

Reputation

What America Really Thinks Of Its Finance Industry

Lily-Hayes Kaufman 04.29.09, 4:25 PM ET

American financial institutions are struggling as hard to rebuild their reputations as to return to profitability. The results of a new public opinion survey conducted by the Reputation Institute, a private research and consulting firm based in New York, show that companies like Wells Fargo, Citigroup, Bank of America and JPMorgan Chase have a long way to go.

The Reputation Institute measured the reputations of 600 companies globally. Companies were ranked based on standardized scores on a scale of 0 to 100, where 80 is considered excellent and below 40, poor; the largest concentration of companies scored between 60 and 70 on this scale.

The reputation score of the 153 U.S. companies surveyed ranged from a low of 27.47 for Halliburton to a high of 83.58 for Johnson & Johnson. Financial services companies clustered in the bottom half, led by Wells Fargo at No. 98, down to Citigroup trailing in the bottom five at No. 149.

"People are very concerned. Their retirement accounts have dropped by half," says Brian Craig, a principal consultant with the Reputation Institute. "People are more demanding, saying, you're dealing with my money, and my retirement and my kids' college fund is as important as it gets."

This year's results show that what consumers care about most in financial services companies is ethics and transparency. Wells Fargo, with a score of 63.90, gained 6.51 points from last year, ending up with the best reputation of any American bank. Yet in the marketplace, the bank's stock peaked at \$38.69 in the third quarter of 2008 and had fallen 49% by January 2009, when the survey was conducted. According to Craig, "Wells Fargo does the best on governance, the characteristic we found to be most important among consumers this year."

Citi's weak score may simply reflect its performance. The company has taken the most government support or any bank, and its stock has one of the worst records in the whole group. Citigroup reported a fourth-quarter 2008 net loss of \$8.29 billion, or \$1.72 per share. By January 2009, Citi's stock had given up 86% of its value, and by the end of the first quarter, it fell to a low of \$1.02, less than 2% of its 2006 high of \$55.70.

A strong national presence, including a wide-reaching branch network, helped support the reputations of firms like JPMorgan Chase and Bank of America. "These companies had been pretty disciplined when it came to the aggressive lending that got us into this problem," adds Frederick Cannon, a research analyst at the brokerage Keefe, Bruyette & Woods.

Also, both of these banks made acquisitions in the past year. JPMorgan Chase purchased Washington Mutual and rescued Bear Stearns; Bank of America absorbed Countrywide and Merrill Lynch. In the long run, taking struggling companies into healthier ones can look good both for the individual banks involved and for the sector as a whole, says Cannon: "Perhaps we've got a lot of the problems under better management."

JPMorgan Chase dropped 1.21 points to 59.82 to rank 120th on the list of U.S. corporations, a good performance relative to most of its peers. It may have been helped by how well Chase did before its Washington Mutual and Bear Stearns acquisitions. Chase's share price had fallen 25% by January 2009 from a high of \$49.82.

Bank of America's reputation actually rose by 7.96 points (any change of more than 0.5 is considered statistically significant) to 58.90, despite the fact that the bank's stock has performed terribly. By January 2009, the time of the survey, Bank of America's share price had fallen almost 80% from its high of \$47.91, and it continued to spiral to a low of \$3.14 by the end of the first quarter.

Looking forward, Orenbuch notes the bank will have to deal with continuing to integrate Merrill Lynch, and with questions about its stewardship under Chief Executive Ken Lewis--if he survives at the helm much longer.

Craig likens the worsening of reputations across the financial sector to what happened when a perceived lack of transparency hurt the reputations of pharmaceutical companies. They "were not sharing research or knowledge about efficacy of drugs and so forth," he says. They plummeted in the Reputation Institute's standings at the time.

Financial services, as the world knows better now than ever before, is a dauntingly complicated business. Opinions about it won't likely change until companies become more transparent about how they do business. "Consumers are not being critical of the companies' products or innovation," Craig says. "They're being critical of the companies' governance and leadership."