Trust by Design: A new approach to risk
Until now, risk has been primarily focused on avoiding negative outcomes. But in this transformative age, the rapid pace of disruption demands a different way of thinking.

At the same time, trust has become a vital way to maintain confidence during uncertain times — and organisations must satisfy a wide range of stakeholders to earn it.

So, how can organisations embrace new opportunities while protecting the trust that will invariably drive their long-term success?

The answer is **Trust by Design** which brings together EY’s range of risk capability and experience to create and support a trust mindset. This can give organisations the confidence to embrace disruption and create new perspectives on the management of risk.

### The value of trust

We all instinctively understand the value of trust, whether in personal or professional circumstances. But research\(^1\) has shown that trust is also a lead indicator of future performance — in essence the way in which someone trusts a company or brand will directly affect how they behave towards it in the future.

Trust is declining across all sectors — particularly in technology and entertainment\(^2\)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percent trust in each sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services</td>
<td>57%</td>
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<tr>
<td>Consumer packaged goods</td>
<td>63%</td>
</tr>
<tr>
<td>Energy</td>
<td>63%</td>
</tr>
<tr>
<td>Fashion</td>
<td>63%</td>
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<tr>
<td>Entertainment</td>
<td>65%</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>66%</td>
</tr>
<tr>
<td>Automotive</td>
<td>67%</td>
</tr>
<tr>
<td>Food and beverage</td>
<td>67%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>67%</td>
</tr>
<tr>
<td>Professional services</td>
<td>67%</td>
</tr>
<tr>
<td>Education</td>
<td>68%</td>
</tr>
<tr>
<td>Transportation</td>
<td>68%</td>
</tr>
<tr>
<td>Retail</td>
<td>69%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>70%</td>
</tr>
<tr>
<td>Technology</td>
<td>75%</td>
</tr>
</tbody>
</table>

Trust has become a vital way to maintain confidence during uncertain times.

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2. Source: 2020 Edelman Trust Barometer
The risk to trust

Trust is increasingly under threat from three major disruptive forces – Technology, Globalization and Demographics.

The three forces of disruption

**Technology**
- Industry is being redefined
- Machine-augmented decision making
- Adaptive regulation

**Globalization**
- Super consumers
- Reinvention of mobility
- Rebalanced global system
- Future of work

**Demographics**
- Aging population

Common challenges
- Disruption is bringing new risks and adding levels of complexity
- Risk management is disconnected from business strategy
- Risk intelligence is reactive and not real-time
- Increasing cost of compliance
- Poor data visibility and analysis

Successfully managing these challenges requires a new way of thinking about risk. For too long, risk management has focused mainly on downside risk and managing well-established areas such as compliance. Success in the transformative age depends on embracing the upside risks that come with rapidly changing markets and having a greater awareness of outside risks like climate change that are beyond an organisation’s control. To be successful in the future, organisations will need to shift their focus from simply mitigating risk to embracing new upside opportunities.

<table>
<thead>
<tr>
<th>Upside risks</th>
<th>Outside risks</th>
<th>Downside risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks that offer benefits.</strong> Risks significant to the organisation’s ability to execute its business strategy and achieve its objectives.</td>
<td><strong>Risks that offer negative or positive benefits beyond the organisation’s control.</strong></td>
<td><strong>Risks that offer negative impacts. Risks that an organisation is focussed on eliminating, avoiding, mitigating or transferring in a cost-effective manner.</strong></td>
</tr>
<tr>
<td>- Potential for innovations to grow consumer bases</td>
<td>- Actions of existing and emerging competitor</td>
<td>- Information security and cybercrime (also an outside risk)</td>
</tr>
<tr>
<td>- Increasing market share</td>
<td>- Geopolitical and economic megatrends</td>
<td>- Employee fraud and regulatory compliance</td>
</tr>
<tr>
<td>- Acquiring, managing and deriving value from new assets and talent</td>
<td>- Demographic and environmental megatrends</td>
<td>- Enterprise resiliency – technology and business continuity</td>
</tr>
</tbody>
</table>
Stakeholders are key

When considering downside, upside and outside risks, organisations need to think about how the management of these risks will deliver value to various stakeholder groups. That’s because serving the interests of all stakeholders — and not just shareholders — is the most important way of protecting trust and generating long-term value. Failure to satisfy key stakeholders such as investors, customers or employees creates major reputational, financial and operational risks. Trust must be built into the foundation of every organisation by focusing on the right outcomes.

To satisfy stakeholders, it’s important to know what their priorities are — and then understand how innovative risk approaches can help deliver value to each group.

87% believe that stakeholders, not shareholders, are most important to long-term company success.

2020 Edelman Trust Barometer’s survey of 34,000 respondents in 28 markets

Investor trust

What does trust mean to your board and how do you reinforce it?

Approaches include: Enterprise risk management (ERM), digital reporting and analytics.

Organisational trust

How do drive better connectivity and trust within your company?

Approaches include: Internal audit transformation, resilience, 3 lines of defence (3LOD) transformation and risk culture.

Regulatory trust

How do you make compliance an enabler, not a barrier?

Approaches include: Sarbanes-Oxley Act (SOX), IT audit, Privacy and GDPR, Trusted AI, Environment, Health & Safety (EH&S) and Task Force on Climate-related Financial Disclosures (TCFD).

Customer trust

How do you ensure customer retention and enforce brand?

Approaches include: Social media monitoring, customer contract risk management, external communications, customer and billing transformation.

Technology trust

How do you build trusted systems that are resilient?

Approaches include: Cyber transformation and threat management, Governance, Risk and Compliance (GRC), Cloud, Robotic Process Automation (RPA), Trusted AI and data protection.

Supplier trust

How do you build trusted external relationships?

Approaches include: Third party risk management, supply chain risk management, smart factory, internet of things and 3D printing.
Trust is imperative for success and the delivery of stakeholder value — it is also a lead indicator of future performance and a vital way of maintaining confidence during uncertain times.

To help engender trust, organisations need to demonstrate how they are proactively addressing risk to create value in a dynamic manner.

To be successful, organisations will need to shift their focus from simply mitigating risk to embracing new upside opportunities and considering how these upsides impact their stakeholders.

Why EY?

We help grow, protect and optimize our clients’ businesses by providing solutions across strategy, technology, cybersecurity, digital, risk, analytics, talent and managed services.

We bring together the diverse talents, abilities, experience and creativity of our entire organisation and alliances.
Find out more about how Trust by Design can support growth by enabling greater stakeholder confidence and building trust.

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