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EMOTIONAL IMPACT OF BANKING FRAUD ON CUSTOMERS: UNDERSTANDING REACTIONS AND IMPLICATIONS FOR THE BANKING SECTOR

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ABSTRACT

Customer trust is essential for the proper operation of the banking industry, which is the foundation of any economy. However, the growing trend of banking frauds is a major worry, threatening not only the integrity of the financial system but also the emotional wellness of customers. The purpose of this research is to gain an understanding of the emotional effect of bank fraud on customers and its consequences for the banking industry.

Data was obtained from customers of public and private sector banks in four cities in Gujarat, India, using a questionnaire-based survey. The findings reveal that when fraud-related news is published, customers suffer an emotional trauma. They feel deceived and mislead.

The study emphasises the need of banks successfully addressing consumer emotions in order to retain positive connections during these challenging times. Understanding emotional responses may assist banks in developing suitable tactics for reputation recovery and crisis management, maintaining long-term customer loyalty and trust. As the number of banking fraud instances increases, this research becomes more important in assisting banks in navigating the emotional impact on consumers and mitigating the negative impacts on the nation's economic system's stability and confidence.

KEYWORDS: *Banking frauds, Emotional setback, Customer trust, Customer retention.*

INTRODUCTION

Banks are at the very core of any economy. Much of the population in the country has a high level of faith in the banking system, and as a result, they regard banks as the most secure place to park their funds.

Banking Company is one which transacts the business of banking which means the accepting for the purpose of lending or investment of deposits money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise. – **Indian Banking Companies Act.**

The banking system of every economy is regarded as its engine of development. The existence of a strong banking system in the economy is a pre-requisite for the proper operation of all sectors of the economy. Banks are one of the primary financial intermediaries that promote capital mobilization by shifting funds from savers to investors, thereby playing an important role in the nation's economic growth. An economy cannot exist without a system of banking.

Financial fraud is an important cause of concern for the whole economy. The rising trend of financial frauds stifles the expanding economy and creates impediments to further growth. An economy cannot have complete control over them, but efforts may be carried out to decrease the threat and clear the route to progress.

RBI, defines fraud as "A deliberate act of omission or commission by any person, carried out in the course of a banking transaction or in the books of accounts maintained manually or under computer system in banks, resulting into wrongful gain to any person for a temporary period or otherwise, with or without any monetary loss to the bank"

A sort of financial fraud, bank fraud is distinct from bank robbery. It is characterised as the use of unlawful means to acquire assets owned by a bank. Alternatively, utilising a bank to acquire someone's, an organization's, or the public's assets

The global banking business has become an appealing target for fraudsters, and the ultimate repercussions are to be borne by the customers of banks, who are eventually the common man of our country. This nail of deceit strikes hard on the back of the common man, rendering them vulnerable to distress. People tend to lose faith in the entire economic system as a result of such events occurring all around them.
As per staista.com, In financial year 2023, the Reserve Bank of India (RBI) reported a total of more than 13 thousand bank fraud cases across India. This was an increase compared to the previous year and turned around the trend of the last decade. However, the total value of bank frauds decreased from 1.38 trillion Indian rupees to 302 billion Indian rupees. India: number of bank fraud cases 2023 | Statista

According to the RBI Annual Report 2022-23, an assessment of bank group-wise fraud cases over the last three years indicates

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that while private sector banks reported a maximum number of frauds, public sector banks continued to contribute the maximum to the fraud amount during 2022-23. (moneycontrol.com)

On the occurrence of such instances, the integrity of the financial system is put into doubt, as are the customer's emotions. Customers not only feel misled when such instances occur with them, but they also feel betrayed when similar incidents occur with any of their fellow customers.

