
Enterprise Governance, Risk and Compliance (eGRC) in the Banking Sector

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Introduction

Banking sector organisations around the world have been subject to significantly increasing regulatory and compliance requirements and oversight since the Global Financial Crisis (GFC) of 2007/08. There have been substantial efforts by the banking sector organisations to adjust and align their operating models to comply with the newly introduced and/or upgraded regulatory requirements. This has placed greater focus on and increased the adoption of enterprise GRC (eGRC) practices (Madkhali and Sithole, 2023; Abdurrahman et al., 2023). Changing economic conditions, globalisation, technological advances, emerging markets and geopolitical threats and business opportunities have also been contributing factors in driving increased adoption of eGRC practices (Jonek-Kowalska, 2019). This explores the concept of eGRC, its key drivers, challenges and importance.

Enterprise Governance, Risk and Compliance (eGRC).

The eGRC (enterprise Governance, Risk and Compliance) is an integrated concept that includes a whole range of organisational activities from auditing, implementation of ongoing controls, monitoring procedures, establishing roles and responsibilities, business processes, identifying and mitigating risks, and compliance with internal and external regulatory requirements (Wibowo et al., 2022; Butler et al., 2023). The term was originally introduced by PriceWaterhouseCoopers (PWC) in 2004 and gathered significant traction since the GFC (Global Financial Crises) of 2007/08, especially in the banking sector where there

had been an erosion of trust and confidence given the sector's role in causing the GFC (Siahaan et al., 2022; Maskrey et al., 2023). eGRC as an integrated concept has also been a growing area of academic research (Zammit et al., 2020; da Amarante et al., 2020) with numerous definitions proposed with varying scope and levels of integrations (Gozman and Currie, 2015; Goh et al., 2022). Racz et al. (2010b) provided a comprehensive definition of eGRC as '**an integrated, holistic approach to organisation-wide governance, risk and compliance ensuring that an organisation acts ethically correct and in accordance with its risk appetite, internal policies, and external regulations, through the alignment of strategy, processes, technology and people, thereby improving efficiency and effectiveness**'. This is a key academic publication that places emphasis on eGRC as '**an integrated, holistic**' concept taking an '**organisation-wide**' view. However, there is a gap between the holistic description of eGRC provided by Racz et al. (2010b) and the practical implementation of eGRC as an integrated concept- pointing to lack of scientific validation (Mahendra et al., 2022; Alharbi et al., 2022; Siahaan et al., 2022).

In the modern banking organisation, eGRC is viewed as a coordinated and integrated collection of capabilities, which are necessary in supporting the principal business performance (Abdullah, 2019). eGRC places emphasis on organisational culture, ethics, and integrity (Tadewald, 2014), which has been a significant challenge for the banking sector as despite substantial eGRC investments, the culture shift requirements have not always been at the right level of alignment resulting in ongoing compliance and ethical issues and violations (Hopt, 2021; Butler et al., 2023). In most legal jurisdictions governed by National Banks (regulators), banks are obligated to implement effective eGRC strategies as failures to do so can lead to financial penalties and reputational damages for the concerned organisations (Plato-Shinar and Borenstein-Native, 2017; Goh et al., 2022).

Drivers of eGRC Adoption.

The main drivers for eGRC adoption include regulatory and compliance changes, and technological advancements. Continuous enhancements to regulatory and compliance requirements to strengthen the banking sector and to restore public and investor trust and confidence is the major driver for greater adoption of eGRC. Policy makers across the globe are always grappling with eGRC issues, often reacting to the latest scandals and breaches. However, eGRC is a multifaceted, complex, and challenging area to govern as it involves issues of law (multinational jurisdictions), politics, economics, finance, technology, and human behaviour with vast internal and external stakeholders and often operating across many different countries and jurisdictions. This leads to many regulatory bodies often playing catch-up and passing laws and regulations reactively (Hopt, 2021; Nguyen, 2022).

