PRACE NAUKOWE
Uniwersytetu Ekonomicznego we Wrocławiu

RESEARCH PAPERS
of Wrocław University of Economics

Nr 428

Wrocław Conference in Finance: Contemporary Trends and Challenges

Publishing House of Wrocław University of Economics
Wrocław 2016

Copy-editing: Marta Karaś
Layout: Barbara Łopusiewicz
Proof-reading: Barbara Cibis
Typesetting: Małgorzata Czupryńska
Cover design: Beata Dębska

Information on submitting and reviewing papers is available on websites
www.pracenaukowe.ue.wroc.pl
www.wydawnictwo.ue.wroc.pl

ISSN 1899-3192
e- ISSN 2392-0041

ISBN 978-83-7695-583-4

The original version: printed

Publication may be ordered in Publishing House
Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu
ul. Komandorska 118/120, 53-345 Wrocław

tel./fax 71 36-80-602; e-mail: econbook@ue.wroc.pl
www.ksiegarnia.ue.wroc.pl

Printing: TOTEM

Contents

Introduction

One of the fastest growing areas in the economic sciences is broadly defined area of finance, with particular emphasis on the financial markets, financial institutions and risk management. Real world challenges stimulate the development of new theories and methods. A large part of the theoretical research concerns the analysis of the risk of not only economic entities, but also households.

The first Wrocław Conference in Finance WROFIN was held in Wrocław between 22nd and 24th of September 2015. The participants of the conference were the leading representatives of academia, practitioners at corporate finance, financial and insurance markets. The conference is a continuation of the two long-standing conferences: INVEST (Financial Investments and Insurance) and ZAFIN (Financial Management – Theory and Practice).

The Conference constitutes a vibrant forum for presenting scientific ideas and results of new research in the areas of investment theory, financial markets, banking, corporate finance, insurance and risk management. Much emphasis is put on practical issues within the fields of finance and insurance. The conference was organized by Finance Management Institute of the Wrocław University of Economics. Scientific Committee of the conference consisted of prof. Diarmuid Bradley, prof. dr hab. Jan Czekaj, prof. dr hab. Andrzej Gospodarowicz, prof. dr hab. Krzysztof Jajuga, prof. dr hab. Adam Kopiński, prof. dr. Hermann Locarek-Junge, prof. dr hab. Monika Marcinkowska, prof. dr hab. Paweł Miłobędzki, prof. dr hab. Jan Monkiewicz, prof. dr Lucjan T. Orłowski, prof. dr hab. Stanisław Owsiak, prof. dr hab. Wanda Ronka-Chmielowiec, prof. dr hab. Jerzy Różański, prof. dr hab. Andrzej Sławiński, dr hab. Tomasz Słoński, prof. Karsten Staehr, prof. dr hab. Jerzy Węcławski, prof. dr hab. Małgorzata Zaleska and prof. dr hab. Dariusz Zarzecki. The Committee on Financial Sciences of Polish Academy of Sciences held the patronage of content and the Rector of the University of Economics in Wroclaw, Prof. Andrzej Gospodarowicz, held the honorary patronage.

The conference was attended by about 120 persons representing the academic, financial and insurance sector, including several people from abroad. During the conference 45 papers on finance and insurance, all in English, were presented. There were also 26 posters.

This publication contains 27 articles. They are listed in alphabetical order. The editors of the book on behalf of the authors and themselves express their deep gratitude to the reviewers of articles – Professors: Jacek Batóg, Joanna Bruzda, Katarzyna Byrka-Kita, Jerzy Dzieża, Teresa Famulska, Piotr Fiszeder, Jerzy Gajdka, Marek Gruszczyński, Magdalena Jerzemowska, Jarosław Kubiak, Tadeusz Kufel, Jacek Li-

sowski, Sebastian Majewski, Agnieszka Majewska, Monika Marcinkowska, Paweł Miłobędzki, Paweł Niedziółka, Tomasz Panek, Mateusz Pipień, Izabela Pruchnicka--Grabias, Wiesława Przybylska-Kapuścińska, Jan Sobiech, Jadwiga Suchecka, Włodzimierz Szkutnik, Mirosław Szreder, Małgorzata Tarczyńska-Łuniewska, Waldemar Tarczyński, Tadeusz Trzaskalik, Tomasz Wiśniewski, Ryszard Węgrzyn, Anna Zamojska, Piotr Zielonka – for comments, which helped to give the publication a better shape.