These instances can erode the confidence of customers in the b ank's safety protocols, their own financial wellbeing, and the b anking system's general credibility. They tend to inculcate feelings of anger, disbelief as well as betrayal. Emotional responses might cause clients to reconsider their banking relationship, influencing their loyalty, trust, and engagement. Emotional reactions may intensify the bad impact of the fraud incidence, causing reputational harm as well as significant financial ramifications for the bank.
Being aware about how such revelation affects customers emotionally is critical for banks to properly handle the consequences, restore trust, and sustain robust customer relations. To minimize the customer anxieties and establish a sense of security, banks must prioritize interaction with customers, participation, and active measures.

The purpose of this study article is to investigate and assess the emotional impact of fraud news on bank customers, providing an understanding regarding the varied emotional reactions and their consequences for the banking sector. Banks may establish successful methods for reputation recovery by understanding the emotional environment.

LITERATURE REVIEW

1. **Vyas and Shah (2023)** in their research work, 'The trend Analysis of Bank Frauds in India' have performed an analysis of baking frauds happened in 2017 and 2021 in India. The study found that the banking frauds in the country have depicted a rising trend. The researcher has used secondary data to perform a trend analysis of frauds in private and public sector banks. The researcher has concluded that to improve this worst situation, banks must enhance credit underwriting, loan monitoring, and loan final use. Since the Indian banking industry is vital to the economy, the government should adopt strict regulations to combat fraud. Bank blockages can lead to bank collapses and ultimately the collapse of the entire economic system.
2. **Kaivalya and Swadia (2021)** in their research work, 'Study of banking frauds scenario in India' have opined that there are many reforms which have happened in the banking industry, but these reforms along with bringing some pros have invited certain challenges, one of which is banking frauds. The study has found that the bank faces major deceits in the area of its advances. The study has highlighted various measures as taken by RBI to combat this situation and has also suggested to prepare an advance framework to detect and prevent financial menaces in the banking sector.
3. **Thangam and Bhavin (2019)** in their research work **'**Banking Frauds in India; A case analysis' conducted a case study analysis on banking frauds convicted by CBI from 2015 to 2017. The researchers have found that the banking industry is the second highest in terms of getting affected by frauds. Fraudsters are using advanced technologies to get their motives fulfilled. The study has highlighted the various types of frauds occurring in the banking sector. The researcher has suggested coordinated efforts by the regulators as well as strict punitive measures for the employees involved in such activities.
4. **Pandey, Jaiswal and Ishrat (2021)** have performed a systematic literature review on 'Fraud cases in the Banking sector'. The researchers have attempted to highlight cyber crime victimisation and cyber security issues popping up with the advent of technology in the banking sector. The researcher is suggestive of rigorous employee training in order to prevent online banking frauds. Overburdened employee is also one of the reasons of banking fraud as identified by the researcher. The study has highlighted the various kinds of fraud happening in the banking sector and the probable measures in order to mitigate the risk of monetary loss.

RESEARCH METHODOLOGY

Area of study

The study is based on customers of banks of the state of Gujarat specifically, the cities of Ahmedabad, Gandhinagar, Vadodara, and Rajkot.

The cities are selected based on a TOI report dated 12-03-2023, which depicted the rankings of the cities of Gujarat in terms of number of frauds registered. Ahmedabad tops the ranking, while Surat and Vadodara followed to occupy second and third position. Gandhinagar is in close proximity to Ahmedabad.

The researcher concluded that there was an immediate need to investigate how banking frauds affect customers in these four cities emotionally.

Objectives of the study

The main objective of the study is to examine the impact of fraud on customer emotions in the banking industry. The objective focuses on understanding how customers' emotions are affected specifically when fraud-related news is revealed. By investigating this impact, the study aims to contribute to the understanding of customer reactions and emotional responses in such situations.

