



Research on reputation risk management of commercial banks in China

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ABSTRACT

Reputation risk is extremely important among all risks of commercial banks. It is an unpredictable, invisible risk which can not be caught out of thin air, and has become "the most awesome" one. Once suffering from the reputation crisis, commercial banks will not only damage the credibility, but also affect those listed banks which active in the capital market, leading to a shock in commercial bank's brand value, indeed, endanger the banks' survival. However, the bank has its model to deal with reputational risk, so strengthen the management of reputational risk come to be a key to Chinese commercial banks, thereby, taking advantages of bank's good reputation to reduce loss. In this paper, we start from a series of questions that existent in Chinese commercial banks reputational risk management, then, put forward to several strategies in order to promoting reputation risk management.

Keywords: Commercial Banks, Reputation risk, Risk management.

INTRODUCTION

In recent years, after the new period of competition, reputation risk caused a serious of consequences, such as suffer a serious defeat in bank operation and management, a decline of business performance, even resulting in a fall of trust in the social public to the state and banks, which leads to social security chaos, that affect the development of the banking. Good reputation is the soul of the survival of a bank, which has become a necessary for our country commercial bank to improve competitiveness, and maintain stable and sustainable development. All of those can greatly enhance confidence in the market, and win the trust and support from the public, which affects the operation ability of commercial banks, the market value of listed banks as well as increasing the competitiveness of the commercial banks to enhance competitive advantage and increase the profitability of commercial banks and realize the importance of long-term strategic goals [1]. Therefore, reputation risk management has become a subject that commercial bank must pay attention to Strengthen the reputation risk management is the urgent demand of the current commercial banks, which is the inevitable choice of banking development, the trend of regulatory in domestic and foreign, and the important pillar of commercial bank management and development.

2. Recognizing the reputation risk management of commercial banks in China

The definition of reputation risk management is the basis to evaluate the specification of the financial sector to identify, in the business activities of reputation risk, the estimation on the optimal combination, reputation risk management technology, the implementation of effective control of reputation risk, properly handle the reputation risk result, in order to achieve the maximum security process with minimum cost. Reputation risk management as an important content of the commercial bank risk management is closely connected with the other elements of risk management. As with other risk management, improve the management system is to strengthen the basic guarantee of reputation risk management. The reputation risk of commercial banks refers to the business, the commercial bank management and other actions or external events risk stakeholders have a negative evaluation of commercial banks. This risk will give banks bring financial loss, the loss of customers consequences, cause panic withdrawals and even lead to serious crisis financial system. Therefore, to build a commercial bank perfect reputation risk management

becomes the effective implementation of reputation risk management measures, implementation of effective management strategies.

3. Current situation of reputation risk management of commercial banks in China

3.1. Bring direct economic loss

The commercial banks reputation risk management departments are often located in the office or the planning department, only as a transactional work exist, reputation risk management mechanisms have not been effective management [2]. In product design, marketing and other business to business daily promotion, business banking department concerned business indicators, do not focus on the cause of reputation risk, often wait reputation risk event occurs, began to some attention, not substantive amendments to the whole business process and mode of operation, resulting in repeated occurrence of similar reputation risk events. Reputation risk may bring direct losses for banks, such as customer class action event, if the bank loses or accept mediation, it will directly bear the economic consequences [3]. Reputation risk of commercial bank management department pay attention to reputation risk management, but the functions are limited, unable to resolve the relevant reputation risk fundamentally solve the problem, the source.

3.2. Churn, or customer loyalty reduce

Due to the lack of reputation risk knowledge of commercial banks, so it is not attach great importance to the reputation risk. The banking sector has not received the reputation risk management specialized training of thinking, lack of reputation risk management, and the lack of management experience. Executives of commercial banks are not fully aware of the location of reputation risk management in the whole risk management, failed to recognize the importance of reputation risk management. Although commercial banks established reputation risk management system, but the reputation risk related knowledge and the concept of risk is still not to the employee's thought in. At the same time, some commercial banks service is poor, not timely to reputation risk event processing. With respect to the loss, damage the reputation of the brand reputation of staff awareness may lead to the long-term effect, good brand reputation will bring potential customers and increase customer loyalty. On the contrary, reputation events will affect the bank's "reputation", reduce the bank's brand value, the loss of potential customers, attractive, and even lead to reduce the loss of customers or customer loyalty.