Wanda Ronka-Chmielowiec, Krzysztof Jajuga

PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS **nr 428 • 2016**

Wrocław Conference in Finance: Contemporary Trends and Challenges ISSN 1899-3192
e-ISSN 2392-0041

Katarzyna Wojtacka-Pawlak
Wroclaw University of Economics
e-mail: katarzyna.wojtacka-pawlak@ue.wroc.pl

THE ANALYSIS OF SUPERVISORY REGULATIONS IN THE CONTEXT OF REPUTATIONAL RISK IN BANKING BUSINESS IN POLAND

ANALIZA REGULACJI NADZORCZYCH W KONTEKŚCIE RYZYKA UTRATY REPUTACJI W DZIAŁALNOŚCI BANKOWEJ W POLSCE

DOI: 10.15611/pn.2016.428.27
JEL Classification: G21, G28

Abstract: The paper presents the results of the analysis of supervisory regulations – Recommendation D and M of the Polish Financial Supervision Authority (KNF). The aim of the analysis was to identify recommendations for reputational risk in the banking business. The analysis shows that reputational risk is noticed by supervisory authority, but poorly regulated, which does not correspond to its importance in banking. The paper is divided into two main parts. In the first part the concept of reputational risk is presented, as well as its position and role in the banking business. In the second part the paper gives the results of the analysis of KNF Recommendations done in order to identify and discuss the recommendations for the reputational risk in banking.

Keywords: banking, banking regulations, reputational risk, Polish Financial Supervision Authority, Recommendation D.

Streszczenie: W niniejszym opracowaniu przedstawiono wyniki przeprowadzonej analizy regulacji nadzorczych – rekomendacji D oraz M Komisji Nadzoru Finansowego w celu zidentyfikowania zaleceń dotyczących ryzyka utraty reputacji w działalności bankowej. Celem artykułu jest próba ukazania, iż ryzyko reputacyjne jest pojęciem ważnym, dostrzeganym przez organa nadzorcze, a jednocześnie słabo uregulowanym. Jako metodę badawczą zastosowano wnikliwe studia Rekomendacji D oraz M, a także dostępnej literatury przedmiotu. Opracowanie podzielono na dwie główne części. W pierwszej z nich przedstawiono samo pojęcie ryzyka utraty reputacji oraz dokonano próby jego umiejscowienia wśród innych rodzajów ryzyka w działalności bankowej. W drugiej części natomiast omówiono Rekomendacje D oraz M Komisji Nadzoru Finansowego w celu zidentyfikowania zaleceń odnoszących się do ryzyka utraty reputacji przez bank.

Słowa kluczowe: bankowość, regulacje bankowe, ryzyko reputacyjne, Rekomendacje Komisji Nadzoru Finansowego, Rekomendacja D.

1. Introduction

The concept of reputational risk in the banking sector in Poland is a relatively new one, poorly defined, seldom noticed and rather not described in the literature. It is difficult to find any information about it. There is evidence of the fact that representatives of the scientific community become aware of the existence of reputational risk and that they have been discussing ways of managing it, but still no one in Poland has undertaken a detailed analysis of the issue.

The issue in question seems to be not only interesting but also important, as it has been noticed by the supervisors of financial markets. This concept can be found in the Recommendations of the Polish Financial Supervision Authority (KNF), but without any particular explanation of what lies beneath it and without any recommendations for banks on how to deal with such risk. The KNF notes and appreciates the importance of the phenomenon, but in a sense it also ignores it, by neglecting to provide its definition. It is precisely this issue, as well as the deep conviction that this phenomenon is worth noting – especially in the context of the information society – which has prompted the author of this paper to attempt the definition of reputational risk and an in-depth analysis of the supervisory regulations in order to identify all the relevant information about it.

The purpose of this article is to show that reputational risk is an important concept perceived by supervisory authorities, while still being poorly regulated. The research method is the in-depth study of the Recommendations of the KNF, as well as of the available literature.

