

SRI-Connect interview with Philipp Aeby, CEO, RepRisk

Question 1: Describe for us how the RepRisk product works. How is information gathered? What is communicated to clients?

What we do is provide a specialized service that focuses on the ESG risk side of the sustainability world. We have processes and tools in place to identify any incidents, criticisms and controversies that occur with companies worldwide – also with projects, but this matters less for asset managers.

So, we collect all of this information, we analyze it, we link it to companies, countries and sectors. Then we quantify this exposure for each of these companies from a risk perspective and provide the results to our clients via access to our database, via monitoring reports, via company reports or via other mechanisms.

In terms of the process that we go through:

Stage 1 is where we apply ‘artificial intelligence’ in the form of search tools that review print media, online media, government sources, NGOs, newsletters, blogs, RSS feeds. We use an algorithm to filter these to our own specific interests in ‘E’ & ‘S’ & ‘G’.

Stage 2 involves human intelligence. Our analysts check all of the filtered information to confirm that it is ‘in scope’ and to judge the level of severity of the issue. We have different levels of severity for each issue. Also, the size of the risk is affected by the number of times that an issue is recorded. For instance, a story that appears first in a local newspaper and then in the Guardian and then in the Wall Street Journal increases in severity along the way.

Analysts are also involved in Stage 3 – which is where we link the risks identified to the corresponding entities – the companies and the projects, and make an English summary. The latter is important as we cover sources in 14 languages.

...and then it goes live via the database and is communicated to our investor clients via our Web-based Tool, Company Reports and Monitoring Reports.

Also, I should mention the ‘indices’ that we produce that help quantitative analysts to construct their portfolios. It’s possibly a bit of a confusing term as these indices are not the same as financial indices. These indices are quantitative products that assign numbers to companies ranging from zero to 100 based on their reputation; on their ESG exposures and on compliance.

Question 2: How can investors translate reputation to valuation – for downside risk?

I should stress that we focus on downside risk; we are very negative people ;-). Also, we are the data providers that identify ESG and reputational risk and quantify it for our clients. We don't translate this into financial risk; that is the expertise of our clients.

Of course, these ESG and reputational risks can translate into financial risk via a number of different routes.

The most common of these are via:

Loss of clients

Additional costs for recruitment and retention of staff

Tougher regulatory requirements and fines

Loss of community support for a project, or what is often called the license to operate

Increased cost of capital.

So, the reaction of 'transactional stakeholders' is the important thing in understanding that an ESG or reputational risk will turn into a financial risk. However, again I must stress, that we are the data provider. It's our clients that map these pathways to financial impact.

Question 3: How can investors value positive reputation (or brand)?

As mentioned before, we focus exclusively on the downside risk side of things. Perhaps I could broaden the question a bit to ask: "What the role is of a business information provider such as ourselves is in the identification of sustainability opportunities?"

Frankly, I think it is pretty limited; I think most of the upside analysis is best done by mainstream as well as specialized financial analysts.

If you're a financial analyst and you're not aware of the opportunities presented by the products that the companies you are investing in are developing then you are probably doing the wrong job. I don't see that external providers can contribute much to this level of understanding.

However, it is highly likely that this financial analyst is not an expert in supply chain risks or human rights – which is why we specialize at this end of the spectrum.

Question 4: What 3 areas of risk should be coming onto investors' radar screens? What areas are becoming less significant?

In terms of rising risks,

Number one has to be Human Rights issues. The increasing transparency that we are seeing makes human rights into a hot, short-term issue for companies. Better communications are really putting the spotlight on corporate practices.

At Number two, I probably have to put Global Warming – although I'm undecided about this. If and when regulation or an over-arching global framework emerges, it will have a huge impact. However, I don't expect this will be soon – so I'm not sure whether it belongs on a list of RISING risks.

At Number three, I would put Supply Chain Risks – largely because this is a huge topic for multinationals – but they don't know how to deal with it. This includes issues like child labor and labor standards. Some companies are starting to move into this space – but it is largely via country-level analysis – which is fine but also very limited. It's much harder to get right into the specifics of individual supply chains.

For the diminishing issues,

Well, let's take another look at Global Warming. For the next six months or possibly even five years, I don't see this causing significant reputational impact. In the absence of a global deal, I don't see topics like energy efficiency or emissions reduction generating the same type of headlines that they have historically done. The whole area depends too fundamentally on regulation and on the price of commodities.

There has been a lot of focus on tax avoidance and evasion in recent years and quite a lot of action has been taken as a result – so perhaps the risk to reputation has been reduced.

Question 5: If you could excel at one sport and one cultural activity, what would they be?

Can I mention something that I have already done? I am an author. I wrote a crime story about the pharmaceutical industry – which is the industry that I used to work in – first, as a consultant and then, as a manager. The practices that you hear about on the inside of this industry certainly create a good story!

So, the book is called Kolumbianische Scheidung – or Colombian Divorce. The story is about sex and crime and the perks of management and international business – but it also contains a lot about the

ethics of clinical trials and the necessary tradeoffs in marketing decisions and how a few middle managers can make a difference. You don't have to be the CEO to do the right thing!

For sport, I would love to play at the World Cup in Brazil. But, unfortunately, I'm too old and don't have the talent. (Editor: You and me both!)