THEORETICAL AND METHODOLOGICAL PRINCIPLES OF REPUTATION RISK MANAGEMENT IN BANKS

Abstract. The success of banking institution directly depends not only on the quality of provided services, but also on the reputation of bank on the market. This issue is especially acute for the bank, since its effectiveness largely depends on the behavior and degree of trust in it by customers, creditors, the state, counterparties and partners. Therefore, for the banking business, the threat of reputation loss has taken one of the first places in the list of the most significant risks.

The article substantiates the theoretical and methodological principles for improving the management system of reputational risk in banking. The object of the research is the process of managing the reputational risk in banks, and the subject of the research is theoretical and methodical approaches to the management of reputational risk in banks.

The study of scientific works of foreign and domestic scientists and the regulatory framework made it possible to generalize the main approaches to the interpretation of the concept of "reputational risk". It has been found that most of the authors of the considered methodical approaches concerning reputation and risk in banks do not distinguish between the concepts of "business reputation" and "reputational risk". Reputation risk is associated with the loss of business reputation, trust and loyalty to the bank on the part of customers and partners, i.e. concerns the management of relations with interested persons. It has been proven that reputation risk can arise as a result of other types of banking risks, or the appearance of such factors as information asymmetry.

It has been established that the main measures to minimize the risk of loss of business reputation (reputational risk) in banks are: the implementation of an appropriate information policy, which would involve the publication of information about the bank on the bank's official website and in the mass media, aimed at maintaining the positive reputation of the bank and its image; the participation in thematic conferences, meetings and current interaction with participants of the financial market, settlement of disputed issues by clients and partners of the bank in working order.

Key words: bank, business reputation, reputational risk, assessment of bank reputation, management of reputational risk.

JEL Classification: M31

Fig.: 2, table: 2, bibl.: 10
Introduction. The peculiarities of the economic conditions in which banks operate today require the search for modern methods of risk management, including reputational risk management. Reputational risks are growing especially quickly due to the rapid development of information technologies and globalization. In the quarantine conditions caused by the global pandemic of COVID-19 and warfare, banks experienced and are still experiencing economic losses, as in such conditions they had to look for opportunities to respect the rights of customers, partners, labor rights and guarantees of employees. It inevitably creates conflict situations between clients and banks, between workers who lose their jobs or have to take leave without pay. These conflicts, becoming public, certainly affect the business reputation that banks have built up over the years. In order to achieve effective results in managing reputational risks, the bank's management must ensure the adequacy in interacting between risk management participants, establish the interaction between the personnel of different departments.

The purpose of the article is the development and scientific substantiation of the theoretical and methodological principles of bank reputational risk management.

Analysis of the latest research and task setting. The issues of defining the essence and role of business reputation in ensuring the bank's market success, analyzing its structure, and developing the theoretical and methodological principles of reputational risk assessment were highlighted in the works of many foreign scientists, in particular, such as V. Nedospasova, D. Yovanovych, F. Shturm, R. Gilles, J. Huebner, S. Plunus. Practical aspects of reputational risk management of the organization include the works of E. Griffin, A. Zaman, J. Larkin, J. Regan, G. Honey, A. O. Starostina, T. O. Primak, S. M. Ilyashenko, T. B. Khoumelenko, L. M. Sheulgina, N. I. Chukhray, E. V. Romata, O. O. Yastremska, T. B. Reshetilova, and others.

Results of the research. In the conditions of tough competition on the financial market and mistrust of the banking system as a whole, in order to consolidate leading positions and statement retain existing customers, while attracting new ones, banking institutions should pay great attention to business reputation. Firstly, it seems that the understanding and importance of business reputation and reputational risk management can be lost among other indicators of the activities of banking institutions. However, this statement is false, since the indicators of efficiency and quality of provided services generalize the purpose of banking activity as a whole and form business reputation of banks.

Let us consider different scientific approaches of scientists and practitioners regarding the interpretation of the concept of "reputational risk", which contribute to the understanding of the nature of risk.

Therefore, for example, according to E. Griffin [1], reputational risk is a real or potential threat to business reputation - a threat that, if it is not properly controlled, can lead to a reputation-damaging crisis. The key point of this approach is the need to control reputational risk.