This work has been divided into two main parts. In the first one the author presents the concept and importance of reputational risk and its simplified placement among other banking risks. In the second part, the analysis of supervisory regulations is presented, with particular emphasis on Recommendation M and Recommendation D which complements it.

2. Reputational risk – a new type of risk in banking

2.1. The attempt to define reputational risk

Reputational risk, also known as the risk of loss of reputation, or, in short, the reputation risk, is a relatively new concept. It still lacks a single, binding definition. Its formulation should begin with the definition of reputation itself, borrowed e.g. from a dictionary, where we learn that reputation is the opinion which someone or something has among people [SJP 2015]. At this point, this definition should be supplemented with a statement that the opinion in question is subjective and not necessarily relying on facts. Speaking of reputation, therefore, we thread on thin ice and the risk associated with it automatically becomes a difficult issue not only to define, but also to analyse.

For the record, it might be necessary to quote the definition of risk as well. According to the same dictionary, risk is defined as "the possibility of something going wrong" or "a project whose outcome is uncertain" [SJP 2015]. Such a definition is, unfortunately, an over-simplification in relation to the risks faced by the banks. For the purposes of this study, the risk of banking operations will therefore be recognized as a risk of not achieving the objectives pursued by the bank in all areas of its business. However, there is still the problem of a proper formulation of the definition of reputational risk.

The KNF, in its map of risk classes states that reputational risk is the risk of acquiring a negative image of the company by customers, partners, investors, shareholders, supervisors, regulators and the general public [KNF 2011a]. KNF combines the concept of "image" and "reputation" while recognising the negative concept of risk.

Another concept is presented by A. Adamska and T. Dąbrowski [2015], who combine reputational risk with building an ethical culture of the bank, as well as good relationships with stakeholders. D. Wawrzyniak [2012, p. 35] defines reputational risk as a result of events negatively affecting the general quality and safety of the banking services. M. Górski [2009, p. 218], on the other hand, recognises a loss of trust, which is also closely linked to the bank's reputation, among the banking risks.

Based on these and other attempts at definitions found in the literature, and after reading the Recommendations of the KNF, the author of this paper suggests a different definition of reputational risk. According to the author, reputational risk in the context of banks is the risk of such events (culpable or non-culpable) in the bank's activities, in consequence of which there is a deterioration of the subjective opinions of stakeholders about a particular bank, and consequently a failure to meet the subject's objectives in at least one of its business areas.

2.2. Reputational risk – an element of operational risk or a new type of risk in banking?

In order to answer this question, it is worth recalling the New Capital Accord and the separation of banking risks. In the first pillar, Basel II distinguishes three types of risks – credit, market and operational risk. Even though pillar II of the abovementioned Accord complements the division with three other components – the concentration risk, interest rate risk in the banking book and liquidity, these risks are not connected with the reputational risk, and therefore they are not the subject of discussion in this paper. To be precise, credit risk and market risk have no direct influence on the reputational risk, either, therefore it is important to define and consider operational risk as a potential risk associated with the bank's reputation.

Simplifying, operational risk is the risk of loss due to the use of inadequate or defective internal procedures, as well as the occurrence of system errors (IT risk), including mistakes made by staff and the occurrence of legal risks. Therefore, operational risk cannot be directly connected with reputational risk. However, if the bank implements a faulty procedure and this mistake is publicly announced, the bank's reputation might suffer. Naturally, if a flawed procedure is used only once and will not carry serious consequences, the recipient of the banking service probably will not be concerned with it; but if the mistake is repeated more often or if it has serious negative consequences, the result will be different. It is similarly with system errors or mistakes made by the staff. If such errors are publicized, e.g. when the bank suffers a serious loss due to the failure of IT facilities, the potential customer can worry about entrusting their funds to such a partner. In this case once more one can speak about the tarnished reputation of the bank and its negative consequences.

