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A STUDY ON ANALYZING THE ROLE OF RISK MANAGEMENT IN ENHANCING CUSTOMER TRUST IN THE PUBLIC SECTOR BANKS

Ms. Raeesa Thabassum G. J[1], Dr. Riaz Ahmed[2]

[1]Final Year MBA Student, MEASI Institute of Management, Chennai-14, Tamil Nadu, India.

[2]Assistant Professor, MEASI Institute of Management, Chennai-14, Tamil Nadu, India.

raeesathabassum@gmail.com, riaz.ahmed@measiim.edu.in

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ABSTRACT

This study examines the impact of risk management strategies on customer trust in banking institutions, with a particular emphasis on demographic factors. The research investigates how the implementation of robust risk management measures influences customers' perceptions of trust and confidence in financial institutions. Using a survey methodology, the study gathered responses from a diverse sample of customers to analyze their views on the importance of risk management in banking. The findings reveal that 70% of respondents perceive a strong risk management strategy as "very important" in fostering trust. Additionally, demographic insights indicate that 30% of the participants earn less than 25,000 monthly, and 46.7% possess postgraduate degrees, highlighting a varied customer base in terms of income and education levels. This paper provides valuable insights for banking professionals and policymakers seeking to optimize risk management practices and build a trust-centric banking environment. Further research is encouraged to explore the interplay between specific risk management strategies and customer trust across different demographic profiles.

Key Words: Risk Management, Customer Trust, Financial stability, Trustworthiness. Customer confidence, Customer loyalty, Mitigation strategies.

1. INTRODUCTION

Risk management is a systematic process that organizations and individuals use to identify, assess, and mitigate potential risks that could adversely affect their objectives. It encompasses a wide range of activities aimed at minimizing the impact of uncertainties on financial performance, operational efficiency, and overall strategic goals. At its core, risk management involves several key steps: identifying risks, analyzing their potential impact, evaluating the organization's risk tolerance, and implementing strategies to manage those risks effectively. In today's competitive financial landscape, customer trust is paramount for the success and sustainability of banks. A bank's ability to effectively manage and mitigate risks is a cornerstone of building and maintaining this trust. Furthermore, the study will examine the potential impact of risk management failures on customer trust and explore the strategies that banks can adopt to mitigate the negative consequences of such events.

2. OBJECTIVES OF THE STUDY

• To analyse the role of risk management in enhancing the customer trust at the banks.

• To find out the relationship between the dimensions of Risk management system and Customer Trust in the banks.

• To understand the relationship between the independent variables and the dependent variable.

• To determine the significance between the demographics of the respondents and various
dimensions of the banks.

3. SCOPE OF THE STUDY

The scope of the study is to examine the relationship between risk management practices and customer trust in the banking industry and analyze the specific types of risks that impact customer trust to assess the effectiveness of risk management practices in enhancing customer trust and loyalty. It involves exploring the potential consequences of risk management failures on customer trust and reputation.

4. NEEDS OF THE STUDY

The needs of the study involve a comprehensive understanding of the factors that influence customer trust in banks and identification of the specific risks that pose the greatest threat to customer trust with evaluation of the effectiveness of different risk management strategies and practices. It is essential in the development of recommendations for banks to enhance their risk management practices and build stronger customer relationships.

5. LITERATURE REVIEW

1. Mohamed Al Hammadi, Juan Antonio Jimber-Del Río, et al. (2024) investigated the effectiveness of risk management in Islamic banks in the UAE, focusing on the impact of fintech adoption, capabilities, digital transformation maturity, IT security, and the regulatory environment. Utilizing partial-least-squares structural equation modelling (PLS-SEM) for data analysis, the research confirms satisfactory validity and reliability of the measurement model, as well as discriminant validity among constructs. The findings highlight the positive influences of fintech-related factors on risk management outcomes, addressing the need for empirical evidence on the interrelationships between fintech and risk management in the Islamic banking sector.
2. Amin Kiswantoro, Sugiarto, et al. (2024) focused on developing practical risk management strategies for homestays by analyzing existing literature. It utilizes qualitative descriptive analysis and organizes findings into tables that categorize references, methods, main results, and limitations of selected articles. The research reveals that many existing studies on risk management in homestays provide only brief reviews without substantial data or insights. Notably, it highlights the lack of comprehensive research in this area, contrasting with previous studies that offered limited explanations. The novelty of this study lies in its thorough examination of data and relevant theories, aiming to enhance tourist satisfaction and loyalty while effectively managing risks in homestay operations.
3. Galad Mohamed Barre (2024) focused on risk management practices (RMPs) within the Somali banking industry, utilizing a questionnaire to gather data from a large number of respondents for statistical analysis. It consists of two sections: the first addresses the background of the respondents, while the second features closed-ended questions on a Likert scale to gauge agreement with various risk management statements. The results indicate that bank personnel in Somalia have a strong belief in their banking system, with an average agreement score of 2.09, suggesting confidence in their institutions and a potential reduction in perceived risks.
4. Aleksi Harju, Kati Schaefer, et al. (2024) explored the complexities of risk management practices in service procurement within the financial sector, highlighting both the benefits and potential downsides of an excessive focus on risk management. It discusses how rigorous risk management can lead to issues such as contract inflexibility, over-specification of services, and decreased interest from service providers. The authors suggest that future research should investigate the specific conditions under which intensive risk management efforts may negatively impact service performance.
5. Suharini and Ratih Hastasari (2023) focused on Bank Mega, a prominent bank in Indonesia, analyzing its risk management practices to address financial risks in a dynamic banking environment. Utilizing secondary data from financial and annual reports, the research evaluates the effectiveness of Bank Mega's risk management framework, which adheres to regulatory standards set by the Financial Services Authority (OJK). The findings indicate that Bank Mega has established a robust risk management policy. As of June 2023, the bank's financial performance ratios suggest positive outcomes, highlighting sufficient capital, good credit quality, and operational efficiency.
6. Indra Saputra, Etty Murwaningsari and Yvonne Augustine (2023) focused on enhancing management control systems within the banking industry to effectively manage the impacts of information technology developments. It emphasizes the importance of reliable IT security, a robust complaint management system, and an integrated whistleblowing mechanism to improve stakeholder and customer satisfaction. The research highlights the influence of institutional pressures on voluntary environmental strategies in corporate settings, suggesting a comprehensive approach to management control that aligns with sustainable practices. This study aims to contribute to the development of enterprise risk management and digital transformation in banking.
7. Gerry Mutibo Siampondo and Mbuyu Sumbwanyambe (2023) focused on the critical role of risk management in online transactions, particularly concerning network and system security in Zambia's financial institutions. Utilizing a mixed-methods design, it combines an extensive literature review with primary data from interviews with key stakeholders. The findings highlight the importance of effective risk management strategies to mitigate vulnerabilities associated with internet-based transactions. The research identifies challenges faced by financial institutions in securing their networks and suggests recommendations to enhance risk management frameworks and strengthen security measures in the digital commerce landscape. Overall, this study aims to provide valuable insights for improving practices and policies in Zambia's financial sector.

   Agustinus Ekensianus, Lis Sintha and Tarsicius Sunaryo (2023) focused on the role of risk management in enhancing competitiveness at PT Bank Central Asia Tbk (BCA) using an Enterprise Risk Management (ERM) approach. It employs a likelihood table to identify and manage potential risks effectively, ensuring the bank's integrity in the competitive banking sector. Data was collected through structured interviews and questionnaires, involving a sample of 26 participants.

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6. DATA ANALYSIS AND RESULTS

PERCENTAGE ANALYSIS

TABLE 1. CUSTOMERS PROFILE OF BANKS

USER SURVEY (n=120)			
DESCRIPTION	**CLASSIFICATION**	**NO. OF RESPONDENTS**	**PERCENTAGE**
GENDER	Male	74	61.7%
	Female	46	38.3%
AGE	18-25	40	33.3%
	26-35	22	18.3%
	36-45	19	15.8%
	46-55	19	15.8%
	56-65	16	13.3%
	66 and above	4	3.3%
MONTHLY INCOME	Below 25000	36	30.0%
	25001 - 40000	32	26.7%
	40001 - 60000	17	14.2%
	Above 60000	35	29.2%
MARITAL STATUS	Married	66	55%
	Unmarried	54	45%

Table 1 reveals a diverse demographic profile of respondents. A majority (61.7%) of respondents are male, with a significant portion (33.3%) falling in the 18-25 age group. In terms of income, respondents are fairly distributed across income brackets, with the highest percentage (30%) earning below 25,000 and the second largest group (29.2%) earning above 60,000. Additionally, marital status data shows that 55% of participants are married. This demographic mix suggests that the bank's customer base is varied across age, gender, income, and marital status. The findings underscore the importance of effective risk management in fostering customer trust across these diverse groups, as risk mitigation is likely a key concern for all segments, whether young adults starting out in their careers or more established professionals with higher incomes**.**

7. CORRELATION ANALYSIS

Null hypothesis (H_o): There is no relationship between the dimensions of Risk management system and Customer Trust at the Banks

Alternate hypothesis (H_1): There is relationship between the dimensions of Risk management system and Customer Trust at the Banks**.**

TABLE 2. Relationship between the dimensions of Risk management system and Customer Trust

Relationship	**Risk Identification**	**Risk Assessment**	**Risk Mitigation**	**Risk Monitoring**	**Risk Reporting**	**Customer Trust**
Risk Identification	**1**					
Risk Assessment	.903**	**1**				
Risk Mitigation	.908**	.913**	**1**			
Risk Monitoring	.856**	.908**	.877**	**1**		
Risk Reporting	.867**	.861**	.889**	.868**	**1**	
Customer Trust	.906**	.920**	.935**	.917**	.909**	**1**

The correlation coefficient between Risk management and Customer Trust at the Banks is 0.935 which indicates there is a strong and positive relationship between the dimension at 1% level of significance. Besides P value is less than 0.05 and hence Null hypothesis is rejected. Therefore, it was concluded that there is positive relationship between the the Risk management and Customer Trust at the banks.

