

# **GRC SUMMIT 2019**

## **Proceeding**

**By**

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# THE ROLE OF TECHNOLOGY IN THE APPLICATION OF INTEGRATED GRC: CASE STUDY INDONESIAN BANKING INDUSTRY

## **Speakers**

### **Carole Switzer**

Founder and President of OCEG

### **Hari Setianto**

President of IIA Indonesia and Director of Finance and Investment of PT. ASABRI (Persero)

### **IPW. Margha Putra, FRM, CAMS, GRCP**

Senior Compliance Expert, Communication Forum of Banking Compliance  
Director and Executive Director of Compliance at JP Morgan Chase & Co

### **Rasika Mohan**

Senior Specialist at Cardno International Development, Melbourne, Australia

### **Dr Riant Nugroho**

Senior Public Policy & Governance Expert and Visiting Fellow at the University of Malaya and University of Indonesia

## **Hosts**

### **Sri Hartati Rahayu**

Practising Lawyer and Founder of Rahayu & Partners in Association with HFW Indonesia

Technological development in the digital era today affect not only the ease of human life but also the development of the industry sectors. The rapid technological growth has helped many industries to become more optimal and efficient in managing resources to generate profits. However, it also raises some problems that must be addressed by every company. To manage all problems, the company need to have risk management, governance and compliance framework as a horse block of its activities. Besides, the company needs a sustainability element of governance, risk management, and compliance to survive in an industry.

## Technological Development in GRC Functions

The discussion focused on achieving ultimate performance through integrated GRC in the banking sector. The rapid technological development today raises new challenges in achieving superior performance in the banking sector. In the 90s, the classification of a large bank was a bank with many branches and spread in several regions. However, today's development of technology evokes the stigma of a large bank is a bank that has many branches that began to fade. This phenomenon has an impact on environmental changes and the direction of global banking development and compliance with the regulation issued by internal and external parties.

The change of directions of the development of global banks is currently seen from the perspective of supervision conducted by the regulators. The regulatory, supervisory function is currently focused on five areas that are strictly related to technological development, including:

- Privacy
- Anti-corruption
- Compliance risk management governance program
- Anti-money laundering
- Cybersecurity

The focus of the five areas of supervisory functions within the banking sector includes the use of artificial intelligence (AI) and offering various digital-based financial services and others. Meanwhile, on the regulatory side, technological advances lead to transparency and increases in competitiveness to encourage the efficiency and optimization of every company in a market. One of the regulations applied in the establishment of financial technology (fintech) sandbox by Otoritas Jasa Keuangan (OJK) is to facilitate the entrepreneurs who want to try to create a fintech-based business. Technological development, especially in the banking industry, is intended to reduce costs arising from the production activities of an industry

Negative impacts also accompany the positive impact of this technological development. One negative impact of rapid technological development is the

emergence of new risks. For example, technological developments in the banking sector pose risks due to the absence of regulations governing fintech. The use of fintech is intended to accelerate the dispersion of money in the community, but the convenience of the community in obtaining loans through various types of digital platforms that currently provide concessions in terms of conditions set by the regulators. These conditions were previously intended by regulators to anticipate the risk of credit risk due to asymmetric information between debtors and financial institutions. That has become a particular concern to the government as the regulator because the function of financial institutions, especially the banks as an intermediary institution has a vital function in the economic growth in a country.

The government, as a regulator needs to know the importance of governance since risk management and compliance capabilities in the banking industry are indeed based on the quality of regulations made by regulators. The regulators should regulate the bank' activities to ensure that all of them are implementing good corporate governance (GCG), risk management, compliance, and internal audit.

The governance in the banking industry also continues to move towards digitalization as well as bank compliance. The principle of Good Corporate Governance (GCG) also develops by adding the principle of agility. The principle of agility is needed to achieve GCG in the digitalization era because the changes that occur due to the current technological developments are very dynamic and fast. That certainly requires every company, including banks, to be able to adapt to the developments which quickly and precisely occur so they can keep up with the market demand.

### **Achieving Principle Performance with Integrated GRC**

After discussing the technological development in GRC functions, it can be concluded that in this era, GRC must be integrated and cannot be done separately or silo. One reference of the integrated GRC is the GRC Capability Model v3.0 which has four interrelated components, including:

- Learn, where each level in a company is committed to the context, culture, strategy, and goals of a company

- Align, where every plan of action, strategy, and organizational goals must always be on the same line
- Performance, where every result of the previous component when it is run will lead to new risks that need to be identified, analyzed and then minimized to reduce the negative impacts that can later hamper a company from achieving its objectives
- Review, the performance' results have to be reviewed in related to the effectiveness of the performance of each component.

The GRC Capability Model is intended to meet the demands that occur along with current technological developments. GRC Capability Model is supposed to help the implementation of integrated GRC. It is also able to increase the company' performance, accompanied by increased transparency to overcome the uncertainty that arises due to the rapid changes at this moment. In the end, GRC application can continue to run sustainably will help the achievement of the goals and vision of an institution, including principled performance.

## **Conclusion**

Technological developments that occur at this time have a good impact on the development of industries throughout the world, including Indonesia. However, technological development can also bring disaster when companies cannot appropriately control it. One effort that can control current technological developments by implementing GRC using the GRC capability model. By applying the GRC Capability Model, the application of GRC can run well and sustainably, which in turn will achieve Principle Performance.