A. Zaman considers that reputational risk is the result of a comparison made by interested parties between how the company and its employees should function in accordance with expectations and how they behave in reality. This approach emphasizes that reputational risk can have positive and negative effects related to society's expectations [1].

Summarizing, we can conclude that the analyzed definitions of foreign scientists characterize reputational risk as a threat of changing the company's assessment by key groups. It confirms the complexity and versatility of this risk.

Such scientists as Kovtun V., Buriak A. and Rymara A. consider the concept of "reputation risk" as an economic category.

Kovtun V. interprets the concept of “reputational risk as a socio-economic category that can serve as a quantitative assessment (indicator) of the level of public trust in the bank and is characterized by an existing or potentially possible risk to income and capital with an indication of the reasons for the risk” [2].

Buryak A. and Rymara A. consider the risk of reputation "as an economic category, the effect of which arises during the implementation of entrepreneurial (or other) activities, associated with the appearance of real/potential threats to the business reputation of the enterprise and the probability of positive changes in the reputational strategic assets of the enterprise" [3].
The interpretation of the concept of "reputational risk" offered by G. Hani is somewhat different. The scientist considers it "...as a mismatch between real actions, behavior or the state of affairs in the company with the expectations of stakeholders, which is considered as a chance when expectations are exceeded, and when it matches expectations - absent, and provided that expectations are not met, becomes a threat and grows when the gap between expectations and reality increases" [4]. Therefore, the greater this gap, the greater the probability of a risky situation that causes threats to the company's activity. Stakeholders’ expectations are dynamic and subject to various influences: coverage of activities in the media, news from the markets, statements of competitors, etc.

N. P. Shulga and D. V. Balanchuk consider "reputational risk as the probability of the occurrence of risky events that threaten the bank's reputation and lead to negative potential consequences, namely: the sanctions of regulatory and supervisory bodies; the court decisions on reimbursement of funds to clients and counterparties; the inability to retain existing customer base and attract new customers, as well as many others, which, in turn, makes it impossible for the bank to have constant access to sources of financing at an acceptable price, or results in losses, or a lack of income, or a loss of capital" [5].

In our opinion, the most extensive interpretation of reputation risk is as follows: "a bank's reputational risk is the result of the influence of endogenous and exogenous factors, the negative effect of a combination of financial and non-financial banking risks associated with the unsuccessful use of the brand, poor-quality provision of banking products and services, non-compliance with relevant laws and regulations, which lead to the bank’s not receiving the planned revenues, which threatens its financial stability, and in the long term - the loss of trust of customers, staff, shareholders, regulatory bodies, partners and other stakeholders [1].

Reputational risk differs from other types of risk in that it is associated with the problem of loss of trust and loyalty to the bank on the part of stakeholders, negatively affects the image (brand, image, reputation) of the entire bank, which can even lead to the bank's liquidation, affects all types of bank activities (financial stability, sales), capable of transforming and causing the appearance of other risks (for example, the risk of liquidity loss in case of customers’ panic if the dissemination of inaccurate information about the bank occurs).

Next, we will analyze the approaches of the National Bank of Ukraine to the origin of reputational risk. Let's emphasize that the NBU did not propose an clear attitude to the risk (Table 1).

Table 1

<table>
<thead>
<tr>
<th>Source</th>
<th>Types of risks</th>
<th>Concepts</th>
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<td>Methodical instructions from the inspection of banks &quot;Risk assessment system&quot; (the resolution ceased to be in force in 2018) [6]</td>
<td>nine categories of risk: credit risk, liquidity risk, interest rate risk, market risk, currency risk, operational and technological risk, reputation risk, legal risk, strategic risk</td>
<td>Reputation risk is an existing or potential risk to income and capital that arises due to an unfavorable perception of the image of a financial institution by customers, counterparties, shareholders (participants) or supervisory authorities.</td>
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<tr>
<td>Resolution on the approval of the Regulation on the organization of the risk management system in Ukrainian banks and banking groups [7]</td>
<td>seven risk categories: credit risk; liquidity risk; interest rate risk of the banking book; market risk; operational risk; compliance risk; other significant types of risks to which the bank is exposed during its activities.</td>
<td>Reputation risk is the probability of losses or additional losses or failure to receive planned income because of an unfavorable perception of the bank's image by customers, counterparties, shareholders, supervisory and control bodies.</td>
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Resolution on the approval of the Regulation on implementation of financial monitoring by banks” [8]

Not provided

Source: summarized by the author based on [6-8]

Thus, in accordance with the "Methodical instructions for inspecting banks "Risk assessment system", approved by Resolution No. 104 of the NBU Board dated March 15, 2004, the regulator singles out bank reputation risk separately (the resolution expired in 2018). However, in Resolution No. 64 dated June 11, 2018 "On the approval of the Regulation on the organization of the risk management system in banks of Ukraine and banking groups" The National Bank does not distinguish the risk of the bank's reputation, but classifies it as a compliance risk and excludes it from operational risk (Fig. 1).

![Fig. 1. The classification of risks of banking activity according to the resolution "On the approval of the Regulation on the organization of the risk management system in banks of Ukraine and banking groups". Source: summarized by the author based on [7]](image-url)

credit risk

liquidity risk

interest rate risk

market risk

Operational risk

Compliance risk

- the probability of losses, additional losses or shortfall of planned income due to deficiencies or errors in the organization of internal processes, intentional or unintentional actions of bank employees or other persons, malfunctions in bank's information systems or due to the influence of external factors. Operational risk includes legal risk, but should exclude reputation risk and strategic risk

- the probability of losses/sanctions, additional losses, shortfall of planned income or reputation loss due to the bank's failure to comply with the requirements of legislation, regulatory acts, market standards, rules of fair competition, rules of corporate ethics, the occurrence of a conflict of interests, as well as intra-bank/ intra-group documents of the bank
In our opinion, a more complete interpretation of the concept of "reputational risk" can be observed in the resolution of the National Bank of Ukraine "On approval of the Regulation on financial monitoring by banks", which focuses on different groups of the target audience and the bank's responsibilities.

If we turn to international standards, the Basel Committee on Banking Supervision distinguishes the following bank risks: credit risk, country risk and transfer risk, market risk, interest rate risk, risk of liquidity loss, operational risk, legal risk and reputational risk. The Basel Committee on Banking Supervision defines a bank reputation risk as the risk arising from a negative perception by customers, counterparties, shareholders, investors and regulators, which may affect the bank's ability to maintain existing or establish new business relationships and obtain long-term access to funding sources [5, 9].

The Basel Committee in its interim consultation documents highlights the following important points related to bank reputation risk: reputational risk can be defined as the risk arising from a negative perception by buyers, counterparties, shareholders, investors and regulators, which may affect the ability for the bank to maintain existing or establish new business relationships and obtain long-term access to funding sources; reputational risk, usually through implicit mechanisms of influence, can lead to an increase in credit, market and legal risks, as well as liquidity risks, each of which, in turn, can negatively affect the bank's profit, liquidity or capital; bank managers must develop and implement relevant internal regulatory documents (policies) and procedures for identifying factors and sources of reputational risk when entering new markets, introducing innovative products and services or areas of activity. In addition, stress-testing procedures should take into account reputation risk so that management has a clear idea of its consequences [1, p. 78].

The need to manage the bank reputation risk is justified by the recommendations of the supranational regulator: in the framework of market risk management, in addition, the second component of Basel II in the section "Other risks" notes that despite the fact that such risks as reputational and strategic are not easily measurable, banks should continue to develop methods for managing all aspects of these risks. Thus, the Basel Committee suggests that the banks themselves develop regulations and procedures for assessing reputational risk.

In fact, reputational risks are not mentioned in the Basel III recommendations and this indicates the following: the transition from reputational risks to risks of interaction with counterparties is explained by the fact that leveling the risks of business reputation loss is often reduced to the implementation of credit and compliance risk analysis procedures.

Therefore, in view of the above, we consider that reputational risk arises because of negative public opinion about the bank and affects its ability to establish new relationships, provide new services or maintain existing relationships with interested stakeholders. The risk of the bank reputation has certain features, namely: it is of primary importance among other risks, since the loss of the bank's reputation can lead to the outflow of customers and the termination of banking activities; appears in case of trust loss of interested parties in bank; cannot be predicted; is not regulated by supervisory authorities; the formation of special reserves and capital is not foreseen to cover losses.

Next, we will analyze the factors that affect the formation of the of bank reputation risk at the macro and micro levels (Fig. 2) [1, 5].

The above-mentioned macro- and micro-level factors have a specific impact on the business reputation, image and brand of the bank, and their consequences can contribute to the emergence and exacerbation of reputational risk, if banking institutions do not pay sufficient attention to the implementation of risk protection measures. Therefore, when forming a bank development strategy, more attention should be paid to the identification and management of reputational risk, which is the result of deterioration or even loss of the bank reputation.
**Macro-level factors:**
- development of globalization processes and digitalization, information technologies;
- development of financial innovations;
- asymmetry of information on the financial market;
- competition in global financial markets;
- failures in the operation of electronic banking systems, which caused the bank to fail to fulfill its obligations to customers and counterparties;
- misconduct of banks-competitors

**Micro-level factors:**
- lack of methodological regulations and recommendations of the National Bank of Ukraine regarding the management of bank reputation risks;
- lack of methods for assessing reputation risks;
- need to implement methods of systematic monitoring of business reputation in mass media (online reputation);
- inability of the bank to counteract effectively the legalization of income obtained illegally and the financing of terrorist activities, as well as other illegal activities carried out by unscrupulous customers, counterparties and (or) employees of the bank

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**Fig. 2. Factors affecting the formation of bank reputation risk**

*Source: summarized by the author based on [1, 5]*

Table 2 shows the stages of reputation risk management and the characteristics of these stages.

**Table 2**

<table>
<thead>
<tr>
<th>Stages</th>
<th>Characteristic</th>
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<tr>
<td>I stage</td>
<td>Specification of general lists of all possible risk-generating factors, a change in the state and size of which means the occurrence of an unfavorable situation for the bank. It is very important to determine the correct list of these parameters, they include changes in the level and structure of the bank's customer base, controversial actions of persons connected with the bank, the frequency of the speech of bank's chairman in the media, the level of customer loyalty to the bank, etc.</td>
</tr>
<tr>
<td>II stage</td>
<td>It is characterized by the establishment of limit values for each factor of the system, exceeding or reducing which means an increase in the influence of reputational risk on the normal functioning of the bank and the approach of its activity to critical levels.</td>
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<tr>
<td>III stage</td>
<td>The main tasks of the system for monitoring the business reputation of the bank, its shareholders, affiliated persons, subsidiaries and dependent organizations are immediate response to information published in the mass media that can affect the bank reputation risk.</td>
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<tr>
<td>IV stage</td>
<td>This stage is characterized by the following measures: monitoring the state and size of reputational risk, monitoring the implementation of measures for crisis situations, preventing the bank from being under the simultaneous short-term influence of several risks, general monitoring of the functioning of risk management system in bank.</td>
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*Source: constructed by the author*

The main goal of reputational risk management is to reduce possible losses, preserve and maintain the bank's business reputation in front of counterparties and other market participants.

Therefore, a positive result can be achieved only under the condition of reputational risk management at all levels of management and in all areas of its activity, while the reputational risk management mechanism must be integrated into the bank's general management system and its risk management system. It should function as part of the bank's overall development strategy, risk management strategy and corporate culture adopted by the bank. It is clear that the functions of reputational risk management should be shared between top managers, the risk management
department, the marketing department, the PR department or the press service. The process of reputational risk management begins with the bank's top management, as the board is responsible for managing the bank's risks. Board members are charged with the responsibility of constantly analyzing information about the level of reputational risk and deciding the degree of its acceptability.

Minimizing the risk of a banking institution's business reputation is carried out by:
- fulfillment of the requirements established by the National Bank of Ukraine and other state bodies;
- timely fulfillment of obligations to clients and counterparty banks;
- compliance with financial indicators, which, according to international standards, indicate the stability of a financial institution;
- promptly informing its clients and the public in general about activities;
- implementation of a system for monitoring the media image of the bank, its managers and shareholders;
- constant improvement of personnel qualifications and their stimulation;
- increasing the level of corporate social responsibility [10].

There is no doubt that planned reputation management gives a predictable and significant effect, because it allows you to optimize the risks of business reputation while simultaneously solving larger tasks. The algorithm of effective reputational risk management of banks can become the basis for making strategic decisions in the field of forming a reputational risk management strategy, which involves the creation of a comprehensive and effective risk management system taking into account the specifics of the bank's activities, the character and scope of its operations, risk profile and strategic goals.

In order to manage reputational risk in banking institutions, the following measures should be implemented:
1) creation of a system for assessing the perception of the bank's image among clients, state bodies, and mass media;
2) assessment of the awareness of clients, state bodies, mass media about the bank's activities on the financial market of Ukraine;
3) implementation of the process of monitoring the reputation of the bank's clients in order to avoid relations with clients with an unsatisfactory reputation;
4) monitoring customer feedback about the bank and its activities, media reports about the bank and its customers;
5) placing information about its activities on the bank's website.

Conclusions. Therefore, the business reputation of banks is formed over a certain period, and each of them is characterized by certain reputation risks, which can influence the bank's activities to a greater or lesser extent. The main measures to minimize the risk of business reputation loss (reputational risk) in the bank are the following: the implementation of an appropriate information policy, which would provide for publishing information about the bank on the bank's official website and in the mass media, aimed at maintaining the bank's positive reputation and image; the participation in thematic conferences, the organization of working meetings and current interaction with participants of the financial market, the settlement of disputed issues by clients and partners of the bank in the working order. In conditions of instability, the bank's business reputation will be the main source of ensuring its stability and obtaining competitive advantages, which will contribute to its further development.
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ТЕОРЕТИКО-МЕТОДОЛОГІЧНІ ЗАСАДИ УПРАВЛІННЯ РЕПУТАЦІЙНИМ РИЗИКОМ БАНКУ

Анотація. Успішна діяльність будь-якої компанії залежить не тільки від якості послуг, що надаються, а й від репутації, яка формується у процесі її діяльності на ринку. Особливо гостро це питання стоїть для банку, оскільки ефективність його діяльності багато в чому залежить від поведінки та рівня довіри до нього клієнтів, кредиторів, держави, контрагентів та партнерів. Тому для банківського бізнесу загроза втрати репутації вийшла на одне з перших місць у списку найбільш значимих ризиків.

В статті обґрунтовано теоретико-методологічні засади щодо удосконалення системи управління reputаційними ризиками банку. Об’єктом дослідження є процес управління репутаційним ризиком банків та предметом дослідження є теоретичні та методичні підходи до управління репутаційним ризиком банків.

Вивчення наукових поглядів зарубіжних та вітчизняних науковців, нормативно-правової бази дозволило узагальнити основні підходи до трактування поняття «репутаційний ризик». Встановлено, що більшість авторів розглянутих методичних підходів щодо оцінки репутації та ризику в банку не розмежовують поняття «ділова репутація» та «репутаційний ризик», ризик репутації пов’язаний з втратою ділової репутації, довіри та лояльності до банку з боку клієнтів та партнерів, тобто стосується управління відносинами з зацікавленими особами. Доведено, що ризик репутації може виникнути як результат дії інших видів банківських ризиків, або появи таких чинників як асиметрія інформації.

Встановлено, що основними заходами щодо мінімізації ризику втрати ділової репутації (репутаційного ризику) в банку є: проведення відповідної інформаційної політики, яка б передбачала публікацію інформації про банк на офіційному вебсайті банку та у засобах масової інформації, спрямованої на підтримання позитивної репутації банку та його іміджу; участь у тематичних конференціях, організація робочих зустрічей та поточна взаємодія з учасниками фінансового ринку, врегулювання у робочому порядку спірних питань клієнтами та партнерами банку.

Ключові слова: банк, ділова репутація, репутаційний ризик, оцінка репутації банку, управління репутаційним ризиком.

Рис.: 2, табл.: 2, бібл.: 10