3.3. Resulting in bank shares fell

Reputation risk management is a systematic project, which includes not only the reputation risk after disposal, but also the reputation of the establishment, maintenance, supervision. Commercial banking sector did not establish a sound regulatory and exchange of regulatory agencies and local governments are not frequent in compliance management, regulatory acceptance of non- proactive, not timely sharing of information and exchange of experience, the reputation of commercial banks risk management functions is broken down into multiple departments, which are often fragmented, separately managed, the lack of a full- line department supervision reputational risk management, co-ordination and supervision play a role, it is difficult to form a joint force.

3.4. The public mood bad

With the wide application of social media, various commercial banks in the discussion and speculation, with many negative opinion, criticism of the bank's credit policy, the service level and management ability. At the same time, the commercial banks can not care staff, staff salary and contribution of gap, employees can not equal pay for equal work, the staff of the "word of mouth effect" will make the bank's reputation. In recent years, the social public to bank executives pay price reflects the intense, serious impact on the bank reputation. However, in view of the negative situation, commercial banks can not give the accurate and timely response, some banks eager attention to small service complaints and exposure, active treatment. But the banks lack of judgment on the great negative public opinion may affect the entire industry; in the media exposure is still not stand, the lack of awareness of the overall situation, leading to the public on the banking sector as a whole bad emotion, easily lead to reputational risk.

4. Analysis of Cause of China's commercial banks reputational risk management

4.1. Reputation risk management mechanism is not perfect

Reputation risk management mechanism of China's firms is not perfect, the lack of prevention mechanism and pre emergency mechanism and reputation risks related settlement mechanism, the risk management committee under the board of directors, not explicitly designated personnel responsible for management of reputation risk, reputation risk management has no corresponding arrangement in each department, the basic will not into the risk management framework of reputation risk management, even if the banks had a reputation management behavior, is relatively simple, scientific and normative still lack [4]. For example, most of the city firm reputation risk management responsibilities and procedures not fully straightened out, the reputation risk pooling is by the risk management department is responsible for the office, or a what kind of problem reporting to which level, departments of the time

period is how long, the coordination between departments to report processing, recording and department. There was no further clear, serious also make reputation risk into reputation crisis [5].

Meanwhile, contingency plans and lack of principled flexibility, especially not organized exercises for specific scenarios, the lack of follow-up, unable to fully play its due role. Diversity and complexity of passive reputational risk, it is difficult to predict what impact might occur, reputational risk monitoring and early warning systems are imperfect, imperfect reputation risk management functions, lack of talent, the mechanism established difficulties.

4.2. Bank employees' poor awareness of reputational risk

At present the bank employees lack of reputation risk of commercial bank internal top-down knowledge, industry monopoly consciousness is strong, service consciousness is weak, the customer complaint, complaint handling effect, negative news media reflect the treatment is not timely, not enough attention, lead to reputational events continue to occur. Profit is the bank executives layer decision when the first consideration, then put the time and energy on solving the deposits, loans, and other intermediary business issues, very little attention to reputation [6]. Some people think that reputation risk management has nothing to do with me, just a public relations department, do not pay enough attention to the reputation risk, especially some branches and business personnel, there is a reputational risk consciousness, lack of understanding of the connotation of reputation risk and reputation risk management. Although each has begun to formulate reputational risk management system, but the staff thought still no reputation knowledge and risk concept, for the understanding of reputation risk is still in the stage of perceptual knowledge, the reputation risk management and comprehensive risk management and other separated, only to see the reputation risk side, has not been upgraded to systematically build a reputation crisis management system, standardizing positive prevent reputation crisis height.

4.3. Reputation risks of commercial banks lack of supervision means

Due to the reputation risk of commercial banks management events, regulators cannot exercise direct supervision. Or regulators can only occur in the event that has worsened, may lead to the occurrence of systemic problems, to take corresponding supervisory measures. Before this, not required by law to take corresponding measures, can only take public opinion tips, and risk warning methods, in coordination with the commercial bank. International general lack of effective means, to measure the reputation risk and harm, bring obstacle for identification and monitoring of reputation risk. Basic passive sound risk management crisis events, risk management with low efficiency, limited role. Since the individual commercial banks reputation risk management, and lead to negative situation of the whole banking industry occupies a lot of supervision resources, reputation risk management and lack of long-term planning. Reputation risk management is a system engineering, including the reputation risk occurs after the disposal, reputation building, maintenance etc.. At present, many commercial banks reputation management of no reputation management long-term strategic planning, reputation management is often a lack of forward-looking, persistence. No long-term reputation management system planning, can not talk about reputation management in an all-round way.