Relevance of the study

The study is important for banks since it attempts to give helpful insights for keeping positive relationships with customers in instances such as fraud news. Banks may gather essential knowledge about how such instances effect their customers' views, trust, and general satisfaction. This knowledge may help banks design suitable strategies and proactive actions to address customer issues, give support, and preserve great client relationships during difficult times. The study's results can help banks improve their communication tactics, crisis management techniques, and user-centric efforts, allowing them to better navigate and reduce the adverse effects of fraud occurrences on

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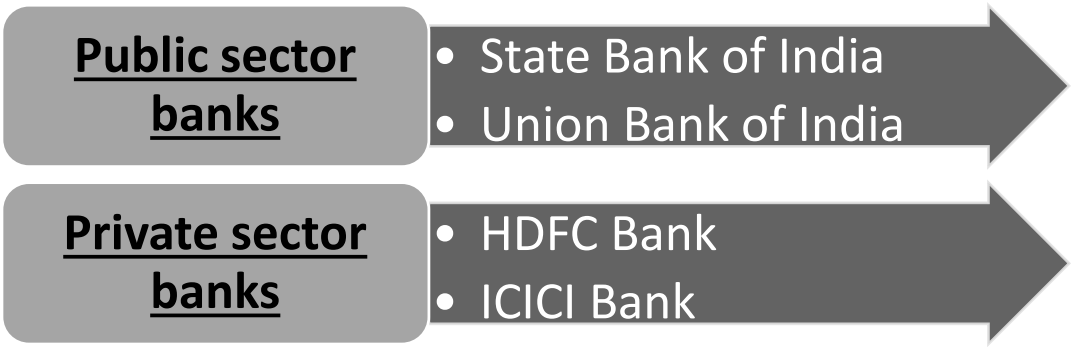
customer experiences. With bank fraud instances increasing across the country, this research is becoming increasingly important.

Research Design
The research has employed Questionnaire method as it is a method in order to get authentic opinions from the respondents considering their confidentiality part as well. As the study is focused on perceptions, questionnaire method is deemed essential to reach proper conclusions.

Population of the study
The study aims to judge the emotional impact on bank customers because of frauds in the banking sector. Hence, the population of the study is customers of public and private sector banks of India.

Sample of the study
The sample of the study comprises of customers of 2 public sector and 2 private sector banks of four cities of the state of Gujarat. The cities, as mentioned above are Ahmedabad, Gandhinagar, Vadodara, and Surat.

The selection of banks is based on Number of branches of these banks in Gujarat, the data for which is gathered through CMIE software. Therefore, the list of the selected banks is as under.



While the selection of cities is based on their rankings of number of fraud cases registered in 2022-23.

DATA COLLECTION
Secondary data was used to make a scenario of the background of the study and then a Likert scale questionnaire method was used to gather relevant information from the respondents. The questionnaire consisted of certain demographic details proceeding to certain emotional impacts, which was known through literature review. The respondents were then asked to rate those emotions in their sense of occurrence on the event of a banking fraud. The researcher had circulated the questionnaire among various customers of a bank and received 103 responses out of which 100 questionnaires were complete and on which analysis could be performed.

DATA ANALYSIS
The retrieved copies of the questionnaire were coded, and the data were analysed using simple percentages to achieve the study's objectives.

RESULTS & DISCUSSION
According to the data, a substantial percentage of participants 45 and 49 percent agree whereas 37 and 33 percent strongly agree that they are concerned about their financial operations and the protection of their personal information. 80 percent of the respondents agree that they are convinced that such incidents call into question the financial system's capacity to protect their wealth. The findings demonstrate unambiguously that these instances instil anxiety and mistrust in the respondents. Surprisingly, when questioned about the prospect of switching banks, the replies were somewhat neutral. However, the researcher discovered via numerous discussions that this response might be ascribed to widespread fraud and financial misconduct that is not restricted to a particular bank but is rampant throughout the whole economy so switching banks will not bring much change.

These responses suggest that such instances cast suspicion not only on individual banks but also on the whole economic system. As a result, they have a negative influence on ordinary residents' well-being, security, and faith towards their country as agreed by 81% respondents.

CONCLUSION
The banking industry is essential for every economy, and individuals put their confidence in banks as a safe location to save funds. The growing tendency of financial fraud, on the other hand, has become a serious problem, posing considerable obstacles to economic growth and stability. Banking fraud not only jeopardises the financial system's integrity, but it also has a deep emotional impact on bank clients, who are ultimately the country's ordinary man.

Banking fraud may have far-reaching emotional implications, weakening client trust in safety standards, financial well-being, and the legitimacy of the banking system as a whole. Customers may feel rage, bewilderment, and betrayal, perhaps causing reputational loss and financial implications for institutions.

Understanding and responding to these emotional reactions is critical for banks in order to properly handle the aftermath of fraud occurrences, reestablish trust, and maintain solid client relations. Banks must prioritise client communication, active engagement, and proactive efforts to reduce consumer anxiety and provide a sense of security.

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The study's objectives have provided valuable insights on client behaviours and emotional responses to fraud news, allowing banks to design appropriate strategies and actions during difficult times. Banks may navigate and reduce the negative effects of fraud occurrences on customer experiences by enhancing communication methods, handling emergencies, and focusing on customer-centric activities.

As the number of cases of financial fraud increases, this research becomes increasingly important for banks to better understand the emotional impact on their customers and implement strategies to maintain their confidence and loyalty. Addressing the emotional aspect of fraud occurrences can assist not just individual banks, but also the entire stability and confidence in the nation's economic system.

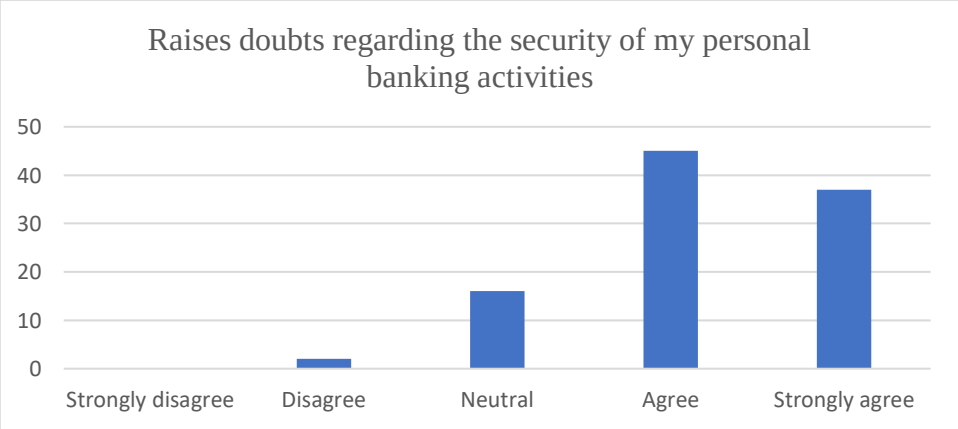
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APPENDIX

List of tables

Table 1:



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Table 2:

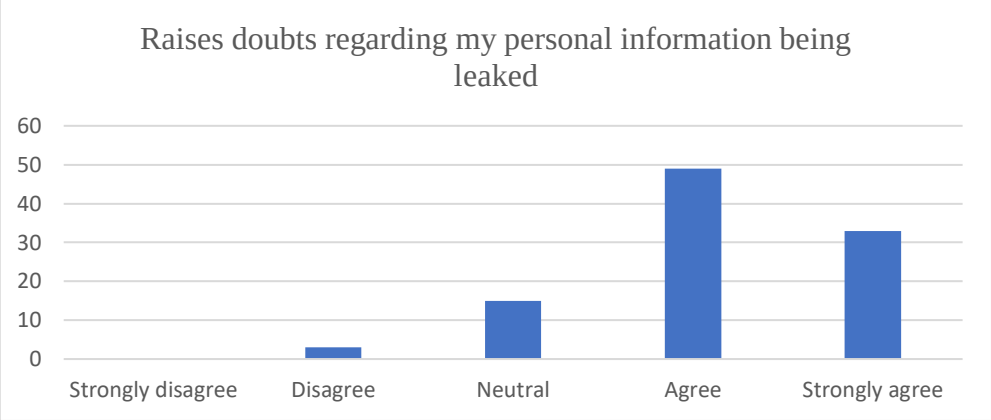


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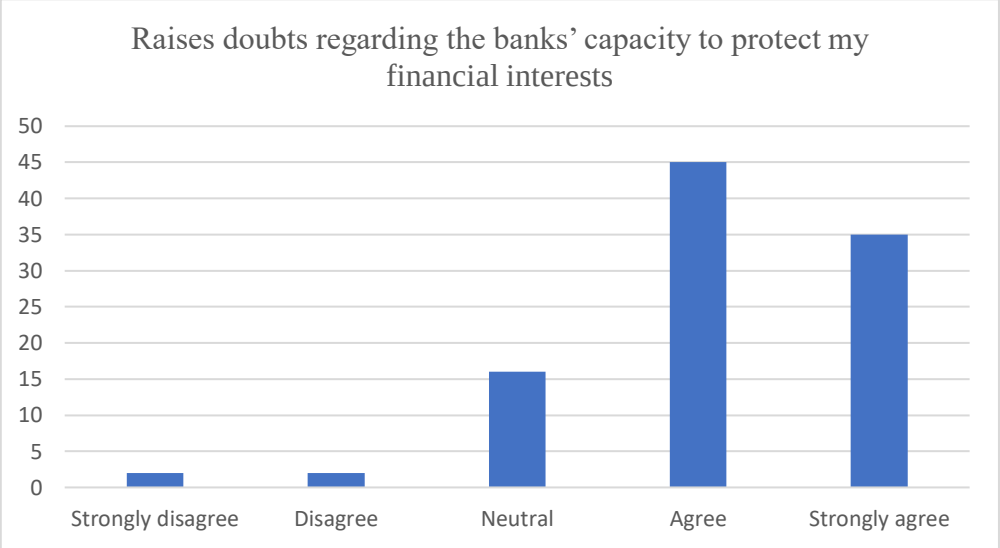
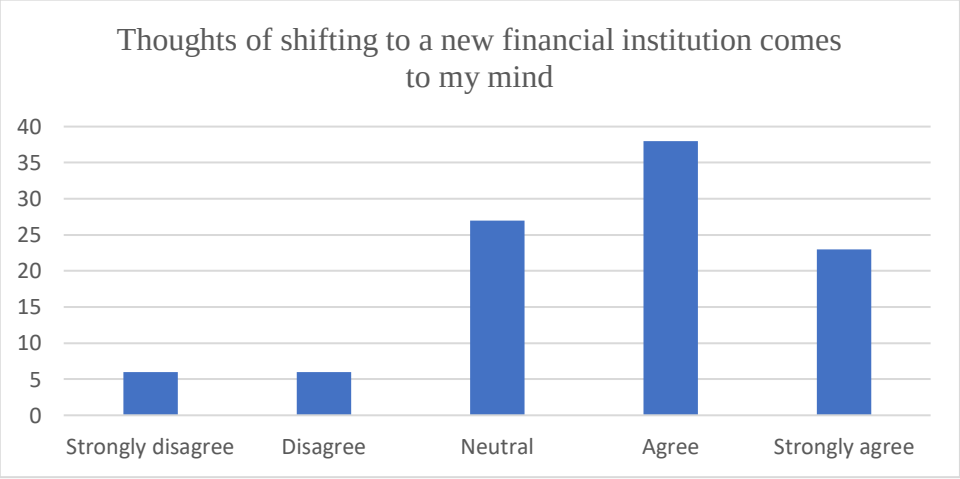


Table 4:



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Table 5:

