The world moves too fast to rely on old-fashioned reporting, says RepRisk CEO Philipp Aeby

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Corporations' and boards' awareness of and concern about reputational risk are at a high pitch, research shows. In contrast to purely financial or other vulnerabilities whose sources or causes are well defined if not always predictable, reputations can take a hit from any number of directions, including areas subject to risk oversight of their own, such as cyber security.

RepRisk approaches and provides business intelligence on this specialty from the environmental, social and governance (ESG) perspective. The Zurich, Switzerland-based firm has a database that includes more than 42,000 companies plus other entities, with continuously updated totals posted on its home page.
"In a world that moves so quickly, you cannot manage risks appropriately by using a rating or report that was published last year or even last quarter," said chief executive officer Philipp Aeby, underscoring dynamic nature of RepRisk's reporting.

The firm says it "systematically collects and analyzes negative incidents, criticism, and controversies about companies and projects worldwide, and offers information on activities related to human rights violations, poor working conditions, corruption, and environmental destruction."

RepRisk serves clients in multiple ways. One is by monitoring what third parties report about a given company. "Stakeholders such as media, NGOs [non-governmental organizations], government agencies and others provide valuable insight on the activities of a company on the ground," Aeby explained in a recent interview. "They provide that 'reality check' of whether a company's intentions [policies, commitments, etc.] translate into performance."

The firm offers "universal coverage," meaning it does not limit research to a particular sector or region. "Not only does our database grow every day," Aeby said, "but we cover both publicly listed and privately held companies, from all sectors and all countries."

The company was founded in 1998 as social and environmental consultancy ECOFACT. In response to a large banking client's request, the firm developed and launched the RepRisk Web-based Tool in 2006. It changed the company name to RepRisk AG in 2010. Aeby joined the firm in 2006 and previously held chief operating officer and managing partner positions. Earlier he served in various managerial positions at biotech company Amgen and worked on a broad range of international assignments with the Boston Consulting Group. He has a PhD in environmental physics and a master's in climatology from the Swiss Federal Institute of Technology, Zurich.

What are your thoughts on the current global risk climate?

Since the arrival of the Internet, we've transitioned into the Information Age, marked by unprecedented access to information and the unbelievable speed with which that information travels. This has enriched our lives in many ways but also comes with risks. Privacy violations and data security breaches are just some of the consequences. In response, insurance companies, for example, now offer cyber liability insurance - something that a few decades ago would have sounded like something out of a "Star Trek" episode.

Former consultant and biotech executive Philipp Aeby is CEO of RepRisk in Zurich.

In this new hyper-transparent and hyper-connected world, reputation matters much more than ever. As such, it is now quite common practice for employers to Google applicants as part of their recruitment process. A disagreeable photo on Facebook could potentially lead to the application being tossed into the recycling bin. Similarly, on the corporate level, things that used to take place behind closed doors are now for the most part out in the public space. Insurers have again responded by offering reputational risk coverage, which makes sense considering recent surveys have shown that companies believe reputation is the hardest risk to manage.

What is the RepRisk methodology and how is it differentiated from others'?

RepRisk focuses on capturing "gross risk" related to ESG issues. We systematically search, select and analyze controversies, criticism and negative incidents - what we refer to as negative news - and then filter in a rules-based way. The idea is to provide clients with relevant data that supports their decision-making. Through our methodology, we try to put a level of objectivity into an area that can be seen as intangible and subjective.

Who is your typical client?

As RepRisk was born out of the financial sector, it is probably unsurprising that a typical client today is in the financial sector, using our data for ESG-related risk management and compliance. Our two key client segments are banks who integrate RepRisk as part of know-your-client (KYC) and environmental and social due diligence processes, and asset managers who integrate our data into their investment analysis frameworks or use it to screen portfolios or engage directly with companies on ESG issues.

That being said, we think the typical RepRisk client tomorrow and beyond will evolve to include a wide array of other organizations and functions. We see a growing interest from multinationals that are looking more closely at ESG issues related to their supply chain. Our banking clients have been using our data for client on-boarding and monitoring, and multinationals could do the same.

Other areas where we see growing interest include asset owners looking to screen their holdings, particularly in the U.S. and Europe; global insurance firms seeking to address ESG issues as part of their underwriting processes; law firms that help their clients to properly manage legal risks with respect to new regulation and international standards; and corporate social responsibility (CSR) and communications teams who want to identify ESG trends and monitor NGO activity. In the coming year, we are focusing on creating solutions for any ESG risk data need in the market.

How has demand for ESG risk services changed since 2008, post-financial-crisis?

Awareness of ESG issues has grown significantly. For those of us in the space, progress can sometimes feel achingly slow, but when we take a step back, it soon becomes clear that we have made great strides. ESG issues now make headlines and are on the agendas of corporate executives, boards and investors. In addition, stakeholders from all walks of life now have access to the information that helps them make different and better decisions, whether they are making a purchase, applying for a new job or campaigning for political reform. People want their voices heard, and the Internet and social media gives them a stage to amplify their message.

For example, financing a controversial project on the other side of the world that involves the re-settlement of people and degrades the local environment can cause so much stakeholder backlash and reputational damage that many banks will now voluntarily walk away from such deals. This was not the case until very recently. In our business, we have seen a growing demand from banks and other organizations looking to manage their ESG risks. They realize that many high-profile scandals - think of BP Deepwater Horizon, Fukushima or Rana Plaza in Bangladesh - are ESG-related. They want to reduce their blind spots and enter into relationships with clients, counterparties or suppliers with their eyes fully open.

What new trends are you noticing in ESG risk reporting?

In the new transparent world we live in, companies are expected to proactively disclose information on the risks they face and the steps taken to mitigate those risks. To help guide those disclosures, a number of reporting initiatives have appeared over the last decade. While some take a broad approach, such as the GRI [Global Reporting Initiative] sustainability-reporting framework, others, like the Carbon Disclosure Project and Water Disclosure Project, focus on specific issues.

These are just a handful of many. The Global Initiative for Sustainability Ratings has counted over 100 sustainability ratings, rankings and indices. Often over-burdened with surveys and questionnaires, companies start to face reporting fatigue. Another downside of existing schemes is that they tend to sit in a separate area of an organization - usually a CSR team - removed from the core business.

There is, however, a very promising trend to address this: the embedding of ESG reporting into traditional financial reporting. Several initiatives are under way. In the U.S., the Sustainable Accounting Standards Board is working to integrate ESG reporting into SEC 10-K filings. Similarly, the European Union is moving to require all EU multinationals and non-EU companies with significant operations in the EU - an estimated 6,000 companies - to disclose non-financial information. These trends reflect a need for improved transparency - and the realization that voluntary measures can only go so far. The next big step forward in transparency may be best achieved through regulation.