



The Dialogue

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The Social Condition Report – A Suggestion for Financial Services Businesses

Ian Laughlin and Hadyn Bernau

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TRUST

The Social Condition Report

– A Suggestion for Financial Services Businesses

Ian Laughlin and Hadyn Bernau

Note to reader:

The main body of the paper makes the case for a Social Condition Report (SCR) and introduces the concepts behind it.

The appendices provide more detail and illustrate the ideas in a practical sense.

Separately, the authors have prepared a mock SCR for a fictitious company, available for download, which provides a comprehensive example of what is proposed. The Executive Summary is available for separate download.

The reader can choose how deeply he or she wishes to consider the proposal by deciding how many parts to read – see p15.

The authors acknowledge the help of various people in the form of suggestions and challenges after reviewing drafts of this paper.

The authors hope that the paper will stimulate debate and fresh ideas for what is a very important topic for boards and senior management.

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During 1970 The Australian Financial Review newspaper published a series of articles canvassing the views of leading business executives on the subject of social responsibility. AMP General Manager Keith Steel impressed his interviewer as 'one of the few in Australian top management who seems to have thought at all about the evolving concept of the social responsibilities of business ...'¹

Introduction

We believe that the social condition of a financial services business is no less important to its long-term success than its financial condition.

Some of the ideas in this paper have their roots in poor experiences in financial services businesses over many years. These include the difficulties of the AMP group in the UK early this century; in more recent times the ongoing failure of the Australian life insurance industry to profitably manage disability business, partly because of ever-rising mental health claims; well-documented claims issues with Comminsure and other insurers; ongoing criticism of the banking industry on multiple fronts; and eventually a Royal Commission.

From all of this emerged the idea that there were underlying risks that were being poorly managed – perhaps not even being identified.

This led to a presentation in 2017 followed by a paper in January 2018 on social risks for a financial services business. A further presentation in May 2018 took the ideas further and proposed some ways for quantifying the value of relationships. It also floated the idea of a Social Condition Report, the main subject of this present paper.

We propose that financial services companies should commission a formal *social condition report (SCR)* to aid board and management in performing their respective duties; financial services companies should routinely receive such a report each year. This paper suggests one possible approach to this, but we envisage that the methodologies used and the contents of the SCR would vary and evolve over time as thinking develops and practical experience is brought to bear.

The basic premise underlying this paper is that relationships with key groups in society are so fundamental to the success of a financial services business, and of such great value, that there should be a systematic approach to the management of those relationships, including assessment of their quality, their value, and associated risks. We propose a disciplined and structured ongoing process to report on the business's *social condition*, and to recommend actions.

¹ *Creating a Better future – The AMP Story 2002*

Royal Commission and the APRA CBA Prudential Inquiry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the **Royal Commission**) was set up in Australia in late 2017 and ran throughout 2018, reporting in early 2019. It was triggered by a series of scandals in the financial services industry, principally about treatment of customers. Its terms of references went beyond legal requirements and considered “*whether any conduct, practices, behaviour or business activities fall below community standards and expectations*”. The quality of relationships with various groups in society are inevitably an important part of this consideration.

And indeed, much of the Royal Commission was focused on relationships – particularly with customers but also regulators and intermediaries.

While a lot of the thinking behind this paper preceded the Royal Commission, the Commission’s findings² reinforce the relevance and value of the ideas, and we believe they will help businesses respond to the Royal Commission’s findings. For example, we think that the ideas will help a business better understand the degree of alignment between the organisation’s written purpose, its purpose as perceived by others, and community expectations.

The 2018 CBA Prudential Inquiry³ by APRA (the **CBA Inquiry**) has had a significant impact on the thinking of boards and management in financial services, and many organisations have conducted self-assessments against the findings of the Inquiry. The Inquiry’s focus was on governance, accountability and culture. There were 35 recommendations and significant consequences for CBA, including a large increase in prudential capital requirement.

The triggers for the Inquiry were a series of incidents involving relationships between CBA and various other parties – customers, advisers, and regulators included. We believe that the ideas in the paper would help a business in addressing a number of the areas of concern identified in the Inquiry’s report. For example, they would provide considerable insights into the culture in various parts of the business and into the quality of the relationships between management and employees, and between employees and customers.

Further, we believe that the application of the thinking behind this paper would be very helpful in pre-empting the sort of problems exposed by the Royal Commission and the CBA Inquiry, and in providing a way forward.

Background

Most financial services organisations would regard relationships with various parties – customers being the prime example – as very important to their success. All of them would set out in some way to manage those relationships, with varying degrees of application and sophistication.

However, as the Royal Commission amply demonstrated, those relationships are often quite poorly managed and nowhere near as strong as the organisation (and other parties) would desire. It also showed that there was a weak understanding and appreciation of the quality of the relationships by senior management and the board.

The response of the various markets to unfolding events at the Royal Commission graphically demonstrated how social or relational events can destroy significant business value. In turn this shows the considerable worth of the social capital of these organisations, and its inherent volatility and fragility.

² <https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf>

³ <https://www.apra.gov.au/media-centre/media-releases/apra-releases-cba-prudential-inquiry-final-report-accepts-eu>

Loss of social capital has occurred suddenly and quickly, with little or no warning provided by current management indicators and reporting. Indicators and reporting have proven to be backward-looking and ineffective.

In some ways this is not surprising. For a typical financial services business, its investment (human and financial) into understanding, measuring and monitoring the state of its relationships and hence its social capital is really quite low. In contrast, it will have major systems and vast numbers of employees dedicated to measuring, understanding, managing and reporting on its financial capital. This is despite social capital also being extremely important to the achievement of business objectives.

There is therefore a pressing need to find ways to fundamentally improve understanding and management of key relationships. This led us to think about how this might best be done.

International developments in reporting are also placing more importance on social relationships. The concept of Integrated Reporting illustrates this well. The Integrated Reporting Framework⁴ identifies a number of different types of capital: financial, manufactured, intellectual, human, natural, and lastly, *social and relationship capital*. See Appendix B: Integrated Reporting for more information.

Our Response – the case for an SCR

Because of work we have previously done on relationships and associated risks, we are particularly interested in how businesses might respond to the Royal Commission and the CBA Report. We turned our mind to how some of the ideas from our previous work might be of benefit, and from that came the suggestion of a Social Condition Report.

The seed of the idea was what is called the *Financial Condition Report (FCR)*. In the insurance industry in Australia, it is a regulatory requirement that an FCR be provided to the board each year, by the insurer's Appointed Actuary. The FCR has a prescribed minimum scope set out in APRA's prudential standards and in professional actuarial standards. The FCR assesses the financial condition of the organization, including assessment of assets and liabilities and their interaction, capital adequacy and its management process, investment strategy, profitability, commentary on the risk management framework and other matters. Importantly, it is a comprehensive view, which draws on work done throughout the year by various parties, as well as work specifically completed for the FCR.

