Wall Street rebounds, though image problems remain

It's been five years since the financial collapse of 2008. Our economy is improving, the stock market is gangbusters, and consumers and investors alike have embraced an outlook that is noticeably optimistic. Throughout this sea change however, the public's perceptions of Wall Street remain negative, and though finance groups have poured more money into PR than ever to repair their sullied image, it remains to be seen if those perceptions have changed. As confidence in the market climbs, a skeptical public may find themselves wondering: has the industry seen the errors of its ways? Have executives come around to embrace a need for outreach and transparency — or can we just expect a return to business-as-usual?

By Jon Gingerich

Like habits, old narratives, it seems, also die hard. The recent news that SAC Capital Advisors was indicted for insider trading and that nine former employees had been charged with conspiracy and securities fraud as part of a six-year investigation shows that at least some of our financial leaders still haven't learned.

Financial scandal is still making headlines. In fact, perhaps as a means of making up for years of regulatory inaction, it seem there's now a voracious interest on part of government agencies to proactively hunt down the next inside-trader or Ponzi pirate before he reaches Bernie Madoff proportions. And yet, as seen with the recent spate of scandals at Galleon and SAC Capital, unscrupulous trading practices continue. We can always expect finance and investment companies to want that extra edge that will give them a market advantage, but given the recent news, we may not help but wonder: has Wall Street *still* not learned its lesson?

Public perceptions remain low

Not surprisingly, a majority of the overall media focus into the financial world remains negative. For all the upswings in investor activity this year, it's not exactly a radical position to suggest the finance industry's reputation remains low. Recent surveys still rank financial services as one of the least trusted sectors out there, and undoubtedly, this has posed major challenges for the communications industry that serves it.

For several years now, crisis communications and risk management have been the PR plans *du jour* for financial clients. Media scrutiny and SEC oversight are default variables built into campaigns. Reshaping the brand and rebuilding trust has become the order of the day, and as it turns out, it's not something happens overnight.

"The reputational damage of the financial crisis on the banking sector and its leaders will take years to repair," said Steve Frankel, Partner at Joele Frank, Wilkinson Brimmer Katcher. "Media and the public at large are less trusting than ever of bankers and the institutions they manage. In the short term, that negative image obviously presents significant PR challenges."

According to Frankel, PR storytelling in an environment inherently critical of the message requires "creative, compelling news hooks with lots of solid data to back up your thesis." Frankel said that while the press may always look at finance news with a skeptical eye, offering positive stories that stress accountability and transparency are a must. If anything, they reveal steps the finance industry is willing to make in regaining public trust.

"Smart CEOs and their communications advisors are taking the right approach by making transparency and accessibility their top priorities, and ensuring that clients, customers, shareholders, employees and regulators understand the critical role they're playing in the economic comeback," Frankel said. "Themes like small-business lending, mortgages for first-time home buyers and veterans, and underwriting exciting new companies will resonate over time if banks are disciplined in their messaging and make a genuine commitment to put their money where their mouths are."

According to Rick Anderson, Senior Managing Director of Financial Services for Feintuch Communications, the challenge for financial communications professionals is always tangentially connected to the opportunities.

"Whether you're proactively talking about your clients to the media or reactively defending them, the fact is you know there's a penchant on the part of media to shoot for that juicy, negative story. As a matter of course, during the last few years an integral part of our programs has involved a risk management component. That isn't to say the company is going to end up in a crisis; it's a broad plan that covers a lot of potential issues and identifies where risks may exist. And the risks are everywhere. They can be regulatory risks, market risks, or the risks of incurring the wrath of the media."

Still, one can't help but notice the overall mood in the finance world seems to have improved. The Dow this year closed at record highs, unemployment has fallen, and consumer confidence in May hit a six-year peak. Even the housing market has turned around. There's no doubt PR firms engaged in the finance world can take their share of credit in repairing how the public feels about Wall Street, but anyone working in this industry will tell you: nothing improves the mood like a strong economy.

"There's a strong correlation between market performance and perception, between how the industry is doing and how the public feels about of it," said Andrew Healy, Partner at Water & Wall Group. "The better the economy does, the better the market does, and the more positive consumers feel."

In terms of messages, Healy said that, in the bull-market days between 2004 and 2008, a large portion of his clients' PR program focused on product. The markets were performing at all-time highs anyway, so the mood towards Wall Street, according to Healy, was resoundingly positive. In the aftermath of the financial crisis however, that mood soured. Investors stopped caring about new fund launches. The public grew skeptical.

Healy said rather than fight the inevitable, many brands have evolved with the times and have now started giving investors what they want: information. According to Healy, the idea is not to sell a product, but to sell an idea.

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"Rather than talk about their new large cap value fund, tell me why large cap value stocks are a good place for me to put my money," Healy said. "Walk me through your investment analysis and sell me the 'idea' first. That will make clients feel educated and comfortable, and then the sales process will be much smoother."