These considerations are, however, in contradiction to the Recommendation M. It is a recommendation of the KNF directly relating to operational risk. In the introduction to the abovementioned Recommendation, the supervisors state directly: **operational risk does not include reputational risk**. In that case, how can we explain the fact that, further on, the recommendations reads: "In the context of operational risk we should not forget about the possibility of a loss of reputation as a result of operational risk events, in particular in the areas of legal risk, which in turn may result in failure of the implementation of the business strategy of the bank, including a reduction in planned revenues (e.g. due to a decreased trust of customers and termination of their cooperation with the bank), or a decrease of the company's value" [KNF 2013]

Is then reputational risk a part of operational risk, according to KNF, or not? Or is it closely related to it, perhaps being its consequence while posing a completely new and different threat? This and other pieces of information, important from the point of view of the recipients of the supervisory regulations, the author of this paper will try to obtain via a thorough analysis of the KNF recommendations, in particular of Recommendations M and D, which are presented in the second part of this work.

3. Reputational risk in supervisory regulations in Poland

The General Inspector of Banking Supervision, and after 2006 also the Polish Financial Supervision Authority (KNF), published a total of 18 recommendations. Some of them have already been updated, such as Recommendation P, published in 2002. Each recommendation is important from the point of view of the bank's operations, although not every single one refers to risk. However, 1/3 of them refer to reputational risk at least in one point, as illustrated in the table below (Table 1).

As presented in the table, not only Recommendations D and M, which will be widely analysed later in this article, refer to reputational risk. Several records on this topic can be found for instance in Recommendation A, which contains recommendations for banks related to derivatives market. First such mention appears in the first recommendation, "Risk management".

Table 1. The supervisory regulations in the context of reputational risk

Name of recommendation	Range	Does it apply to reputational risk?
A	Applies to the management risk related to banks' transactions in the derivatives market.	YES
B	Applies to the risk mitigation of banks' financial investment.	NO
C	Applies to the risk management of exposures concentration.	NO
D	Applies to the IT management and IT environment security in banks.	YES
F	Applies to the basic criteria employed by the Financial Supervision Commission when approving the rules for determining the mortgage lending value of the property issued by mortgage banks.	NO
G	Applies to interest rate risk management in banks.	NO
H	Applies to internal control systems in banks.	YES
I	Applies to foreign currency risk management in banks and the principles of banks with a risk of foreign exchange operations.	NO
J	Applies to the rules of collecting and processing data about real estate by banks.	NO
K	Applies to the rules of registration by mortgage banks for the security of mortgage bonds and account security for mortgage bonds and projections.	NO
L	Applies to the role of auditors in the process of bank supervision.	YES
M	Applies to the operational risk management in banks.	YES
P	Applies to the management of financial liquidity of banks – the new version from 2015.	NO
P	Applies to the monitoring of the liquidity of banks – the old version from 2002.	NO
R	Applies to the principles of identifying the balance sheet credit exposures that have lost their value, allotting write-downs for the impairment of balance sheet credit exposures and provisions for off-balance sheet credit exposures.	NO
S	Applies to good practices in the management of credit exposures secured by mortgages.	NO
T	Applies to best practices in risk management of retail credit exposures.	NO
U	Applies to best practices in bancassurance.	YES
W	Applies to models of risk management in banks.	NO

Source: Author's own study.

In section 1.3. of the “Internal Audit”, the supervisor overseer writes: “The study of internal audit should be conducted for all relevant transactions. The significance level of transaction should be determined by the bank’s management. The size of a single transaction should not be the sole criterion for determining the level of significance of the transaction, the bank should also take into account other factors such as the type of customers with whom the bank usually makes transactions or the potential impact of the transaction on its reputation, as well as a total commitment to customer transactions in financial derivatives” [KNF 2010]. In other words, the KNF recognizes the problem of reputation, but it merely indicates it.

Reading further, Section 1.9. of Recommendation A, namely “Other risks”, is devoted to reputational risk. In three paragraphs, the supervisor notes that reputation risk is associated with deterioration of the image of the institution in the eyes of its customers, which in turn results in a reduction of the number of customers. This risk varies depending on the information given by the bank and other sources to the customers [KNF 2010]. In the next paragraph, the KNF notes that reputational risk is associated in particular with “transactions concluded by banks on derivatives”. Further on, we read: “It is a material risk which, when neglected, can have negative effects both for the bank itself and for the entire banking sector” [KNF 2010].

The last important information that can be found in Recommendation A on the perception of reputational risk by the KNF is the supervisor’s reference to the modern financial crisis: “Due to the nature of the risk, it should be of interest to all banks, and in the light of the recent crises, it should concern particularly banks operating in the derivatives market” [KNF 2010].

