 year history. "The banking industry and financial commentators are already estimating the costs range anywhere between tens of millions to hundreds of millions of pounds."

Downgrade rating is possible

"Despite the financial losses, the reputational damage RBS will suffer may be irreparable. Clients and staff could migrate to other banks, shareholders may dump their stock, public confidence in the brand will take a significant knock providing a perfect environment for competitors to take advantage of the situation and the banks could be heading for a rating downgrade which will increase interest rates and hammer profits and competitiveness."

These severe repercussions could easily have been avoided had the banks implemented effective public response plans that focussed on providing customers with a clear understanding of the situation and solution to their problem.