**Written by Muhammad Nur Iman – Researcher at CRMS Indonesia**

# THE GRC CAPABILITY MODEL

## METHODS FOR ACHIEVING PRINCIPLED PERFORMANCE

### Speaker

**Carole Switzer**

Co-Founder and President OCEG

### **Host**

**Fadjar Proboseno**

Board of IRMAPA

Former Head of Audit Department - Astra International

Governance, Risk management, and Compliance (GRC) is a collection of capabilities that enable an organization to achieve the objectives, addressing uncertainty and act with integrity (Principled Performance). The needs for GRC implementation grows continuously in many countries, including Indonesia, this raises questions about whether the application of GRC will replace the needs of an expert? The answer is no because GRC requires the expertise and the contributions from each of governance, risk management, and compliance.

In this case, practitioners in each field must be able to understand the overall context of GRC in an organization, and if necessary, they also need to have their competency certifications. Competency certification aims to improve the performance and competitiveness of practitioners to be able to build integrated GRC in their organizations. To support the practitioner's performance on adopting GRC in their organization, it is necessary to have a GRC Capability Model that will be used as a reference for practitioners to apply GRC to their organizations.

### **GRC Capability Model**

GRC is the pathway to achieve principled performance, and every organization need the GRC Capability Model to make implementing GRC easier. The example is the GRC Capability Model v3.0 which we can find in the OCEG (Open

Compliance and Ethics Group) Redbook, this model uses the Plan, Do, Check, Act (PDCA) scheme.

GRC Capability Model v3.0 has four components that are interconnected with each other. The first component (learn) requires each level in the organization to commit to the context, culture, strategy and goals of the organization. The second component (align) aims to do the planning, so the actions, strategies, and objectives of the organization can be aligned by paying attention to the opportunities and the threats that will cause uncertainty. In the third component (perform), the organization must be able to take action to detect a threat or uncertainty as soon as possible before it happens, minimize negative surprises, and mitigate as quickly as possible if it has already happened. Moreover the last component (review), the organization should conduct a review of the effectiveness of the activities that related before, followed by an organization's performance review of governance, risk management, and compliance.

The GRC capability model can be used by organizations to deal with the issues such as stakeholders who demand high performance together with high levels of transparency, regulations, and enforcement that are always changing and cannot be predicted, etc. It also prevents the possibility of the governance, risk management, and compliance departments working in silos, which can lead to high costs, lack of visibility into risks, and too many negative surprises. When GRC is well implemented and integrated, the organization can not only achieve its objectives but can also achieve principled performance level.

### **Three R Concept to Achieving Principled Performance**

GRC is not a technology, nor is it a department, GRC can be referred to people, processes, technology, and information that helps an organization achieve Principled Performance. It allows organizations to achieve their goals, increase stakeholder confidence, prepare and protect organizations, optimize economic return and values, and many more. To achieve a principled performance level, organizations must implement a high-performance integrated GRC. There are many ways for organizations to integrate GRC in high performance, one of them by applying the Three R Concept.



The first R is Risk decision making, and this concept talks about how organizations create their risk appetite and risk tolerance, considering the organization's methods, strategies, and tactics to achieve the objective. In general, this stage talks about what the organization must plan to be able to run the high-performance integrated GRC.

The second R is Readiness, and this concept requires organizations to establish a foundation in implementing GRC. This stage begins by establishing a process framework as the basis, then developing a technology ecosystem to integrate each GRC unit, and managing outcomes to ensure that all levels of the organization implement the process framework and understand the use of technology in their work units.

The last R is Resistance, which is creating an organizational culture that has an attitude and is not easily influenced by the change. Resistance can be achieved by using multiple perspectives in setting organizational goals, then making a road map to make sure the GRC integration does not deviate in its implementation, and always monitoring changes to reduce negative surprises.

Organizations can apply three R Concept if they want to implement the high-performance integrated GRC. This concept promotes the technology ecosystem in integrating GRC so that reporting on governance, risk and compliance performance can be directly connected to the board, management, and external stakeholders. Furthermore, this concept also emphasizes the development of corporate culture, so that every level of the organization has a uniform way of thinking and make the integration of governance, risk management, and compliance becomes easy.

## **Conclusion**

Integrating GRC capability does not mean creating a GRC super-department by eliminating the role of governance competencies, risk management, and compliance. GRC also does not require organizations to use a technology system to integrate it. Otherwise, the GRC is an approach to ensure the right objectives, by ensuring that every control measurement is carried out correctly to overcome uncertainty and followed by acting with integrity. GRC is often wrongly applied by

organizations, by creating separate departments that work in silos, and when each department works in a silo, it will not achieve optimal performance.

Therefore, it is necessary to have competency collaboration among practitioners of governance, risk management, and compliance which is equipped with a good GRC capability model, process framework, technology ecosystem, and organizational culture to achieve high-performance Integrated GRC. Organizations that integrate GRC processes and technology in many areas can reduce cost and impact on operations, achieving a higher quality of information, and achieving a more exceptional ability to repeat the process consistently. With all that, the organization can achieve its objectives and meet the Principled Performance level.

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