Recommendation H on internal control system for banks published in 2011 also brings to mind the reputation of the bank. However, the risk of reputation was mentioned there just once and very briefly. In part B.2. “The Bank’s compliance with laws and internal regulations” we can find Recommendation 9: “The board of the bank is equipped with information on laws, rules, regulations and standards that the bank must observe, along with an estimation of the possible impact of significant changes in this respect on the bank’s business activities and the ensuring of compliance with those rules” [KNF 2011b].

In Section 9.2. KNF states: “The risk of non-compliance can pose a risk to earnings or capital due to the emergence of the need to incur additional costs due to e.g. penalties, damages, cancelled contracts or loss of reputation (credibility for the contractors) of the bank” [KNF 2011b]. However, in this case the supervisor does not elaborate and this mention appears to only occur pro forma. There is no more information about reputational risk in Recommendation H.

Another Recommendation which mentions reputational risk, this time issued by the KNF’s predecessor, namely the General Inspector of Banking Supervision, in 2001, is Recommendation L, on the role of auditors in the process of bank supervision. In this case, as in the case of Recommendation H, the supervisor did not elaborate on the subject. Only in Section 8 entitled “Audit of financial statements of entities subject to consolidated supervision," the Inspector warns: "Bad situation of subsidiaries or entities closely connected to the bank may also affect the deterioration of the bank's reputation, and thus jeopardize the interests of the bank's customers" [KNF 2001].

The last of the recommendations which mentions reputational risk, except for Recommendations M and D, is Recommendation U. It is a recommendation on good practices in bancassurance, issued in 2014. In this case, the supervisor mentioned reputational risk twice – in Part II, "Securing the bank from risk", and Part V, "Customer relations". In the first case, reputational risk is mentioned in Recommendation 6, in Section 6.1. We read: "The bank should identify the risks associated with the offering of insurance products and secure itself against risk in a way appropriate to: a) the specifics of banking products, broken down by: credit risk, with respect to insurance products related to banking products, constituting collateral for the credit exposures; and reputational risk, legal risk and compliance risk in relation to all insurance products" [KNF 2014].

With such a statement, the supervisor forces the banks to identify reputational risk and informs the bank that reputational risk is "specific" to banking products and thus the bank must secure itself in an "appropriate" manner. The second entry relating to reputational risks can be found in Recommendation 9, in Section 9.9. At this point, the KNF once more imposes an obligation on the bank to identify or even monitor, but this time not the risk itself, but factors that may cause it.

The extremely broad recommendation M concerning operational risk was published in 2012. Recommendation D, which complements it, was published one year later. In the very introduction to the Recommendation M, there is first important information for the discussion of reputational risk. The supervisor states that the definition of operational risk does not include reputational risk. Another important piece of information can be found in Section V of the Recommendation, entitled "Internal environment." Here we find Section 4.8 of Recommendation 4 on human resources, where we learn that the reputation of bank employees is also important. KNF recommends to take into consideration the employee's reputation when promotion is being discussed.

In Section 4.9, there is the following statement: "Both the supervisory board and the board of the bank is obliged to create an organizational culture in which the emphasis is on effective operational risk management, compliance procedures and the established rules of conduct, including prevention of the loss of the bank's reputation" [KNF 2012]. There already appears to be some contradiction.

On the one hand, the KNF notes that reputational risk does not lie within the definition of operational risk, on the other hand it recommends that the supervisory board and the management board pay attention during the application of established procedures, i.e. the element of operational risk management, not to expose the bank to a loss of reputation.

Another mention concerns broadly defined "processes." In Section 4.25 we can read: "Disruption in the flow, processing or storing information (e.g. in paper or electronic form – and held by the employees, but not registered in any form) can lead to significant financial operating losses, but it may also have the impact on the bank's reputation and, consequently, result in the loss of potential profits" [KNF 2012]. Once more we can get the impression that even if operational risk is not closely related to reputational risk, it still has considerable impact on it.

Section 4.29. refers to the subject of the bank's reputation as well. It states that "[...] for the processes whose entire or partial execution is entrusted to outside entities, the bank should have written procedures for managing the risks associated with the activities entrusted to said entities, including contingency plans which, in certain cases, will include an alternative source of services and resources necessary for a change of service providers in a timely manner. Such plans, which provide the customers with an acceptable level of service, are crucial for the reputation of the bank" [KNF 2012].