For the banking sector, the GFC of 2007/08, was a major catalyst for greater focus, enforcement, and adoption of eGRC practices with significant regulatory changes and oversight that continue to be introduced and evolved to strengthen eGRC, to make the sector more resilient and responsible and to prevent further economic shocks (Mbama, 2018). There have been some significant regulatory changes introduced that have profoundly impacted the banking sector from a eGRC perspective (Chaudhary, 2018; Koeplin and Lélé, 2023). Basel III and the Dodd-Frank Act (DFA) are examples of the major regulatory changes after the GFC that transformed the business operating models of the banking sector organisations with a significant emphasis on eGRC (Parrino, 2016; Adam et al., 2021). The European Union's (EU's) GDPR (General Data Protection Regulation) data privacy and compliance law of 2018 has been another significant regulatory framework to hit organisations that operate in the EU.

However, despite increased focus and efforts on the adoption of eGRC, banking sector organisations continue to face challenges in meeting regulatory and compliance obligations that have been compounded by the continually volatile global economic and geopolitical landscape, technological advancements, higher customer expectations, intense competition and continuous changes in the regulatory jurisdictions and oversight in the global markets (Jizi et al., 2014; Mbama, 2018). Banking sector organisations face challenges in

effectively adopting the new policies and regulations and in some cases skilfully circumventing them for short term financial rewards and at the expense of the wider economic stability and prosperity (Hunt, 2014; Batra, 2020). Habib et al. (2020) argue that increased regulation in the banking sector has not substantially reduced the instances of fraud and money laundering in the banking sector organisations, which calls for introduction of more effective eGRC frameworks instead of only tightening regulations.

Another key driver is the critical role of the technological advancements that are having a transformative impact. Banking sector organisations have always been highly reliant on technology for achieving their strategic goals and objectives (Khattak et al., 2023). Technology has been a major catalyst for growth in the banking sector supporting 'scalability, productivity, and risk management' (Gozman and Currie, 2015; Jatoi et al., 2023). Digital innovations have been reshaping traditional business strategies in the banking sector organisations. Disruptive IT innovations, such as the internet, social media, smart phones and apps, virtual and cloud computing, Internet of Things (IoT), big data, e-commerce, AI (artificial intelligence) and the 'consumerisation' of technologies have had a transformational impact on the products, services, and business processes of the banks. This technological revolution has challenged banking sector organisations to transform and realign their systems, structures, knowledge and expertise, and business models (Bojanova, 2014; Murinde et al., 2022). These digital platforms have created cross-boundary disruptions forcing new business strategies and challenging the traditional functional-level and business aligned role of technology functions. In most leading banking sector organisations shift towards a fusion of technology and business strategy into an overarching 'digital business strategy' has already been in effect – changing structures, business operating models, growth opportunities and cultures (Shi and Wang, 2023). The overhaul in financial regulation following the GFC resulted in gradual but noticeable changes in the banking sector with challenges to traditional banks from the growth of FinTech (Financial Technology) organisations. These changes can be described within the framework of disruptive innovation (Anagnostopoulos, 2018; Varma et al., 2022). Smaller firms with fewer resources exploit technological developments in order to challenge

established banking sector organisations (Miikka and Sakari, 2019; Solanki and Sujee, 2022). Additional pressure on banks is caused by growth of cybercrime using technology tools such as malware, social engineering, phishing, and other sophisticated methods, thus, making adoption of integrated eGRC frameworks more critical to help mitigate financial and reputational risks (Custers et al., 2019; Gill et al., 2023; Wulandari et al., 2023).

Conclusion

The banking sector organisations have been subject to greater regulatory and compliance requirements since the Global Financial Crisis (GFC) and subject to disruptive technological advances and risks. This has led to increased eGRC adoption and investments to comply with increasingly stringent and expansive regulatory and compliance requirements and to also address modern business risks, challenges, opportunities, and threats.

Despite increased investments and adoption of eGRC, the banking sector continues to face challenges with increasing cases of compliance failures and cultural issues in effectively adopting eGRC practices with emphasis on long term business and economic stability and sustainability. Effective eGRC practices require thorough understanding of the changing economic conditions, geopolitical challenges, business opportunities, organisational culture, emerging markets, and technological advances and cyber threats.