More than a reputational glitch

TSB's handling of its IT migration reveals the importance of managing reputational risk

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The turmoil that ensued following TSB's migration of its IT systems in April has led to a number of questions regarding their preparedness to change distributors and their ability to fix the issue in a timely and comprehensive way. Perhaps more troubling has been the way that TSB has conducted itself in aftermath and the accusations that Paul Pester, the TSB chief executive, was misleading in his evidence to parliament and to customers about the extent of the issue.

Migration failure

When TSB migrated its IT systems on 20 April from those run by its former owners Lloyds Banking Group to one designed by its current owner, the Spanish bank Sabadell, short-term disruption to some online banking services were anticipated and customers were warned that some would be unavailable for two days.

However, it soon became apparent that the transition had not gone as smoothly as expected and customers reported multiple and varied issues with their online banking services, including being locked out of their accounts, incorrect balances being shown and, perhaps most concerning, displaying other customers' details.

Despite reassurances on Sabadell's website that they had 'successfully completed the TSB technology migration' and a tweet from Pester stating 'our mobile banking app and online banking are now up and running,' issues resulting from the IT upgrade continued to affect 1.9 million online and mobile customers.

After the IT chaos continued into a second week, Pester alongside Richard Meddings, the bank's chairman, and Miguel Montes, a representative from Spanish parent group Sabadell, were called to give evidence to MPs on the Treasury Select Committee about the lack of foresight that had led to this scenario.

Damage limitation

The fact-finding mission by the committee turned an already testing situation into a public relations nightmare for TSB. Criticism of the situation was scathing, particularly towards Pester, who Nicky Morgan MP, the chair of the committee, advised the bank to consider removing 'as a matter of urgency,' saying, 'if he continues in his position, this could damage trust not only in TSB, but in the retail banking sector as a whole.'

The failure to preempt and prevent the IT issues became secondary to the way that TSB had chosen to communicate with its customers, a way which Morgan called 'complacent and misleading.'

This view was shared by Andrew Bailey, the head of the Financial Conduct Authority who admonished Pester for 'poor communication', 'portraying an optimistic view' and failing to be 'open and transparent' about the scale of the problems.

To compound the issue, Pester allegedly refused to accept help from Lloyds' IT experts. This allegation first came to light in a report by the *Financial Times*, where former TSB board member Philip Augur claimed that the issues were the result of 'human error, pride and software failure.'

Instead they turned to the software firm, IBM, which said in its evidence to the Treasury Committee that it '[had] not seen evidence of the application of a rigorous set of go-live criteria to prove production readiness.' TSB rejected this claim and has argued that IBM has had insufficient involvement to make such statements.

The exact cause of the issues are still unclear and problems persist, with customers reporting being locked out of their accounts as recently as 10 July. An independent review of the crisis by law firm Slaughter and May, who have been hired to investigate the cause of the issues, may prove illuminating on this front.

Directors' duties

The inability to resolve the issue in an effective way has led to a rehashing of the oft-held debate surrounding where companies' loyalties should lie. MPs on the Treasury Select Committee may have urged Pester's removal and criticised his bonus, but are they right to do so?

Pester may have led a poor migration of the IT system and dreadful management of public relations but as Edwin Morgan, director of policy at the Institute of Directors, stated, 'the Treasury Committee has a vital role to play in holding our financial institutions to account, but ultimately a chief executive serves at the pleasure of the board and shareholders, not politicians.'

Peter Swabey, policy and research director at ICSA, agrees: 'The directors of a public company are primarily responsible to shareholders. Of course, they have responsibilities to other stakeholders too, but these can surely be best addressed by sorting out the problems at TSB and I am not convinced that an appearance before the select committee was the best use of their time.'

The chairman has given reassurances to Pester and has credited him with leading TSB out of the disaster, claiming that he has the 'full support' of the board.

The exact financial impact of the failings are also yet to be revealed. Sabadell has already announced an additional €77 million (£67 million) charge relating to the project, and client compensation of no overdraft charges for a month and improved interest rates are projected to cost TSB over £20 million – and IBM's services are unlikely to come cheap.

There is also the possibility of hefty fines, much like the £56 million the Royal Bank of Scotland were forced to pay following their 2012 computer glitch.

Reputational loss

Long term, however, it is the public perception that could be most costly. Existing clients may seek banking services elsewhere and new clients may be less inclined to switch. RBS have managed to maintain their customer base at around 24 million, but their computer glitch generated far fewer headlines. John Mann MP, who was a member of the Treasury Select Committee told the *Financial Times* '[TSB] were playing fast and loose with the customers and also with their reputation, which has been so damaged by it now.'

Anthony Fitzsimmons, reputational risk specialist and lead author of *Rethinking Reputational Risk* says: 'Reputation is about how stakeholders perceive you. Competence and humanity play a large part. Crisis management and PR can help you to rebuild a good reputation but the crucial question is whether that reputation is deserved. If it is not, you are left predictably vulnerable to a far worse crisis next time a mishap puts your reputation in play.'

'To rebuild its reputation on solid foundations, TSB must discover and remedy the root causes of this crisis. Poor change management or defective handling are only superficial causes … a thorough investigation will probe areas such as leadership inability to hear and absorb unwelcome news; leadership personality and behaviour; un-resisted pressure from holding company executives; the effects of CEO incentives and the extent to which the board understood the likely consequences of the incentives it created.'

'Left unidentified, it is only a matter of time before un-remedied root causes such as these cause the next crisis. Stakeholders are far less forgiving of crises caused by the resurgence of unaddressed systemic weaknesses.'

TSB would be well-advised to turn to the fast-food industry to see how to revise public opinion. When a change of distributer in February led to around 800 of KFC's 900 UK restaurants closing due to a lack of chicken, it was a humorous and speedy apology that restored public opinion. The company took out full-page advertisements across a variety of newspapers, with an apology and an eye-catching misspelling of their name to FCK.

The move was welcomed by both the public and industry specialists, with the campaign recently being nominated for Marketing Week's brand of the year and YouGov's BrandIndex, which measures a brand's quality, value and reputation, shows that after an initial dip, scores are now almost back to pre-crisis levels and rising.

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According to reports, like TSB, there are still operational issues for KFC, but in the eyes of the public, it is all but forgotten. Of course, the issues are far less serious and the inability to access a bargain bucket is not comparable to the breaches of security resulting from TSB's issues.

The outcome of the meltdown will be costly to TSB, but although reputational damage is less predictable it should be more controllable. Swabey observes that 'whereas a company used to have 24–48 hours to prepare a press statement on an issue, now it is lucky to have 30 minutes.

'Indeed it may be that the first intimation of a problem appears on social media and it is speed and honesty of response that shows how well prepared a company is.'

Slow reactions and a lack of candour may prove to be TSBs greatest failing.