Anecdotal evidence suggests that boards place considerable value on the FCR because of the comprehensive view of the financial dynamics it provides and the insights that flow from this. The FCR has played a key role in the successful financial management of what is a very complex industry over an extended period of time.

That led us to think about a conceptually similar approach to comprehensively assessing and reporting on social condition for financial services businesses (and indeed for any business whose outcomes depend upon the state of its relationships).



⁴ Integrated Reporting Framework <http://integratedreporting.org/resource/international-ir-framework/>.

The Mock SCR

To help with this thinking, we developed the idea of a mock SCR for General Banking Corporation (GBC – a fictitious company). We then drafted a comprehensive mock SCR for GBC to help us develop the approaches proposed in this paper.

In doing this, we built on previous work in which we had been involved. In particular, we explored the practical application of a number of ideas:

- Social risks - core to the quality of the key social relationships is the successful management of what we call **social risks**, an idea developed and explored in a previous paper (the *2018 social risks paper*)⁵.
- Risk sensing, also addressed in the *2018 social risks paper*.
- Culture and its assessment – the employees make up one of the key social groups for a business. Understanding the prevailing culture is critical to the management of the quality of the relationship with employees.
- Social goodwill/capital – measurement of social relationships for a business is both possible and very desirable.
- Particular methodologies for assessing the quality of relationships.

While it would be possible to pursue the idea of the SCR without some or all of this thinking, we believe the SCR would be much stronger for their inclusion.

Content

Conceptually, an SCR would be a comprehensive report to the board about the quality and value of the relationships with key groups in society. It would:

- Identify key groups in society with whom the business has a relationship.
- Assess and measure the quality of the relationships with each key social group and how they have changed.
- Assess the risks to those relationships, including against the board's risk appetite.
- Review the approach taken to manage those relationships and risks.
- Review social relationship incidents and responses thereto.
- Review implementation of past SCR recommendations and their success or otherwise.
- Make new recommendations.

To help show how this would be tackled in a practical sense, we have shown the Table of Contents for the mock GBC SCR in Appendix C: Mock GBC SCR – Table of Contents. (The full report is available as a separate download.)

In the interests of being relevant, GBC is intended to be a major player in financial services in Australia. The mock SCR includes statements of purpose, mission, strategy etc. each of which reflects the thinking in this paper. These are made up for the purpose of the exercise, but coincidentally may be similar to wording used by real organisations. Nonetheless, the mock SCR is an exercise in imagination. It is set in February 2021 and is a report on the 2020 year, so post-Royal Commission activity can be considered.

⁵ Actuaries Institute January 2018 *Social Risks – for a financial services business* <https://actuaries.asn.au/Library/Miscellaneous/2018/TheDialogue4SocialRisksWEB.pdf>

Alternative Approaches

Most organisations will be thinking very intently about how to best respond to the Royal Commission and the CBA Inquiry. No doubt the management and assessment of customer and other relationships figure strongly in those deliberations. While it is likely that wide-ranging programs will be implemented, many responses are likely to involve being more diligent, working harder, applying more resources, improving reporting etc. – basically pedalling a lot harder. We are sceptical about the effectiveness and efficiency of such approaches.

We have commented on some of the benefits of the SCR approach in the table below, for management, boards and regulators..

Needs	Comment	SCR
Management need for better capabilities and reporting. Much better understanding of relationships with society is needed for successful long term outcomes.	Management in most companies will be heavily stretched in the current environment. A fragmented approach, based on present practices will likely be inefficient.	The SCR will provide a fresh approach built on a disciplined process and new methodologies. It will provide a comprehensive and integrated assessment, and propose specific actions for management, with defined objectives.
Board need for much deeper insights into relationships – quality and management	Existing practices have not served boards well. Given recent experiences, it is likely that many boards feel that they are ‘flying blind’ with respect to relationships with various members of society and associated risks.	As above. Further, the methodologies proposed will give insights that will never come from existing practices.
ASIC’s need for assessment of a business’s relationships with customers and others, and management thereof.	ASIC is being asked to be a much more active regulator, and this suggests a need to closely monitor organisations and their treatment of other parties. This will demand skills and resources which will be difficult to obtain and deploy effectively.	A comprehensive SCR produced by a well-credentialed person and supported by appropriate resources could be of real value to ASIC in identifying issues and areas of regulatory focus – both for the particular institution and for the industry. One could imagine ASIC imposing a requirement on financial services businesses for an annual SCR that meets prescribed standards ⁶ .

⁶ A useful precedent and model for this could be APRA’s requirement for a financial condition report (FCR) for insurance companies. As part of this, ASIC could specify the credentials of the person responsible for the SCR.

We have explored questions about and challenges to the SCR concept in Appendix A: Challenges to SCR Concept.

The Relationship Lens

One way to consider the social condition is to assess the quality of relationships. We explore that in this section.

Key Social Groups

Any institution has relationships with various groups in society. It is useful to identify the key social groups (**KSGs**) and address the quality and value of the relationship separately for each.

The KSGs used for the mock GBC SCR are:

- Customers (retail banking, wealth, business)
- Employees
- Suppliers & Partners
- Shareholders
- Public (ex-customers, others)
- Politicians and bureaucrats
- Regulators
- Media

We believe that for a financial services business, the *quality* of its relationships is fundamentally important for its success. For the quality to be managed and risks to it assessed and managed, it is necessary to systematically measure it.

Relationship Assessment Methodology

It is one thing to say that the quality of relationships should be assessed and measured; it is another to do this in structured way that will prove of real value to management and board.

We have drawn on our experience with two particular methodologies to show that it is quite possible to assess and measure the quality of relationships in a structured way. There are other methodologies that could be applied, each with its own advantages and disadvantages.

We have used Relational Analytics (see below) to help assess the *quality* of relationships and to provide a means of *measuring* relationships.

We have also used Signal Analysis (see below) to help assess the *quality* of relationships in its own right as well as informing the assessment under Relational Analytics.

The two methods in combination are complementary and synergistic, providing richer insights when used together.

They are both explained in Appendix G: Relationship Assessment Methodologies, with a brief description as follows.

Signal Analysis

Signal Analysis refers to the use of human signals to assess and predict human behaviour. Human signals, which can include such things as smiles, frowns, gestures, car types, house locations and fashion styles, help to convey who we are (or who we want to be). People are conscious of these types of displays and often carefully plan to incorporate them in their communication. Because these signals are so often planned, they cannot be relied on as good indicators.

However, there are other signals that are processed unconsciously or are otherwise uncontrollable. In one application of this thinking, there are three type of signal categories: connectivity (who people communicate with), interactivity (how people communicate with each other) and vocabulary (the language styles people use when communicating). The combined use of all three categories improves the effectiveness of Signal Analysis. These signals are used to measure and assess human behaviour and personality attributes in an authentic and accurate manner.

Signal Analysis makes use of Social Network Analysis⁷, psycho-linguistics, machine learning/ artificial intelligence and other methodologies, including sentiment analysis⁸.