Recommendation 7, located in Section VI of Recommendation M relates to the identification of risk. In Section 7.14. we can read: "Identification of operational risk arising from new or altered products, processes and systems should take place before their implementation and utilization. Administrative, organizational and technological changes, as well as introducing new products and services should be taken into account in the process of operational risk management, prior to their formal approval and introduction, while the operational risk that can be associated with them should be subject to an appropriate assessment before their formal approval. The bank should ensure that the necessary technological investments were made and appropriate human resources were recruited in order to successfully introduce new products and services. It will help avoid possible losses and the loss of reputation" [KNF 2012]. In this section, the supervisor once again presents the relationship between operational and reputational risk.

In Part VIII of Recommendation M, mitigating the risk also refers to the reputational risk. In Section 10.2. we can read: "In case of operational risks which the bank cannot accept (e.g. those where there is a high risk of the loss of reputation) and for those for which transfer or other limitation is not possible, it should be decided whether to limit the type business or completely withdraw from such activities" [KNF 2012]. Once more, KNF presents a close relationship between operational risk and reputational risk. This time, one might even conclude that the sub-categories of operational risk are the ones that pose a threat of the loss of a reputation by the bank.

Section 10.4. seems to confirm this assumption. It states: "Mechanisms of risk mitigation should include activities, policies and procedures that result in the increase of the likelihood of achieving the desired objectives of operational risk management by reducing the likelihood or potential impact of losses due to said risk or the loss of reputation as a result of the occurrence of said risk" [KNF 2012].

Also in the part concerning plans for business continuity and contingency plans, Recommendation 11 contains statements about the bank's reputation. In Section 11.1. we can read that "as a result of events that may be beyond control, the bank may lose its ability to realize some or all of its obligations" [KNF 2012]. Therefore, the Financial Supervision Commission advises the preparation of a contingency plan: "Having plans which provide a level of service to customers at a level acceptable to them is crucial for the reputation of the bank" [KNF 2012].

Important information about the bank's reputation is also present in the "Control" part (Section IX) and "Monitoring" (Section X) of Recommendation 14, Section 14.6. There are no direct references to reputational risk, but the supervisor states that the bank should prepare a list of contractors with whom it would not cooperate for instance due to sanctions placed on a specific country or due to the country's support of terrorism [KNF 2012]. However, in Section 15.1. in the "Monitoring" part, the supervisor observes that "quickly obtaining precise information on the detected irregularities can allow to take steps to reduce the negative perception of the bank by the environment, preventing the eventual loss of reputation or allowing for actions that will quickly rebuild it" [KNF 2012].

Almost identical information can be found in Section XI of the Recommendation – Reporting and Transparency of Activities. In the part about reporting, in Section 16.2. we can read: "The reports should contain adequately described identified events and their corrective actions which will help avoid losses due to the occurrence of similar events in the future. Quick reporting of the precise information on the detected irregularities can allow to take steps to reduce the negative perception of the bank by the environment, leading to the eventual loss of reputation or facilitating actions that will quickly rebuild it" [KNF 2012].

The last interesting point of view regarding reputational risk in Recommendation M is located in the "Transparency of Activities" part of Recommendation 17, Section 17.1. It reads: "The Asymmetry of information between the bank and its shareholders and customers who deposit their resources or doing financial settlements via bank is undesirable from the point of view of the safety of the banking system, hence one of the key elements of banking regulations is market discipline. (...) In addition, this action has an impact on improving the effectiveness of risk management in the banking system (e.g. through the exchange of information), and can help maintain the bank's reputation" [KNF 2012].

Although Recommendation D, as mentioned above, complements Recommendation M, of which informs us the Financial Supervision Commission in the introduction, it is equally extensive. It raises an extremely important and topical issue of managing the areas of information technology and IT security in the banking environment. It also refers to the risk of the bank's reputation, which the supervisor mentions in the introduction. Information about reputational risk can be found further in the text of Recommendation D.