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MULTIPLE REGRESSION ANALYSIS

TABLE 3. MRA Summary of Customer Trust in Risk Management practices

	Summary
Dependent Variable	Customer Trust (Y)
Independent Variables	Risk Identification(X_1) Risk Assessment(X_2) Risk Mitigation (X_3) Risk Monitoring(X_4) Risk Reporting (X_5)
Multiple R value	(0.964)
R Square value	(0.929)
F value	(300.388)
P value	(0.000)

TABLE 4. Dimensions in Multiple Regression Analysis

Particulars	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	**STD.ERROR**	**Beta**		
(Constant)	-0.1102	0.12122		-0.90928841	0.36511631
Risk Identification	0.11975	0.06758	0.12019	1.77196126	0.07907263
Risk Assessment	0.12957	0.0839	0.11969	1.54433881	0.12527778
Risk Mitigation	0.30338	0.07268	0.31385	4.17417663	5.8707E-05
Risk Monitoring	0.2712	0.06814	0.26024	3.98009293	0.00012154
Risk Reporting	0.20115	0.06248	0.19618	3.21946688	0.0016732

The multiple regression analysis reveals a strong positive relationship between the independent variables (Risk Identification, Risk Assessment, Risk Mitigation, Risk Monitoring, and Risk Reporting) and the dependent variable (Customer Trust). The high Multiple R value (0.964) and R Square value (0.929) indicate that the independent variables collectively explain approximately 92.9% of the variance in Customer Trust. This suggests that the risk management practices of the bank have a significant impact on building and maintaining customer trust. The F value (300.388) and P value (0.000) suggest that the overall model is statistically significant, indicating that the relationship between the independent variables and Customer Trust is not due to chance. Furthermore, the analysis shows that Risk Mitigation and Risk Monitoring have the most significant positive impacts on Customer Trust, with standardized coefficients of 0.31385 and 0.26024, respectively. This implies that effective risk mitigation strategies and continuous risk monitoring practices are crucial in enhancing customer trust in the bank.

The multiple regression equation is $Y = -0.1102 + 0.11975X_1 + 0.12957X_2 + 0.30338X_3 + 0.2712X_4 + 0.20115X_5$

8. RESULTS

The study on risk management and its impact on customer trust revealed several key findings. Demographically, the majority of respondents were male (61.7%), with the largest age group being 18-25 years (33.3%), and a notable portion of respondents (30%) earned below 25,000 monthly. The majority (70%) considered risk management highly important, and a significant number (33.3%) believed effective data breach handling increased their trust in banks. Correlation analysis demonstrated strong positive relationships between risk management dimensions and customer trust, particularly in Risk Mitigation (0.935). Regression analysis further confirmed that risk management practices, especially Risk Mitigation and Risk Monitoring, collectively explained 92.9% of the variance in customer trust, indicating that robust risk management is crucial for enhancing customer trust in banks.

9. SUGGESTIONS

To build customer trust, the bank should ensure gender inclusivity in marketing, offer tailored financial services for diverse income and education levels, and focus on transparent risk management. Prioritizing clear communication on data protection, quick incident response, and regular updates will enhance trust. Customized approaches for different age groups, such as risk management education for younger customers and targeted communication for older ones, are crucial. The bank should invest in advanced fraud detection and create a tiered risk program based on income. Regular customer surveys on risk management will ensure continuous improvement.

10. CONCLUSION

The study concludes that effective risk management is essential for building customer trust in the banking sector. It shows that managing financial, operational, and data security risks positively impacts customer perceptions of reliability. Key practices like risk identification, mitigation, and transparent communication are crucial for enhancing customer loyalty. The study's objectives were centered around examining how these risk management practices align with customer expectations, particularly regarding data protection, transparency, and timely responses to incidents. The findings show a strong positive correlation between risk management dimensions and customer trust, confirming that banks that prioritize robust risk strategies are better positioned to foster long-term customer loyalty. Key factors such as regular updates on risk management efforts, clear data protection policies, and quick responses to issues were found to be critical in shaping customer trust. While demographic factors play a role, strong risk management strategies strengthen trust across all customer segments. In conclusion, the study highlights that strong risk management practices are vital not only for mitigating risks but also for strengthening customer trust, which is a cornerstone of sustained success in the banking industry. Overall, proactive and transparent risk management is vital for long-term customer loyalty in the banking industry.

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