Signal Analysis undertaken over time can give an idea of trends and momentum from movements in the underlying sentiments. This can help in identifying and initiating pre-emptive actions to improve or protect relationships.

Relational Analytics

Relational Analytics is a well-developed approach to understanding, managing and measuring relationships, and is set out in a recent book⁹. Relational Analytics argues, amongst many other things, that relationships create value and are a source of competitive advantage – consistent with arguments we make in this paper.

Relational Analytics establishes what it calls the Relational Proximity® Framework. Relational proximity is a measure of the 'distance' in the relationship. It introduces five domains of relationship, and five drivers for measuring proximity.

Using this framework, the quality of the relationship with a particular social group (e.g. customers) can be assessed. In turn this provides a basis for assessing risks and managing the relationship.

Social Capital and Social Goodwill

The Integrated Reporting Framework (see above) makes the point that a business creates value for shareholders but that this *"is interrelated with the value the organization creates for stakeholders and society at large through a wide range of activities, interactions and relationships."*

This goes to one of our main arguments – that it is inherently sensible from the shareholders' perspective for the business to build and maintain high quality relationships with other members of society.

It also makes the point that if a subset of society (say customers) is to provide relationship capital which in turn provides value to shareholders, then that social group must perceive value for themselves – otherwise they will withdraw their capital.

Of course, the value to the social group may well be different to the value to shareholders.

The return the social group expects on its social capital is not necessarily financial – rather it is in the quality and outcomes of the relationship with the business.

It is helpful, therefore, to think in terms of relationship capital being provided by each relevant social group which in turn creates value in the form of an intangible asset for the business. In other words, a social group provides social capital and the value to the business is in social goodwill.

So social capital and social goodwill can be seen as two sides of the same coin.

⁷ Social Network Analysis https://en.wikipedia.org/wiki/Social_network_analysis

⁸ en.wikipedia.org/wiki/Sentiment_analysis

⁹ John Ashcroft et al 2017 *The Relational Lens*

Relationship Measurement

Valuing the relationships with various social groups is inherently challenging. The methodology applied in the GBC SCR is as follows.

First, we make a broad assessment of the magnitude of social goodwill based on published accounts and market valuations. This necessarily is in dollars. Its primary purpose is to establish the magnitude of social goodwill for the business.

Second, we use the methodologies summarised previously to measure the quality of the relationships with the various KSGs. For this more detailed analysis of social goodwill, we decided to avoid measurement in dollars as this might suggest a financial attribution that might not be supportable nor helpful.

We calculate the *Social Goodwill Measure*, a weighted average measure of the quality of relationships across all KSGs. The weights given to the various KSGs are based upon their relative strategic significance to the ongoing ability of GBC to achieve its Purpose and execute its strategy. This measure is useful for assessing the overall quality of the relationships in absolute terms, for tracking changes over time and for assessing the consequence of interventions to improve relationships.

One of the key assessments in the mock GBC SCR is this table, which includes GBC's Social Goodwill Measure:

TABLE B – Summary of Relationship Measure

Colour code: Strengths = green / Weaknesses or Risks = red

General Banking Corporation	Relational Proximity® 2020	Strategic Significance 2020	Social Goodwill Contribution 2020	GBC's Social Goodwill Measure (2020) 47
Customers				
Retail	45%	17	8	
Business	50%	10	5	
Wealth	57%	5	3	
Employees	48%	15	7	
Suppliers & Partners	61%	5	3	
Shareholders	58%	15	9	
Public				
Ex-customers	26%	2	1	
Other	38%	3	1	
Regulators	42%	5	2	
Politicians & Bureaucrats	41%	15	6	
Media	36%	8	3	

Appendix F: *Mock GBC SCR Extracts – Examples of Social Risks and Assessments* provides an extract from the mock GBC SCR, showing more of the assessment results for GBC.

Culture

Financial Services boards in Australia are required¹⁰ to form a view of the risk culture of the organization. Various methods are used by boards to help with this, for example: surveys; focus groups; feedback from advisers (e.g. external auditors, consultants, internal auditors) and as mentioned previously, sentiment analysis. The board might also take specific steps to get a better first-hand exposure to the culture e.g. by interacting in a less formal way with middle management and other employees. Views from HR should be of particular value because of insights they gain from their everyday work, and from any culture-specific work they carry out.

Assessment of culture gives insights into the quality of the relationship of the business with employees, particularly when that assessment suggests the culture is at odds with what the board would like to see.

The management of internal relationships is also important for the development of culture, particularly when change is desired. In a sense, relationships are the arteries and veins through which culture travels. Cultural change happens through interpersonal connections, and is therefore much easier, faster and more effective when the connections are strong, with less resistance encountered. Any cultural issues are also much more likely to be noticed, communicated, and filtered up to senior management and the board, when internal relationships are strong.

Employee culture can also be very important to the quality of the relationship with other parties – in particular customers – because employees’ attitudes and behaviours directly bear on the customer experience.

The Risk Lens

Another way to consider the social condition is through the risks to relationships. We explore that in this section.

Any successful business will build relationships with a variety of groups (customers, suppliers, employees and so on) over time.

In the mock SCR we focus heavily on the quality and value of relationships, and on the risks to those relationships. This is because of the inherent importance of relationships to the success of the business and the damage that can be done the business if those relationships are undermined. The Royal Commission has given ample evidence of that.

However, this should not be taken to mean that the management of relationships should be solely focused on the downside. Understanding and managing the risks to relationships is also critical to nurturing and building those relationships in the most effective way and to maximise synergies.

Risk Sensing

Risk management as a discipline has developed significantly in more recent years. Financial services regulators have lifted expectations as to the quality and efficacy of risk management, and policies, processes, systems and skills have improved accordingly. Boards now give risk management far more attention than was the case in the past.

Notwithstanding all of that, there is a strong argument that a failure of risk management lies behind many of the industry’s current travails. In particular, industry has not kept pace with changes in society’s standards and expectations and has struggled to either recognise this or deal with it (see Social Risks – p14).

¹⁰ APRA CPS 220 <https://www.apra.gov.au/sites/default/files/Prudential-Standard-CPS-220-Risk-Management-%28July-2017%29.pdf>

As a general observation, there often is confusion between poor outcomes and the risks that lead to those outcomes. For example, in the wake of the Royal Commission there have been many references to conduct risk. However, it can be argued that poor conduct is not a risk per se; rather it is an outcome of underlying risks being poorly managed. To use a medical analogy, poor conduct is the symptom, and the cause needs to be treated rather than the symptom.

In this paper we highlight some of these underlying drivers, presented in the form of social risks.

As a further general observation, it is common for assessments of the current level of a risk (of whatever type) to be based on backward-looking measures – and this can give a very poor indication of the actual risk profile. For example, a particular insurance risk might be rated 'green' based on recent claims experience, whereas the underlying risk may have increased significantly because of lax underwriting in more recent times, and this will manifest itself in future poor claims experience. We argue that there should be much more focus on forward-looking indicators that monitor the underlying risks rather than outcomes.

This leads to the idea of risk sensing (addressed in the 2018 *social risks paper*). This involves indicators that identify underlying risks as they emerge and evolve, giving early warning of possible problems and the need for action. A useful analogy is the self-drive capabilities on some modern cars, which involve an array of smart cameras, radar and ultrasonic sensors. The system is able to identify risks (another vehicle on a collision path, for example) and take management action (brakes, steering etc.) to ensure the safe progress of the car. It makes no use of past outcomes, such as whether or not there has been a collision.

We apply this sort of thinking about risk management in the arguments in this paper.

Risks to Relationships

Relationships can be damaged, diminished or diluted in many different ways.

Sometimes it is because a relationship partner has been ignored or not been actively engaged in the relationship. This could be carelessness or poor management but is more likely to be an outworking of a more transactional mindset and strategy which results in minimal investment into some types of relationships.

Sometimes relationship partners feel a lack of parity when events transpire that they perceive to be unfair, or they feel disrespected, and they have no power to influence the situation.

Sometimes relationship partners are frustrated by the lack of 'memory' of the company about their previous interactions and history, and no mutual sense of loyalty, commitment and momentum.

Sometimes it is because of poor understanding of, and misalignment with, the relationship partner and their expectations.

Sometimes the lack of engagement is a function of poor systems, procedures and/or service. Operational risks can be quite important to the quality of social relationships, because of the impact on social groups of poor management and errors, particularly where the business's response is seen as inadequate or uncaring. Operational risks include so-called compliance risk and conduct risk, though as explained previously these descriptors are more about outcomes than the underlying risks. Operational risks have not been covered in detail in the mock SCR, but it is important that they are understood and properly managed to avoid unnecessary damage to relationships.

All of the above could be partly a function of *social risks*. This idea is explored in following commentary.

Social Risks

It is common practice to identify risks in a number of major groupings – financial, credit, insurance, operational, and strategic being common in financial services.

In this paper, we build on the idea that there is another grouping – *social* risks.

For the purpose of this paper, social risks are those risks to which a business is exposed as a result of decisions and behaviour that are inconsistent with prevailing social attitudes and norms and how they are changing, and which could damage the business's key social relationships.

We refer to a wide set of such social risks in this paper, as identified in the *2018 social risks paper*.

As with any other type of risk, management of social risks should be structured and disciplined, typically involving identification, analysis, assessment, treatment and reporting. And yet many financial services companies do not even identify social risks, let alone comprehensively manage them.

Appendix F: Mock GBC SCR Extracts – Examples of Social Risks and Assessments provides an extract from the mock GBC SCR, showing a sample of social risks and their assessment for GBC.

Social licence – trust and mutual respect

In recent times there had been much talk of social licence¹¹ – the idea that certain institutions are effectively given approval to operate by society, with certain expectations being placed on the organization – a notional 'licence'. The rationale for this is particularly strong for financial services businesses as they effectively make money by helping their customers manage their financial affairs¹².

At the same time, there is some reaction against the social *licence* terminology. For example, proposed changes to the Australian Stock Exchange Corporate Governance Guidelines, which included the use of the social licence concept, recently generated some controversy¹³. This is partly because 'licence' implies a right to operate in society, whereas it can be argued that the real issue is whether society implicitly trusts the organisation and there is mutual respect in society's dealings with the organisation.

This paper argues that it is the quality of relationships that is fundamentally important, and that an organization should focus on managing its relationships. Any social licence is inevitably a consequence of this. That is, the stronger the relationship – in particular the trust and mutual respect it engenders – the more 'licence' society provides.

¹¹ For example, see <http://www.sociallicense.com/index.html>

¹² ASIC Chairman James Shipton 2018: "Every cent in the financial system is 'other people's money'. For directors, this means the money that directors safeguard is not the company's or another institution's – these entities are merely conduits for the real people behind them as direct or indirect shareholders." <https://aicd.companydirectors.com.au/membership/company-director-magazine/2018-back-issues/april/regulator-other-peoples-money>

¹³ The Conversation article 2019 <https://theconversation.com/the-asx-abandons-push-to-require-companies-to-have-a-social-licence-to-operate-was-it-only-ever-politically-correct-nonsense-112840>





Responsibility for the SCR

We are not proposing that the SCR be based solely on original work.

Rather, much of it would rely on work carried out by various parts of the business for a range of purposes – for example, market research for product insights, culture work by HR, feedback from auditors, risk assessment work etc. The value of the SCR would be in calling on the relevant parts of other work, adding original work and drawing it all together to give a comprehensive view of the quality and value of social relationships and associated risks, and then to make recommendations to manage the business's social condition.

The 2018 *social risks paper* floated the idea of the role of *social risk officer* as one of the ways of ensuring appropriate attention and expertise be brought to the management of social risks. The mock GBC SCR builds on this idea, with the social risk officer being the author of the SCR.

However, in practice that responsibility could lie with a number of different disciplines. The person responsible would need to be numerate and have a good understanding of the business, its products, strategy, and risk management, and not least the importance of social and cultural issues. Actuaries could make valuable contributions because of their analytical skills and the breadth of exposure to the business (in the insurance world in particular) that many actuaries have. It is likely that the person initially assigned would not have the full set of skills needed.

In any event, it would be highly desirable for an appropriately skilled person to have clear and sole ultimate responsibility for the SCR.

In the wake of the Royal Commission, as mentioned previously, because of the discipline and insights the SCR would provide, it could prove of great value to management and boards in identifying and addressing root causes of poor behaviour and unacceptable customer outcomes.

Were ASIC or APRA to impose a requirement for an SCR, one can imagine them specifying the credentials of the person responsible for the SCR.

The full mock SCR for GBC can be downloaded here:

<https://actuaries.asn.au/Library/MediaAndPublicPolicy/2019/GBCMMockSCR.pdf>

The Executive Summary from the mock SCR can be downloaded here as a separate document:

<https://actuaries.asn.au/Library/MediaAndPublicPolicy/2019/EXECUTIVESUMMARY.pdf>

Appendix A: Challenges to SCR Concept

Readers may have objections and doubts as they consider the merits of an SCR solution. We have provided commentary in respect of possible examples of these in the following table:

Objections / Doubts	Comment
SCR approach is overkill.	Our basic premise is that assessment and management of relationships currently is nowhere near adequate for most financial services organisations, as evidenced by the out-workings of the Royal Commission and CBA Inquiry. In our view, what the SCR addresses will become in due course <i>essential</i> work for financial services organisations, and the SCR would in a fact be a very effective and efficient way of tackling this work.
SCR does not need to be so complex. There are too many new concepts	The SCR as proposed does have multiple new concepts. However, it would be quite possible to adopt the basic SCR concept and stage the adoption of the more comprehensive approach.
The SCR would be a major piece of work, and would distract management from running the business	Our observation is that businesses are currently primarily focused on their financial profit & loss accounts and their financial capital, and are distracted from understanding the less tangible drivers of long-term value and risk. The SCR would be a foundational step towards correcting the balance of management and board attention. We believe producing a comprehensive SCR would actually be more efficient and effective over time than a piecemeal approach, and would likely results in better management and board decisions. Additionally, weak and poorly understood relationships often create friction that diverts management resources. Assuming that the SCR leads to better relationships, this will free up management attention to focus on key issues.
The proposed methodologies (Relational Analytics and Signal Analysis) are unproven. Net Promoter Score (NPS) is already in use and is simple.	While NPS is a simple and easy to understand measure, its limitations are being increasingly realized. It is backward-looking and unhelpful in flagging emerging problems – in several prominent cases where social capital has been lost, NPS was high just beforehand. There is concern that NPS (including the ‘relationship’ NPS measure) is more focused on customer experience and service, rather than the broader underlying foundational conditions of the relationship. NPS is also a one-way measure, and therefore ineffective in identifying organisational ‘blind spots’. The proposed methodologies address a number of these concerns. In isolation, they have been quite successfully used internationally, and increasingly in Australia. There are a variety of other relationship survey methodologies that could be considered.
The average position tends to be what is reported and given attention in both the mock SCR and in the use of NPS, with little analysis of the tail. The Royal Commission gave ample evidence of how poorly some customers can be treated while the average was unremarkable.	We agree with this observation and in the mock SCR it is noted that future work would involve analysis of the distribution of results, including assessment of the weakest relationships.

While the arguments for and against the SCR concept are not black and white and unequivocally in favour of the SCR, we believe, on balance, that a well-produced SCR by an appropriately skilled person would be of great value to the Board and management of a financial services organisation. Crucially, if SCRs become commonplace, best-practice would emerge and develop over a number of years.

Appendix B: Integrated Reporting

The integrated reporting concept has influenced our thinking in developing this paper. We mention it not because it is critical to the thinking in this paper, but rather as an indication of the increasing importance being placed internationally on social and relationship capital. It could provide a useful framework for the application of the ideas in this paper. The following quotation describing an integrated report and its benefits (and the other quotation below) is taken from the integrated reporting website, established by the International Integrated Reporting Council¹⁴:

“...an integrated report is a concise communication about how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. The Framework enables a business to bring these elements together through the concept of ‘connectivity of information’, to best tell an organization’s value creation story.”

Integrated reporting was designed for the purpose of external reporting, but it is also proving to be beneficial in transforming the internal thinking and strategies of the companies themselves:

“Integrated reporting has been created for any organization that wants to embrace integrated thinking and progress their corporate reporting. Businesses have reported breakthroughs in understanding value creation, greater collaboration within their teams, more informed decision making and positive impacts on stakeholder relations.”

The Framework suggests six different types of capital: financial, manufactured, intellectual, human, natural capital and lastly social and relationship capital. It is the social and relationship capital that is of most immediate interest for the purposes of this paper.

Integrated reporting appears to be building momentum globally, with over 1,500 businesses using it to communicate with their investors. It is mandatory for all companies listed on the Johannesburg Stock Exchange and is widely adopted among Japan’s largest companies. Regulators in the UK and India are encouraging its use according to the integrated reporting website.¹⁵

In Australia the take-up has been slower to date – three financial services organisations have produced integrated reports so far – NAB, bankmecu and Cbus. However, many Australian CFOs are aware of integrated reporting and at least considering its usage.¹⁶

It is important to note that while the Integrated Reporting concept gives helpful context to the ideas presented in this paper, as noted above the IIRF is aimed at external reporting. The SCR proposed in this paper is intended for internal use. However, it could be useful input to Integrated Reporting if adopted, as it would give valuable assessments of Integrated Reporting categories of social and relational capital.



¹⁴ <http://integratedreporting.org/>

¹⁵ <http://integratedreporting.org/when-advocate-for-global-adoption/find-out-what-is-happening-in-your-region/>

¹⁶ <http://integratedreporting.org/when-advocate-for-global-adoption/find-out-what-is-happening-in-your-region/>

Appendix C: Mock GBC SCR – Table of Contents

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Appendix D: Mock GBC SCR Extract – Executive Summary

GBC's relationships have strengthened in some areas over the last 12 months (e.g. with Wealth customers), but in others there has been a marked decline (e.g. with employees). The areas of improvement partly reflect the actions taken in response to the first SCR. Overall progress, however, has been disappointing and this reflects how challenging it is to successfully manage GBC's various relationships.

In our opinion, the overall state of GBC's social relationships, and GBC's overall level of social risks, are at an 'amber' level.

We have made multiple proposals to better manage our key relationships and are confident that significant progress can be made with concerted and sustained action over coming years.

The rest of this Section of the SCR summarises the results of our work.

Social Relationships – Quality

Using various methodologies, we have assessed the quality of the relationships between GBC and Key Social Groups (**KSGs**).

Signal Analysis¹⁷ (explained later in this report) has been applied to various interactions between GBC and certain KSGs.

Relational Analytics¹⁸ (explained later in this report) has been used to analyse the relationships with a range of KSGs, where appropriate drawing on the Signal Analysis work.

We have also drawn on previous employee culture work to help assess the relationship with the employees, which has flow-on effects to GBC's relationships with customers.

TABLE A – Summary of Relationship Analytics & Signal Analysis

General Banking Corporation		Relational Proximity® 2019	Relational Proximity® 2020
Commercial / Direct Relationships	Customers		
	Retail	48%	45%
	Business	52%	50%
	Wealth	50%	57%
	Employees	65%	48%
	Suppliers & Partners	61%	61%
	Shareholders	58%	58%
	Public		
	Ex-customers	27%	26%
	Other	37%	38%
	Regulators	50%	42%
	Politicians & Bureaucrats	28%	41%
	Media	26%	36%

Comments on Relationship Quality

Table A summarises the assessment of the quality of relationships GBC has with various social groups, assessed using two complementary methodologies explained later in the report. This shows there have been some unfavourable movements and the overall quality for some groups is quite unsatisfactory.

The Table draws a distinction between those groups who have a commercial relationship with GBC and those that have a non-commercial relationship. GBC has much closer relationships with the former than the latter, and arguably has more influence over the quality of the relationships. Table A results support that general position, with low scores for the non-commercial relationships.

There have been unfavourable changes over the year in a number of areas, and absolute values remain low in others. Key points from the analysis were:

- Last year employees felt strong alignment with where GBC's direction, and in particular its Purpose and strategy. However, Signal Analysis is telling us that many employees are now starting to feel like the new strategy is being given lip service.
- While employees relate well to the GBC Espoused Values, they do not feel they represent the true values within GBC.
- Relationships with retail banking customers are starting to display some of the loss of alignment being observed in the relationship with employees.
- Small businesses are disappointed that GBC has not shifted its attitude towards the use of homes as security. They are finding it more difficult than ever to get access to reasonably priced credit, and are generally feeling powerless in their relationship with us.
- Wealth customers appreciate our major consultation program and the resultant changes to financial advisor remuneration.
- Some shareholders remain unhappy with the Board and management and have not bought into the relationship-focused strategy. Others, particular newer shareholders, are supportive of GBC's direction.
- Relations with regulators have deteriorated, primarily due to their change in 'regulatory posture' in the aftermath of the Royal Commission, and our struggle to adapt to that change.
- Last year our greatest areas of concern were our relationships with politicians, bureaucrats and the media. These all bounced back materially in 2020 as their attention has shifted elsewhere.

There remains considerable need for further progress before GBC's target levels of relationship quality are met.

Social Relationships – Measurement

It is helpful to think in terms of social capital being provided by each KSG which in turn creates value in the form of an intangible asset for GBC, which we call social goodwill.

So social capital and social goodwill can be seen as two sides of the same coin.

We have used a methodology we have developed in-house to value GBC's various social relationships.

The first step was to identify a portion of GBC's market value to attribute to social relationships. This enabled us to establish the broad magnitude of social relationship value. This necessarily is measured in dollars.

Secondly, we used the methodologies mentioned earlier to measure the quality of the relationships with the various KSGs. We then calculated a weighted average measure across all KSGs. This is useful for assessing the overall quality of the relationships in absolute terms, for tracking changes over time and for the effectiveness of actions taken to improve relationships. The weights given to the various KSGs

17 Sentiment Analysis https://en.wikipedia.org/wiki/Sentiment_analysis
18 Relational Analytics <https://www.relational-analytics.com/>

are based upon their relative strategic significance to the ongoing ability of GBC to achieve its mission and financial outcomes.

Establishing Magnitude

Our purpose here was not so much to try to accurately value GBC's social goodwill, but to give an indication of its overall magnitude.

We estimate that total social goodwill for GBC is worth about \$5 billion as at the end of 2019, down from \$10 billion at the end of 2015.

This suggests that social goodwill is firstly a very significant asset, and secondly it can be easily lost. It is worthy therefore of close management and Board attention. It should be managed and nurtured as other significant assets are.

Measurement

Having established the broad magnitude of social capital, we then turned our attention to assessing the relationships with the various KSGs.

The results of our assessments for the various KSGs are as follows:

TABLE B – Summary of Relationship Measure

General Banking Corporation	Relational Proximity® 2020	Strategic Significance 2020	Social Goodwill Contribution 2020	GBC's Social Goodwill Measure (2020) 47
Customers				
Retail	45%	17	8	
Business	50%	10	5	
Wealth	57%	5	3	
Employees	48%	15	7	
Suppliers & Partners	61%	5	3	
Shareholders	58%	15	9	
Public				
Ex-customers	26%	2	1	
Other	38%	3	1	
Regulators	42%	5	2	
Politicians & Bureaucrats	41%	15	6	
Media	36%	8	3	

Comments on Social Goodwill Measure

The overall Social Goodwill Measure is a new indicator of the overall health of GBC's social relationships. Our intention is to use the Social Goodwill Measure as the primary way of monitoring the current status of, and movement in, GBC's overall social relationships.

The current score of 47 is not particularly high, indicating that there is much that can be done to improve social relationships over the coming months and years. We have set an interim informal benchmark of 58 in the medium term, to be reviewed more thoroughly next year.

Social Relationships – Risks

Progress is being made in assessing and managing social risks, but significant weaknesses remain. These are the more significant issues:

- True Values risk: Notwithstanding the high level of in-principle support for the Espoused Values, a significant minority of both management and employees believe that in-practice support is weak in a number of areas.
- Litigation risk: Society in general is becoming more litigious, and the legal profession increasingly regards financial services litigation as a fruitful area of work.
- Political opportunism risk: in the aftermath of the Royal Commission this risk has increased to high levels. This will take time and effort to address properly.
- Fake News risk: As pressure continues to mount on conventional media from the rapid evolution of alternative news sources (such as Facebook), it is quite possible that conventional media will seek to use sensationalism to attract readership. Stories about poor behaviour – real or perceived – by financial institutions are likely to continue to be prominent.
- Insights risk: Work has commenced to improve GBC's capabilities to understand social attitudes and expectations, their trends and how they might change. However, all of this work is still in its early stages of development, and much remains to be done.

Conclusions

We have drawn the following broad conclusions:

- The GBC Reform Plan was initially well-received internally, but levels of cynicism have increased significantly. This is partly due to a perception that GBC is not living and breathing the Reform Plan (e.g. with certain product pricing). This not only affects the employee relationships, but has flow-on effects to the customer relationships.
- There are also multiple concerns with employee culture and deteriorating relations with employees more generally, particularly in specific parts of the business.
- There is an inconsistency between the views of Wholesome Life Insurance (which provides life insurance products for GBC) and GBC's in-house financial planners and employees. Mortgage brokers consider GBC's interests are not aligned with theirs.
- The analyses suggest that relationships need significant improvements in a number of areas (apart from with employees), in particular with retail banking customers, Wealth customers, and politicians.
- The market, the media and politicians remain very sceptical about GBC's rationale for, belief in and implementation of the Reform Plan. Much work is needed to address this.
- Social risks are not yet well understood or managed, and much work remains to be done here also.
- Social goodwill/capital and its importance is not yet well-understood or managed, but considerable progress has been made this year.

All of this indicates that GBC's social condition is far from optimal. On the other hand, there are clear opportunities for improvement, with identified actions that can be taken in the short term.

Recommendations

Recommendations have been made throughout the report, and are listed below:

Employees

- Understand the root causes of the broken link between senior and middle management. Signal Analysis should be used to help identify any inconsistencies between the GBC Purpose and actual behaviours, decisions or communications.
- Develop an action plan to re-build those relationships. This should include the ongoing use of Signal Analysis and associated personal reporting to 'nudge' employees to better engage with others.
- Re-engineer the relationships that our frontline teams have with other parts of our business, including introducing new performance objectives
- Conduct an exercise to thoroughly understand prevailing negative or cynical attitudes, including the underlying drivers, and to identify the sections of the business where the greatest challenges lie.
- Develop a program to develop a deeper understanding among employees of the GBC Purpose and Strategy and their rationale. This program would involve two-way communication and make use of the Relational Analytics and Signal Analysis methodologies.
- This program should include gaining the support of those identified as 'positive culture carriers' in changing attitudes and behaviours.
- Maintain a regular program of Signal Analysis of employees, so that a comprehensive picture of ongoing sentiment and how it is changing is maintained, with actions taken in response.

Customers

- Develop a program to identify those customers who have had particularly poor experiences and then support them in a way that turns them into advocates.
- Apply lessons learned from the positive relational turnaround in relationships with Wealth customers to the emerging challenges with Retail customers.
- Apply Signal Analysis and/or use focus groups with business customers to help understand the perceptions of power imbalance in this relationship. Be prepared to take action based on what we uncover.
- Maintain a regular program of Signal Analysis of customer interactions so that a comprehensive picture of ongoing sentiment and how it is changing is maintained, with actions taken in response.

Suppliers and Partners

- Review GBC's approach to life insurance in the context of the GBC Purpose and Strategy, and seek products that better align.
- Do a thorough review of mortgage brokers' needs vs GBC capabilities and take action accordingly. Conduct Signal Analysis of interactions with brokers.

Shareholders

- Explore new ways of reporting to the market each six months, to track progress against our Purpose and Strategy.
- Explore ways to encourage an influx of new shareholders who are aligned to our Purpose.

Wider Community

- It is unlikely that the embedded cynicism will be overcome with conventional marketing activities. Instead implement a program which highlights how GBC's Purpose is being supported by GBC activities.
- Explore partnerships with trusted organisations and community groups.

Politicians

- Develop and implement a fresh politician and bureaucrat relationship plan aimed at (a) their current points of concern, (b) GBC's Purpose and Strategy and its alignment with community interests and (c) building a sense of continuity and momentum, making plans for how to work together on common interests.
- Develop and implement an education plan for all senior management having interaction with politicians and bureaucrats aimed at how to best convey GBC's position to them – to be delivered by specialists in the field.
- Review the skills needed within GBC for dealing with the politicians and bureaucrats and address any gaps.

Regulators

- Share this SCR with ASIC and APRA and seek their feedback and questions, surfacing and responding to any doubts or reservations.
- Conduct a deep analysis of ASIC and APRA expectations in the 'new world', with specialist help.
- Develop and implement a fresh regulator relationship plan aimed at (a) their current points of pressure and (b) GBC's strategy and relationship management plans.
- Develop and implement an education plan for all employees having interaction with the regulators aimed at (a) giving a deep understanding of the priorities of each regulator and (b) how to best convey GBC's position to them.
- Review the skills needed for dealing with the regulators and address any gaps.

Media

- Review the skills needed within GBC for dealing with the media (including social media) and address any gaps.
- Develop and implement a program of education of key media commentators about the GBC Reform Plan and its progress.
- Identify a select, small group of commentators and brief them regularly on matters of importance.
- Understand the specific issues associated with the Mega Media relationship and seek expert assistance to build that relationship into the future.

Social Capital/Goodwill

- Continue to develop the methodology outlined in this paper to assess and manage social goodwill/capital.
- Develop social stress scenarios with input from the Board for future analysis.
- Develop a methodology for better understanding the volatility of the various relationship values, to better understand how quickly they might change, and thus how they might better be managed.
- Assign dedicated resources to help with this development and to do more sophisticated calculation and analysis.

Social Risks

- Continue to develop social risk assessment and management capabilities.
- Include commentary on social risks in quarterly reports to Board from CRO.
- Develop and implement mitigation and management plans for each social risk.

The Outlook

The overall quality of relationships is well below GBC's desired position. Correspondingly, social goodwill has considerable scope for improvement.

If the Recommendations are implemented, then we would expect very significant gains over the next three years, with noticeable improvements over the next 12 months. This will require real commitment and a concerted effort across GBC.

Appendix E: Mock GBC SCR Extracts – More Results of Relationships Assessment

Results of Assessment Relationships

Tables C to E below show the results of our various calculations at a high level.

Following the Tables, there is commentary on what the numbers are telling us about the various relationships.

TABLE C – Summary of Relationship Analytics

General Banking Corporation	Relational Proximity® by Dimension (December 2020)					Relational Proximity®
	Communication	Story	Information	Power	Purpose	
Customers						
Retail	52%	65%	29%	38%	42%	45%
Business	63%	74%	33%	22%	61%	50%
Wealth	63%	61%	51%	56%	55%	57%
Employees	51%	66%	39%	44%	40%	48%
Suppliers & Partners	63%	69%	51%	67%	58%	61%
Shareholders	50%	68%	48%	53%	73%	58%
Public						
Ex-customers	21%	23%	31%	28%	26%	26%
Other	25%	26%	17%	73%	52%	38%
Regulators	55%	55%	50%	23%	29%	42%
Politicians & Bureaucrats	35%	50%	31%	31%	58%	41%
Media	37%	45%	41%	25%	30%	36%

Notes:

1. This Table shows the Relational Proximity score for each KSG, with the underlying scores for each Dimension.
2. This helps understand the reasons for the level of scores.
3. Comments on the relationships for each of the KSGs are provided in the following tables.



TABLE D – Summary of Relationship Analytics & Signal Analysis

General Banking Corporation		Relational Proximity® 2019	Relational Proximity® 2020	Key observations from Signal Analysis
Commercial / Direct Relationships	Customers			
	Retail	48%	45%	Slight increase in scepticism.
	Business	52%	50%	Some anger re access to credit.
	Wealth	50%	57%	Markedly more positive language and attitude.
	Employees	65%	48%	Loss of engagement with GBC Purpose.
	Suppliers & Partners	61%	61%	Wholesome Life / GBC misalignment.
	Shareholders	58%	58%	A significant subset unhappy with Reform Plan.
	Public			
	Ex-customers	27%	26%	
	Other	37%	38%	
	Regulators	50%	42%	
	Politicians & Bureaucrats	28%	41%	
	Media	26%	36%	

Notes:

1. This Table shows the overall Relational Analytics results for 2019 and 2020, together with a high-level view of the outcomes of Signal Analysis work.
2. As noted above, some KSGs have a commercial or direct relationship with GBC; others have a non-commercial relationship.
3. The KSGs are sorted by the amount of interaction GBC has with each group. Due to the nature or structure of the relationships with Employees, Suppliers and Partners, GBC has greater connection and influence with these groups, than with those further down the list.
4. This is not to say the relationships with the second group are less important – rather that they are harder to influence and manage.

TABLE E – Summary of Differences in Perspectives – GBC and Key Social Groups

Notes:

1. This table highlights how the perspectives of GBC and the other parties differ from each other.
2. It is particularly concerning when there is significant difference, as it may indicate, for example, a blind spot for GBC, or misunderstandings. The negative values (shown in red or orange) are those where the other party has a more negative perception of the relationship, compared to GBC's perception.

General Banking Corporation	Their perspective compared to our perspective
Customers	
Retail	-4%
Business	-7%
Wealth	9%
Employees	-16%
Suppliers & Partners	-12%
Shareholders	15%
Public	
Ex-customers	0%
Other	-2%
Regulators	-1%
Politicians & Bureaucrats	13%
Media	5%

Appendix F: Mock GBC SCR Extracts – Examples of Social Risks and Assessments

- **Self-awareness Risk** – *the risk that a business engages in or effectively condones poor behaviour without realising this is how it would be seen by others.*

Board tolerance/expectation:

The Board expects that behaviour and attitudes are regularly and systematically monitored and corrected where necessary in light of prevailing community norms, attitudes and expectations.

During and following the Royal Commission, there was considerable publicity given to perceptions of community standards and how they appear to be different to standards commonly accepted within the financial services industry. However, there is evidence that many in employees and management do not accept the position as portrayed by the Royal Commission as being common or normal in the industry. Nonetheless, there is far greater awareness of the need to take into account the damage that can be done by poor behaviour and there are disciplines in place to minimize the likelihood of this happening.

Current risk status:



- **True Values Risk** – *the risk that the **actual** values, as shown through attitudes and behaviour of management and employees, are inconsistent with the **espoused** values.*

Board tolerance/expectation:

The Board expects that the espoused values be embraced across the business. It has no tolerance for deliberate behaviour and attitudes that are inconsistent with those values.

Notwithstanding the high level of in-principle support for the Espoused Values, a significant minority of both management and employees believe that in-practice support is weak in a number of areas. Of particular concern, there is widespread belief that the importance of the quality of customer relationship is not always recognized in behaviours and attitudes of management. Much remains to be done before it could be claimed that the Espoused Values have been embraced.

Current risk status:



Appendix G: Relationship Assessment Methodologies

Two main methodologies are proposed – **Signal Analysis** and **Relationship Analytics**

Signal Analysis

Signal Analysis refers to the use of human signals to assess and predict human behaviour. Human signals, which can include such things as smiles, frowns, gestures, car types, house locations and fashion styles, help to convey who we are (or who we want to be). People are conscious of these types of displays and often carefully plan to incorporate them in their communication. Because these signals are so often planned, they cannot be relied on as good indicators.

However, there are other signals that are processed unconsciously or are otherwise uncontrollable. In one application of this thinking, there are three type of signal categories: connectivity (who people communicate with), interactivity (how people communicate with each other) and vocabulary (the language styles people use when communicating). The combined use of all three categories improves the effectiveness of Signal Analysis. These signals are used to measure and assess human behaviour and personality attributes in an authentic and accurate manner.

A typical data analysis source is company email archives. Other unstructured data can also be analysed, such as enterprise social apps (e.g. Yammer, Slack, etc.), calendar archives, phone and Skype logs and text messages on company phones.

Other information that could be subject to Signal Analysis includes:

- Customer phone calls, letters, emails, web chats
- Public communications – website, reports
- Media and social media
- Communications with regulators
- Contracts and written communications with suppliers
- Product disclosure statements
- Royal Commission transcripts

Signal Analysis makes use of Social Network Analysis¹⁹, psycho-linguistics, machine learning and other methodologies, including sentiment analysis²⁰.

Signal Analysis can be and is being used to understand the underlying sentiment of various social groups. It is currently being used in Australia to help management and boards better understand organizational culture²¹.

For example, culture-related issues such as the existence of an unwanted silo mentality between parts of an organisation can be measured and addressed with a signal derived from connectivity. This signal looks at the social network relationships between people at work and the way gaps in these relationships can be bridged through key influencers within those networks. This can reduce the existence of a silo mentality between functions and promote better collaboration and engagement between personnel.

Another example involves analysing the time taken to respond to emails, which is an interactivity related signal. The longer the receiver takes to respond to an email, the less passion that person displays for the issue the email relates to²². Factors such as being cc-ed as a matter of courtesy or being spammed are taken into consideration, as are emails that may require longer than usual to provide a response due to their technical nature or financial implications. A supplement to the speed of response is the number of nudges received from the sender of the email. The more times a sender needs to remind the

¹⁹ Social Network Analysis https://en.wikipedia.org/wiki/Social_network_analysis

²⁰ Sentiment Analysis https://en.wikipedia.org/wiki/Sentiment_analysis

²¹ Blackhall & Pearl <http://blackhallpearl.com/expertise/artificial-intelligence/> Disclosure: Ian Laughlin chairs the Advisory Board of Blackhall & Pearl.

²² <https://www.nytimes.com/2019/02/15/opinion/sunday/email-etiquette.html>

receiver to respond to an email, the less respect the receiver has for the sender. These signals can be used to monitor risk culture factors such as the likelihood of ignoring issues until they can no longer be ignored. Email response times and the number of nudges required to elicit a response are early warning indicators of key issues being ignored.

Where personalized feedback and insights are provided to employees from ongoing Signal Analysis, individual employees are likely to improve their behaviour where the individual is shown to be out of step with their peers and with expectations.

The methodology can be readily used for other social groups, such as shareholders, the media, the wider community, and suppliers.

In this paper we have proposed the use of Signal Analysis to help understand the quality of relationships with key social groups, and to help address issues that are addressed.

For example, because the community is a social network through which ideas spread, understanding the dynamics of that network helps better understand how community expectations are evolving. Understanding who shapes that evolution helps analyse the drivers of shifting expectations and provides alerts when new issues are being introduced and promoted by the influencers. This is social risk sensing, which combines social network analysis, sentiment analysis and artificial intelligence to build a 'radar' to detect current and forecast future shifts in community attitude and expectations.

Signal Analysis undertaken over time can give an idea of trends and momentum from movements in the underlying sentiments. This can help in identifying and initiating pre-emptive actions to improve and protect relationships.



Relational Analytics

Relational Analytics is a well-developed approach to understanding, managing and measuring relationships, and is set out in a recent book²³. Relational Analytics argues, amongst many other things, that relationships create value and are a source of competitive advantage – consistent with arguments we make in this paper.

Relational Analytics establishes what it calls the Relational Proximity Framework. Relational proximity is a measure of the 'distance' in the relationship. It introduces five domains of relationship, and five drivers for measuring proximity:

Relational Proximity		
Domain	Driver	Examples of High Proximity
Communication	Directness – the ways in which presence in a relationship may be mediated by time, technology or other people.	There is regular communication (with a high proportion face-to-face) where both parties are open, honest and transparent. Parties are accessible and responsive and find their encounters valuable.
Time	Continuity – how interactions are sequenced over time.	The two parties have or are developing a meaningful and memorable back story and strong foundation to further build the relationship. They have a planned future together with a sense of loyalty and commitment.
Information	Multiplexity – the way in which information is obtained.	The two parties know and understand well each other and their motivations and pressures, across multiple contexts. They know each other's skills and talents. They know why the other party behaves the way they do and can predict reactions.
Power	Parity – how the distribution and use of power can influence participation, fairness, and the experience of mutual respect.	There is mutual respect, and both parties feel free to truly influence and participate in the relationship. There is a sense of parity and fairness in the sharing of risk, reward, credit and blame.
Purpose	Commonality – how the depth, breadth and clarity of alignment of purpose influences unity and synergy.	The parties are well-aligned in their expectations and priorities, and in their short and long term goals. There is mutual commitment and synergy – they feel they can achieve more together than apart. Any differences are well-understood and managed.

Using this framework, the quality of the relationship with a particular social group (e.g. customers) can be assessed. In turns this provides a basis for assessing risks and managing the relationship.

Importantly, assessments are two-way, taking into account the perspectives of both the business and the social group, and the differences and blind spots are identified and considered.

The information used for doing this assessment under the Relational Analytics framework is traditionally sourced from surveys, interviews and focus groups, but further rich information could be sourced from Signal Analysis.

²³ John Ashcroft et al 2017 *The Relational Lens*

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