Changing their tune

When it comes to information, the first thing most people think about nowadays is the Internet. Of course, one oft-repeated adage regarding the financial sector is that the industry has typically been resistant to change. Healy noted that just six or seven years ago it often took a great deal of convincing just to get financial experts to speak with web journalists (to be fair, it could be argued that things were going so well for the industry back then that media outreach wasn't something they had to worry about). Now, Healy said, having a proactive multi-channel communications plan is something many finance pros know they can't afford to ignore.

Steve Frankel, Partner at Joele Frank, Wilkinson Brimmer Katcher

Richard Anderson, Feintuch Comms. Senior Managing Director of Financial Services

Andrew Healy, Partner at Water & Wall Group

"Before 2008 a lot of financial brands didn't take a proactive stance with the media or have what you would call an 'open communications' view. Given the reputation hit they took, arguably they could no longer hide under that radar. They needed to rebuild trust," he said. "We're seeing a lot more willingness to embrace communications. What you're seeing now is an industry that was once behind other industries now starting to become more proactive. They see the value."

"If you were to be able to go back five or six years and determine whether the top 25 private equity firms had an in-house communications or PR direction at a fairly senior level I'd venture to guess a very small minority had that in place," Anderson said. "If you did the same survey today I think you'd find that number has increased exponentially, and I think this is in response to a newfound recognition for an ability to communicate effectively."

Also, consumers of financial products arguably have a lot more power nowadays. If your bank doesn't offer an app to monitor your checking account, for example, you may feel inclined to go to a bank that does. Healy believes the industry finally recognizes this, and as a result they're willing to embrace new forms of communications. They're even becoming actively involved with social media, a concept that previously sounded like a foreign tongue in the finance world.

Frankel said that, at least for consumer brand companies, social channels like Facebook and Twitter have been readily adopted, and many consumer banks now "deserve a lot of credit" for their recent forays into the social and digital world.

"Advancements in online and mobile banking represent the epitome of customer focus and service. For Wall Street banks … marketing efforts are targeted at decision-makers in the boardroom, at private equity firms and on hedge fund trading floors, audiences less likely to be influenced by social media," Frankel said. "However, the largest investment banks are definitely using Twitter and other outlets as part of their full communications toolkit because the mainstream media covering their companies are increasingly participating in the social media dialogue."

New rules, new opportunities

In July, the financial world was shaken with the news that the SEC — as part of a key provision of the JOBS Act — had finally decided to allow hedge funds, asset management and private equity firms to begin marketing themselves publically, effectively ending an 80-year ban on the practice. The ruling could usher in a new era of transparency for these traditionally hushed groups, and likewise may result in a positive upturn in business for PR firms with clients in the financial services sector.

However, it could also unwittingly result in the SEC once again bringing down the hammer. Experts who spoke with *O'Dwyer's* said it would most likely be smaller to mid-sized firms that find themselves proactively marketing and advertising, as the more established hedge funds already have a fixed roster of investors. As a result, the recent ruling could bring about a trail-by-error period for the industry, as firms hungry to take advantage of this new playground may make mistakes before the laws are clear.

"The SEC's decision introduces a whole new environment where right now the rules, as currently promulgated by the SEC, are still not that clear in providing guidance and are fairly wide open in terms of how a threshold applies," Anderson said. "Companies that take a more aggressive posture will have to be fairly careful in how they communicate, especially with prospective investors. I think what you're going to find is we'll see firms that are overly aggressive at first, and are going to stumble and the SEC will come down hard."

Healy said that while some funds will certainly test the waters and take out ads, he doesn't anticipate the majority of the industry to follow suit. Instead, the most important aspect of this ruling, according to Healy, is the fact that managers can now speak with the press, create a website that reflects their brand or otherwise market themselves without worrying about getting into trouble. "It may sound elementary compared to other industries," Healy said, "but for the (PR) industry it's a game changer."

"Most established mid to large-sized funds already have access to institutional and high-net worth investors, so they won't need advertising to reach their audience," Healy said. "Also, the Act mandates that firms can only raise capital from a small percentage of people who meet a specific net worth or investment level, which will dilute the impact of mass marketing. Where we see strong opportunity is among emerging and small funds. These managers don't have the track record or reputation of their larger peers, so the new ruling gives them the ability to promote themselves and raise assets."

In the future, Healy said we'd continue to see the finance world embrace new frontiers, both in the communications industry that serves them as well as their overall behavior. PR firms have broadened their areas of specialty in finance, Healy said, and we can expect to see a further reliance on specialty communications agencies as well as a heightened role of communications pros embedded within finance organizations.

"The PR role will evolve and take on more of a brand ambassador function, which will include everything from media relations to IR, internal communications, community outreach, (and) social media," Healy said. "Smart companies will rely more on the corporate communications role, it will be further embedded into the company's DNA and PR will have a larger voice at the executive table."