The first significant mention on this subject can be found in the part "Cooperation with external service providers." In Section 10.1. of Recommendation 10 we can read: "Taking into account the specific nature of the banking sector, of all the services provided by external entities the actions implemented in the area of information technology have special characteristics because of their direct impact on the quality and safety of services provided to customers and the bank's reputation" [KNF 2013].

In Section VII "Security management of the IT environment", in the part of Recommendation 18 pertaining to risk assessment, we can read: "As a result of the risk assessment, the bank should obtain knowledge about potential risks associated with security of IT environment, the likelihood of identified risks and the potential impact of the occurrence of those risks, including the potential loss of reputation which can lead to the decrease of customer trust and end their cooperation with the bank, which in particular can have an impact on the financial situation of the bank" [KNF 2013].

These are the only identified direct references to the reputation of the bank and risks related to it in Recommendation D. This does not mean, however, that there is no information that, according to the author, can be used by the recipients of the regulation. After all, the same supervisor emphasizes in the very introduction that the content of Recommendation D is associated with reputational risk and we cannot conclude that it pertained only to the two specific references quoted above.

4. Conclusion

The financial sector, primarily regarding banks, is one of the sectors that receive the greatest credit of trust from stakeholders. Therefore, its reputation is a crucial issue and the loss of this reputation can have disastrous consequences. In 2005, in the report of the Economist Intelligence Unit, reputational risk was considered to be the greatest risk of modern enterprises [Adamska, Dąbrowski 2010, p. 93]. The author of this paper fully agrees with this opinion, especially in the context of the banking sector.

The importance of the phenomenon was also noted by the KNF, which devoted considerable attention to the reputational risk in their recommendations. However, after reading all the recommendations of the supervisor one cannot resist the impression that they lack specific solutions that would be helpful for the recipients. The problem is signalled and emphasised, but not discussed. First of all, KNF advises to consider various phenomena in the "context" of reputational risk, but it does not discuss the concept individually. This may be due to the fact that the problem of reputational risk is not only difficult to solve, but even to define. It will, therefore, become the main area of academic interest of the author of this work in the future.

References

Adamska A., Dąbrowski T., *Zarządzanie ryzykiem reputacji w banku*, Finanse, No. 1(2)/2010, pp. 93-111.

Górski M., 2009, *Rynkowy system finansowy*, Polskie Wydawnictwo Ekonomiczne, Warszawa.

KNF, 2001, *Rekomendacja L*, Polish Financial Supervision Authority, https://www.knf.gov.pl/Images/rekomendacja_L._tcm75-8562.pdf (03-09-2015).

KNF, 2010, *Rekomendacja A*, Polish Financial Supervision Authority, https://www.knf.gov.pl/Images/Rekomendacja%20A_2010.05.05_tcm75-22718.pdf, (02-09-2015).

KNF, 2011a, *BION w bankach – mapa klas ryzyka i ich definicje*, Polish Financial Supervision Authority, https://www.knf.gov.pl/Images/banki_mapa_ryzyk_tcm75-25314.pdf, (03-09-2015).

KNF, 2011b, *Rekomendacja H*, Polish Financial Supervision Authority, https://www.knf.gov.pl/Images/Rekomendacja_H_2011_tcm75-26995.pdf (03-09-2015).

KNF, 2012, *Rekomendacja M*, Polish Financial Supervision Authority, http://www.knf.gov.pl/Images/Rekomendacja_M_8_01_2013_uchwala_8_tcm75-33017.pdf, (02-09-2015).

KNF, 2013, *Rekomendacja D*, Polish Financial Supervision Authority, http://www.knf.gov.pl/Images/Rekomendacja_D_8_01_13_uchwala_7_tcm75-33016.pdf, (02-09-2015).

KNF, 2014, *Rekomendacja U*, Polish Financial Supervision Authority, https://www.knf.gov.pl/Images/Rekomendacja_U_tcm75-38338.pdf, (03-09-2015).

SJP, 2015, *Reputacja*, Słownik Języka Polskiego, http://sjp.pwn.pl/szukaj/reputacja.html, (02-09-2015).

SJP, 2015, *Ryzyko*, Słownik Języka Polskiego, http://sjp.pwn.pl/szukaj/ryzyko.html, (03-09-2015).

Wawrzyniak D., 2012, *Ryzyko informatyczne w działalności bankowej*, Wydawnictwo Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław.