



GRC Summit

2019 | Sustaining Through
Integrated GRC

Keeping Up with Rapid Innovation and New Technology in the Banking Industry

A Compliance Perspective

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Part I - The changing environment and global development in banking and Compliance

Part II - Mapping the role of Compliance in the Governance Risk Compliance (GRC) framework

Part III - Compliance leadership and value added propositions to support GRC & the transformation

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The environment is changing

- A hacker gained access to 100 million Capital One credit card applications and accounts [<https://www.cnn.com/2019/07/29/business/capital-one-data-breach/index.html>]
- Akuisisi Direstui, BCA ‘Sulap’ Bank Royal Jadi Digital Bank [CNBC Indonesia [cnbc.Indonesia.com/market/20190724183053-17-87359/akuisisi-direstui-bca-sulap-bank-royal-jadi-digital-bank](https://cnbc.indonesia.com/market/20190724183053-17-87359/akuisisi-direstui-bca-sulap-bank-royal-jadi-digital-bank)]
- Draft RUU Perlindungan Data Pribadi – Korporasi Bisa Kena Denda hingga Rp300 Milyar [Bisnis Indonesia, 30 Juli 2019]

How do we (Compliance) keep up with rapid innovation and new technology in the financial industry? How do they impact our banks? Where are we heading?

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Changing focus in regulatory scrutiny

Top 5 areas **increasing** regulatory scrutiny:

- Privacy
- Anti-corruption
- Compliance risk management program governance
- Anti Money Laundering
- Cybersecurity



Top 5 areas **decreasing** regulatory scrutiny:

- Sanctions
- Compliance culture and accountability models
- Compliance risk appetite framework
- Executive compensation
- Third party risk management



Source: Insights on Global Compliance Practices: Benchmarking Results from Protiviti's Global Financial Services Compliance Survey, 2018

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Driving forces of change in the financial industry

- **Technological advancement** such as the use of artificial intelligence, cloud computing and **increase in data availability** have created new business models in the financial industry.
- **Regulations** demanding higher transparency (better reporting by banks) and allowing level playing field for all market participants which creates greater competition.

Markets:

- New entrants
- Scale of Impact

Regulators:

- Open banking: access to transaction data, transparent pricing and lower fees
- Fintech sandboxes
- Digital banking licenses with lower capital requirement

Impact to banks

- **Simplify product offerings** → reduce > 50% of products and variants without customer impact
- **Transform distribution** → reduce branch and distribution cost by > 40%
- **Industrialize operations** → reduce operations cost by > 50%
- **Embrace new technologies** → drive down run-the-bank IT cost by > 30%
- **Setup at scale utilities** → reduce costs by 40 – 50%
- **Advanced digital procurement techniques** → reduce procurement cost by > 30%
- **Move to an agile organization** → unlock up to 30% productivity increase

Source: McKinsey Analysis, 2019

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Development in global banking

- Post financial crisis in 2008 global banks have shifted into a more growth oriented operating environment with emphasis on **financial innovation**.
- Banks are now seeking ways to becoming more **efficient** and **agile** through the use of technology to better respond to continuing compliance challenges, as opposed to traditionally adding head counts.

Source: Insights on Global Compliance Practices: Benchmarking Results from Protiviti's Global Financial Services Compliance Survey, 2018

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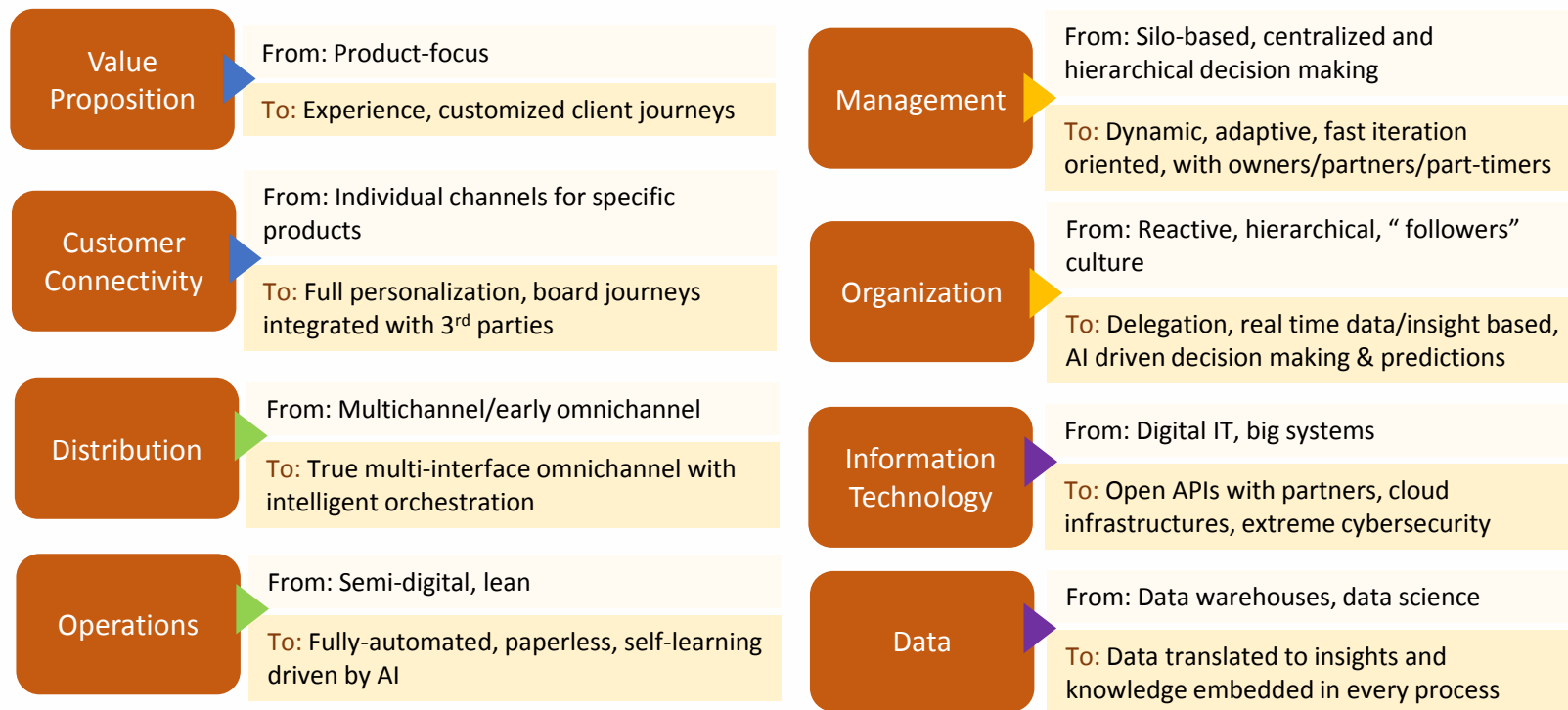
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Some banks are already in transformation mode



Source: McKinsey Analysis, 2019

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GRC regulatory landscape in Indonesia

- Indonesian regulators have acknowledged the **importance** of governance, risk and compliance capabilities in the banking industry.
- Regulations are in place to ensure the implementation of **good corporate governance, risk management, compliance and internal audit**, both at individual bank and financial conglomeration level.
- Regulated activities required by banks include among others **self-assessment, regulatory reporting, staff certification, disclosures and fit and proper test**.



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Compliance function definition

A series of preventive (ex-ante) actions or measures such as:

- The creation and implementation of **compliance culture**, namely values, behaviors, and actions to ensure compliance with all applicable laws and regulations.
- The management of **compliance risk** arising from the bank not complying with and/or not implementing the provisions of the laws and regulations.
- To ensure compliance with all applicable **laws and regulations** as well as commitments made to the regulators.

Source: OJK regulation 46/POJK.03/2017 concerning The Implementation of Compliance Function in Commercial Bank

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All regulators see the importance of tone from the top for GRC

- Active oversight and the implementation of the roles and responsibilities of the **board of directors and commissioners**.
- The completeness and implementation of the roles and responsibilities of **committees and control functions** such as compliance, risk management, internal audit and external audit.
- Adequacy of bank **policies and procedures**.
- **Strategic planning and transparency of information**.

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Compliance as part of the Governance GRC framework

“ Regulators and supervisory bodies have continually promoted the importance and maintenance of culture of compliance.... ”

People - Compliance unit is a regulatory requirement to ensure the development of compliance culture at all levels in the organization.

Objectives - Compliance participation in the development of bank business plan and new product/activity review.

Risk and Control - Compliance performs a series of preventive (ex-ante) actions or measures, hand-in-hand with the other control functions in risk and audit.

Integrity - Compliance is often regarded as the main regulatory point for the implementation of ethics and good corporate governance.

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Is Compliance a key stakeholder?

- **11%** noted criticality and consistency of compliance controls within process design and system workflow.
- **20%** consider fully synchronization for risk and compliance across 3 lines of defense.
- **25%** claim risk compliance function has a high level of engagement in the development of business strategy.
- **> 50%** face budget constraints and difficulty measuring ROI as business case to use compliance technologies.

Source: Insights on Global Compliance Practices: Benchmarking Results from Protiviti's Global Financial Services Compliance Survey, 2018

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Compliance is more than just a regulatory requirement

- The rapidly changing complexity of business, such as Technology 4.0 changes the channel of banking product distribution and business competition from fintech companies, etc which requires bank to **revisit** their compliance risk management governance and framework.
- Activities conducted by Compliance intersect with other lines of defense functions such as business control officers (1st line), risk management unit (2nd line), internal audit unit (3rd line) as well as partner to regulators (4th line) → **collaboration** is key to success.

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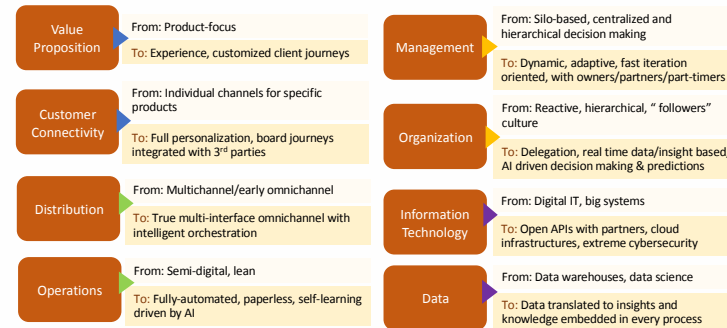
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Start scanning the new environment/ transformation

- Technological advancement such as the use of artificial intelligence, cloud computing and increase in data availability have created new business models in the financial industry.
 - Regulations demanding higher transparency (better reporting by banks) and allowing level playing field for all market participants which creates greater competition.
- Markets:**
- New entrants
 - Scale of Impact
- Regulators:**
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Source: McKinsey Analysis, 2019

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Understanding the risks and its uniqueness to the Bank

- Assisting the business to address potential technical risks from the use of Blockchain, Big Data and Artificial Intelligence (AI) such as data privacy, cybersecurity risk, records management, resiliency, etc.
- Understanding how the use of Blockchain, Big Data and AI may change the traditional risk areas such as regulatory engagement, conflict of interest, code of ethics, contracting, third party outsourcing, independent testing, audit coverage, etc.

Compliance continues to actively work with the business, technology and other control functions to understand the risks and how they impact the business/organization as well as ensure governance processes! Be a key stakeholder to other the business and other control functions!

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In summary, Compliance must add value and be a key stakeholder!

- Establishing compliance leadership, visibility and support of the business innovation, strategy, growth and transformation efforts, with focus on “**agility**” and “**enhanced client experience**”.
- Maintaining focus on risk and compliance (as 2nd line), however more **efficient** and **effective compliance processes** through better use of **compliance technologies**. This includes better understanding of the **transformed** business processes and system design activities to transactions data to produce meaningful and timely information for better objective setting and and decision making process in Compliance.
- Establishing common language, taxonomies and framework for **better and unified interpretation** of the transformed processes, risks, controls and issues; among **specialized functions**.

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