4.4. Media influence public opinion reputational risk for banks

First of all, the use of management staff is from the media is very important for banks, the abuse of media is likely to damage the reputation of bank, the bank must pay attention to the enterprise staff since the media management. Advise staff to distinguish between private account and account, filing and management with the label micro-blog, blogs and other media to prohibit employees; published the confidential commercial information, customer information, or improper comments on the work on the account.

Secondly, the network comment reflects the lack of bank service platform, is the expression of the views of customers. Monitoring network never take the initiative to communicate with the mainstream media, caused a lot of negative news can not quickly learned, so more casual in customer complaint management. Most customers are not satisfied in real life complaint handling, have to choose in the self media platform to complain, to form a network discussion. Therefore, if the views of customers has been solved satisfactorily in the real complaint channels, will reduce the pressure of network discussion.

Finally, the banking external business environment deterioration in recent years, the social public opinion to the bank with a lot of monopoly, profiteering, charges, while the lack of social responsibility, such as labels, these labels on the endless stir fry has caused great negative impact to the banking, the bank is not recognized by the public, its image greatly reduced, seriously affecting triggered a crisis of confidence in public, business to the bank a fatal blow, accumulation potential risks.

5. To strengthen the commercial banks reputation risk management measures

5.1. Improve the reputation risk management mechanism

First of all, the reputation risk management to a strategic height, perfect reputation management mechanism, establish the team responsible for the entire line of reputation risk management, enhance the reputation risk management ability [7]. Reputation risk management system of commercial banks and the strategy consistent, and actively explore the reputation risk quantification and assessment system, comprehensive evaluation on commercial bank's reputation by making use of social resources. Secondly, the development of measures to commercial banks actually existing reputation risk, and set up the compensation mechanism of reputation risk loss; accurate measurement may cause the loss of reputation risk of commercial banks is unknown, and allocating capital to make up the losses, in order to maintain the sustainable management of commercial bank. Finally, establish incentive and constraint machine system and rules of employees, reward, reward meritorious, no power of punishment. Thus, establish and improve the reputation risk management mechanism, that can enhance competitiveness, improve reliability and stakeholder confidence, create a favorable financial environment, maintain the trust and loyalty of customer, improve investor relations, and attract high quality customer.

5.2. Foster reputational risk management culture

Firstly, according to the understanding of reputation risk to start from the senior managers, senior management to realize the importance of reputation risk management work, understanding of the reputation risk of commercial banks to improve to achieve strategic objectives. In order to achieve top-down reputation consciousness, implement the "reputation and create value" concept, to create a good atmosphere of reputation management, will maintain the bank reputation, and reputation risk as a guide to action. Secondly, through training and other methods, the popularization of knowledge of commercial banks reputation, maintenance, strengthen staff awareness of reputation, reputation risk management system for employees, and establish a good corporate values and morals, advocating the spirit and moral behavior criterion of self-discipline, fair, fair, honest, reduce illegal fraud, false propaganda and deception, misleading customers, gain and other short-term behavior, prevent employee moral lack of reputation risk [8]. Finally, whether ordinary employees or senior management personnel should have the foresight, enhance their sense of responsibility and dedication can be rooted in the practice of reputation risk management, business development more long-term.

5.3. Improve the ability of regulatory reputation risk

Perfect supervision plays a very important role in regulating commercial bank behavior, and with the guidance of the banking business philosophy. First, strengthen the communication with the regulatory agencies and local governments, take the positive attitude to accept the supervision of compliance in the operation, and the exchange of experience, to share information in a timely manner, by the government and regulatory support trust, together with the reputation risk of commercial banks. Secondly, establish effective complaint management, ensure the accurate and timely processing of customer complaints, and properly handle the relationship with the internal staff, strengthen internal unity, enhance the cohesion of the enterprise, to prevent the reputation risk. Finally, to improve the supervision efficiency of reputation risk, establish perfect laws and regulations, the establishment of information system and social evaluation system of financial enterprises, to create a fair, transparent business environment, improve corporate reputation risk awareness, has an important influence to strengthen self-discipline, improve public relations and so on.

5.4. Pay attention to the social media supervision of public opinion

Commercial banks are required to maintain good contacts with the media moment, the media are commercial banks and stakeholders to maintain close ties that bind, the commercial banks to do reputational risk management, we must pay attention to the existence of the media, to strengthen ties with the media [9]. First, create a platform for regular exchanges, conduct regular exchange of information, transfer of information through the media and reports, help strengthen the confidence of stakeholders of the masses, because the media itself has objectivity, fairness, the attitude of events credible reputation.

Secondly, the media for the dissemination of information, dissemination of a wide range of speed, as long as the emergence of reputation risk, media intervention, has expanded rapidly, the situation also rose in a straight line, so that the event is difficult to control, therefore, commercial banks should pay attention to monitoring of network public opinion, and early detection of major public opinion on Internet trends, illegal and provocative remarks, the measures taken in advance, the first time be removed, for the negative influence to the least, publicly clarified, by taking the thread guide, take the initiative to invite reporters in-depth reports, guide the media objective and fair coverage of events, in order to eliminate the negative impact of public opinion, to avoid misleading the public [10]. Finally, strengthen and various news media communication of commercial banks, the timely disclosure of information, the value idea of regular or irregular publicity of commercial banks. The positive propaganda of commercial banking products, brands and various activities, establish a good brand and image, improve visibility,

reputation of the commercial banks, so as to improve the recognition of the commercial banks in the customer, to enhance competitiveness.

6. The successful experience of foreign banks' reputation risk management

6.1. Establish a complete, clear division of reputation risk management organization structure

Foreign banks full of reputational risk management structure, a clear division of reputational risk management departments can communicate directly with the bank's senior management in order to improve work efficiency. For example, the British bank HSBC reputational risk management is set up under the Board Risk Management Committee, is responsible for the ex ante risk prevention and risk management matters, the Commission on various risk management department for overall leadership and coordination. Chief Risk Officer Chairman of the Board of Deutsche Bank Capital and Risk Committee, is responsible for the reputation of the Group's overall management of risks. The main duties of its legal department is to manage legal risk and reputational risk, except to review compliance with the law, to assess whether the bank will have a negative impact on the reputation of providing advice to management decisions.

6.2. Supervision department attaches great importance to the reputation risk regulation

International regulators know the bank's reputation risk experienced a gradually deepening process. In 1997 new Basel capital agreement will reputation risk as part of market constraints, in 2009 the new Basel Capital Accord amended draft clearly will be included in the second pillar of reputation risk, reputation risk that banks should be incorporated into the risk management process, the appropriate cover reputation risk and rate and liquidity contingency plans in the internal capital adequacy. British, Canadian regulators require financial institutions to reputational risk management into effective risk management framework. U.S. Comptroller of the Currency (OCC) will be an important part of reputational risk regulation requires regulators from the overall risk assessment and risk trends effectively two bank reputational risk, reputational risk and emphasizes the basic regulators must be considered in the risk assessment of indicators. OCC asks each risk assessment department to strengthen the exchange of information, form a powerful comprehensive management information system, with the early warning system function, help risk managers always control the bank may appear reputation risk.

6.3. Scientific planning of reputation risk management process, establish a strict auditing system

At present, foreign banks basically formed a reputational risk management "five-step" process:

The first step, reputation risk management strategy planning, including the determination of reputation risk management objectives, measurement tools and methods, the final responsibility, reputation risk management and comprehensive risk management system and the relationship between. The second step, recognition may cause reputational risk events, including emergency, leader behavior, marketing mistakes. The third step, assess the risk and the measure of its severity. The fourth step, reduce loss of reputation risk. The fifth step, update the internal communication and management.

Risk management department is primarily responsible for the risk prevention and risk management matters, financial and auditing departments primarily responsible for post-exposure management, reputational risk and loss brought to predict and analyze. Such as financial management USA bank pay special attention to reputation risk, in order to maintain the bank's market position. Royal Bank of Canada's internal audit departments were set up risk management department in all internal business departments, risk model building for the Department of business operation, based on risk prediction, monitoring, re supervision, whether to detect departments risks, risks, risk degree, risk prediction, monitoring system establish a sound, is effectively implemented.

6.4. Pay attention to the timely communication with the media

Social media is being more and more attention, but most companies do not fully understand the role of the media. In fact, the rational use of the media's social status can mitigate reputation risk for commercial banks.

CONCLUSION

There are drawbacks in our commercial bank reputation risk management system. As the words say: "reputation is the life of the commercial banks", that means without a good reputation, a commercial bank will be hard to develop. Facing to complex media environment, and increasingly developing public service demands, strengthen the measures should be taken to enhance the level of reputation risk management, through perfecting reputation risk management mechanism, cultivating reputation risk management culture, improving the regulatory reputation risk ability, and paying attention to the media's influence on the bank reputation risk, etc. In addition, they should take effective management reform, so as to improve our country commercial bank reputation risk management ability, establish and maintain good social public image with a nice reputation.

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