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A Study of Challenges Faced by Bankers While Managing Reputation Risk

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Abstract: **Banking is totally different than other forms of organizations as it deals with public money. Indian economy has gone through various reforms since two decades. Reforms came into picture from Liberalization Privatization and Globalization policy and continued till today. The LPS policy has affected on Indian banking system and emerged with so many opportunities as well as problems for Indian banking. There are various risks with which bankers are dealing viz. credit risk, market risk, interest rate risk, foreign exchange risk etc. The research paper aims at studying one important and crucial type of risk. Reputation Risk is such a risk which may result in collapse of entire banking organization. However, the learner will be comparing and analyzing reputation risks between public, private and Co-operative banks. The learner will be studying challenges faced by the banker while managing reputation risk.**

Keywords: **Banking organization, collapse of entire banking, LPG policy, managing reputation risk, reforms, reputation risk.**

1. INTRODUCTION

Indian economic system has become volatile economy since 1991 when India opened its door for rest of the world by following Liberalization, Privatization and Globalization Policy. Indian economy has faced various challenges after introduction of LPG Policy and it has to get reformed to cope up with international environment. Indian banks can be broadly classified into two parts viz. Private Sector Banks and Public Sector Banks.

There is a great competition between private sector banking and public sector banking in order to generate business of banking. While generating business, image of banker is created in the minds of customers through front line executives. Front line executives are trained or untrained officers to deal with customers. However, in order to provide better services and attracts more amount of business banker are taking one risk i.e. Reputation Risk. If there is increase in withdrawals or people have lost trust, these symptoms can be considered as Reputation Risk.

Private Banks are owned by individual investors whereas public sector banks are owned by individuals and government. Whereas co-operative Banks are formed by member for satisfying needs of member. Co-operative banks are blended version of Public sector and private sector banks.

2. OBJECTIVES OF THE STUDY

The Research Paper has the following objectives:

1) To understand meaning of the term Reputation Risk and its management
2) To study and analyse reputation risk of different types of banks
3) To understand and analyse challenges faced by bankers while managing reputation risk
4) To draw conclusions and give suggestions.

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3. SCOPE OF THE STUDY

The research paper is descriptive in nature. The researcher has selected public sector banks, private sector banks and co-operative banks as there is difference in the all of these sectors. The researcher has compared reputation risk management of public sector banks, private sector banks and co-operative banks.

4. RESEARCH METHODOLOGY

The Research Paper is based only on secondary data which is collected from

- Website of RBI
- Reputational Risk in Banking – The Current Approach and A Way Ahead by TCS

5. DATA COLLECTION

Reputation:

Reputation means banks expectation from the community scattered covered large geographical area or image of banks in the minds of people.

Reputation Risk:

Reputation risk arises when banks reputation comes in to danger. Trust is an important factor for banker.

Private Sector banks:

The private sector banks in India represent part of the Indian banking sector that is made up of both private and public sector banks. The private sector banks are banks where greater parts of stake or equity are held by the private shareholders and not by government.

Public Sector banks:

Public sector banks are banks where a majority of stake is held by government. The shares of these banks are listed on stock exchanges.

Co-operative Banks:

Cooperative banks are dealing in retail and commercial banking organized on a cooperative basis. Cooperative banking institutions take deposits and lend money in most parts of the world.

Social Media Risk:

Social media risk is other major source and presents significant risks to banks' reputation. The scale and profile of social media networks have grown both in terms of customer demographic and geographical reach; thereby these networks can be used as powerful broadcasting tools with the capability to reach large numbers of people in a very short timeframe. Reputational risk management should take social media risk more seriously. These risks are to mitigate immediately by giving proper concern to the said news.

Need for Reputation Risk Management:

Banking organisations are in needs of Reputation Risk Management due to following reasons:

1. Announcement of Negative Financials:

If there is negative announcement about financials of banks, market value of shares will go down.

2. Commitment of fraud:

If any employee of the bank is committing fraud it will have adverse impact on reputation of bank.

3. Banker Obligation:

Banker is under obligation to repay demand deposit on demand made by customer.

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If banker is failing to pay it may have adverse effect on reputation.

4. Unsatisfied Customer:

If customers are unhappy about services given by bank, then it will result in reduction of reputation.

5. Long term Phenomena:

Once reputation has went down, it will be leaving long term impact on organization.

6. TOP TEN BANKS IN INDIA FOR THE YEAR 2016

The below table indicates top ten banks in India for the year 2016:

Rank Number	Name of the banks	Nature
1	State Bank of India	Public Sector Bank
2	ICICI Bank	Private Sector Bank
3	Punjab National Bank	Public Sector Bank
4	Bank of Baroda	Public Sector Bank
5	HDFC Bank	Private Sector Bank
6	Canara Bank	Public Sector Bank
7	Axis Bank	Private Sector Bank
8	Bank of India	Public Sector Bank
9	IDBI Bank	Public Sector Bank
10	Union Bank of India	Public Sector Bank

After studying above table, one can realise that out of top ten banks, seven public sector banks are amongst top ten banks. Only three private sector banks have gained good reputation in the minds of people. No co-operative bank is found in the above table. However due to various reasons customers are also preferring co-operative banks.

7. CHALLENGES FACED BY THE BANKERS WHILE MANAGING REPUTATIONAL RISK

The below mentioned are the challenges faced by Banker while managing reputation risk:

1. Difficult to Qualify and Quantify:

Reputation Risk may be the biggest risk faced by banks today, and it's definitely the most difficult to qualify and quantify

2. Difficult to Isolate:

Reputation risk is very important risk as it ranks amongst top five risks faced by the bankers.

3. Management's View:

Management is still not that much supportive to consider reputation risk as an important risk.

4. Low Awareness:

There is lack of awareness about reputation risks across all the levels in the bank.

5. No Globally Accepted Methodologies:

If one wants to measure reputation risk, no globally accepted methodologies are available to map the risk.

6. Scarcity of Capital:

As per requirement of BASEL Norms, Indian banks are having shortage of capital to cope up with the rules of BASEL Committee.

7. Political Issues:

Indian banking system is facing various problems due to political issues. Unnecessary involvement of politicians creates problems for the reputation of banks.

8. Change in Management :

If management is changes reputation will have direct and indirect impact.

8. MECHANISMS TO MANAGE REPUTATIONAL RISK

The below mentioned ways can be mentioned for managing reputation risk:

1. Proper mapping of all sources of reputational risks is vital.

2. Reputational risk should be embedded in the bank risk management process.

3. Banks need to develop reputational risk- specific frameworks for identification, scenario analyses, and managing qualifications and quantification.

4. A significant source of reputational risk is information irregularity amongst different stakeholders and the organization, and the best way to manage this would be a good disclosure practice.

5. Strengthen crisis management.

6. Banks need to follow a holistic approach by integrating the reputational risk management with Enterprise Risk Management.

7. Special focus is required to monitor and manage social networking and new media.

8. Internal auditors of banks need to be trained to identify and qualify instances of reputational risk.

9. Banks need to embrace more and more corporate social responsibility as part of the corporate strategy to build and sustain reputation.

10. In today's technology-driven banking sector, efficient customer relationship management and IT services.

9. CONCLUSIONS AND SUGGESTIONS

After a detailed analysis, the researcher has concluded that Reputation Risk Management is a subjective term. There is a direct relationship between customer service and reputation.

1. Public sector banks are having good reputation as they are having strong support by Government of India.

2. Private sector banks have successfully maintained reputation due to quality of their services.

3. Co-operative banks are formed by members for the benefit of member and these banks have also started to build reputation.

On the basis of conclusions, the researcher has suggested following measures for successful management of Reputation Risk:

1. Public sector bankers, Private Sector banks and Co-operative banks have to design a strategy for reputation risk management.

2. Media or social media can be used in positive manner in order to avoid reputation risk. By using media, Banks can publish their statistics for general people.

3. Banks have to maintain proper Customer Relationship Management policy and they should attempt to provide quality services to their stakeholders.

4. Banks should conduct frequent surveys to analyse customer satisfactions about their services.

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5. Banks can think of starting Reputation Audit for successful management of Reputation Risk.

At the end researcher has concluded that since the reputation risk is the most important phenomena banker should take efforts to handle employees in order to provide efficient services. Reputation Risk Management strategies has to be designed by the bankers for overall growth of the banking organization.

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