



THE FUNDAMENTALS OF COMPETENCY STANDARDS FOR IMPLEMENTATION OF GOVERNANCE, RISK MANAGEMENT, AND COMPLIANCE (GRC)

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Abstract

Organizations frequently overlook all the key components and steps for a successful venture. Regulations (Governance, Risk Management, and Compliance / GRC) are required to their utmost extent so that business stakeholders can benefit from solutions to strong corporate governance, effective risk management, and firm compliance. GRC as an integrated approach is a relatively new idea in Indonesia; therefore, the goal of this study is to analyze the core competency standards for implementing governance, risk management, and compliance (GRC). This research is qualitative and descriptively analytical in nature. This research is based on secondary sources, such as journal papers, news items, novels, etc. The data gathering process consisted of three steps: orientation, selection, and identification. This research reveals that the Financial Services Authority supervises and regulates the Indonesian banking system. The Financial Services Authority Regulations include the rules governing the Services Authority's authority to supervise Indonesia's Financial Services Authority letter. The Indonesian

government released Presidential Regulation No. 18/POJK.03/2016 (or POJK 18 for short) and Financial Services Authority Circular Letter No.34/SEOJK.03/2016, which define risk management for Indonesian commercial banks. Then, Financial Services Authority developed the GRC Excellence Model, which mandates that the stakeholders collectively select the primary activities.

Keywords: GRC, Banking industry, Indonesia, Financial Services Authority

INTRODUCTION

Organizations frequently neglect all the key components and steps for a successful initiative. Those that proceed without research and planning may discover that their company processes are not ready for automation, new technologies may not perform as planned, and completion deadlines cannot be fulfilled. Businesses cannot fully benefit from solutions for strong corporate governance, effective risk management, and regulatory compliance (Governance, Risk Management, and Compliance / GRC) if they are not adequately prepared (Sofyani et al., 2020). As a result, the technology intended to monitor and analyze the GRC process was only a record keeper and was incapable of supporting the company's entire GRC program. It is envisaged that their compliance will include the steps requested and approved by the public (Chan, 2021). In the meantime, solutions are frequently not executed thoroughly enough, and the absence of an integrated process leads to divergent perspectives and efforts within business groups (KPMG, 2020).

Through its role as financial intermediaries, the banking industry must contribute significantly to economic expansion. Governance, risk management, and regulatory compliance (Governance, Risk Management, and Compliance / GRC) are the most essential factors in determining the performance of the banking industry. ISO has published worldwide standards for Governance, Risk Management, and Compliance (GRC), including ISO 37000/DIS, ISO 31000:2018 Risk Management Principles and Guidelines, and ISO 37301: Compliance Management System. These standards are the most widely accepted globally for guiding GRC practice across all industries. These ISO standards can be utilized independently, but they are also fundamentally consistent with one another, so they can be used as a single reference for integrated GRC systems. However, inadequate data exists to evaluate if this standard has been extensively embraced as an integrated GRC standard in the banking industry, such as is the case in the Indonesian banking sector (Pricillia, 2021).

GRC as an integrated strategy is a relatively novel notion in Indonesia. In an era of rapid volatility, uncertainty, complexity, and ambiguity (volatility, uncertainty, complexity, and

ambiguity / VUCA), Indonesian banks require systematic efforts to develop a corporate GRC function that is effective within an integrated and comprehensive framework, according to Rahmat's (2019) research (Rahmat, 2019). Therefore, it is important to have a study related to the Indonesian banking industry which must have GRC standards.

LITERATURE REVIEW

GRC

In 2010, Racz et al. introduce the first scientific definition of the GRC. By definition, "GRC is an integrated, holistic approach to governance, risk, and compliance across an organization that ensures the organization acts ethically and in accordance with risk appetite, internal policies, and external regulations by aligning strategy, processes, technology, and people, thereby enhancing efficiency and effectiveness." Given the relative youth of scientific research in this field, definitions and terms of reference are in fact highly important for a more organized and unified approach to GRC research (Racz, Weippl, et al., 2010).

The first process model for IT GRC (Racz, Seufert, et al., 2010) (see Figure 1) is proposed by analyzing and combining three references that address GRC as a separate topic: the process model from ISO/IEC 38500:2008 for IT governance, the COSO ERM framework for risk management, and a general model for IT compliance.

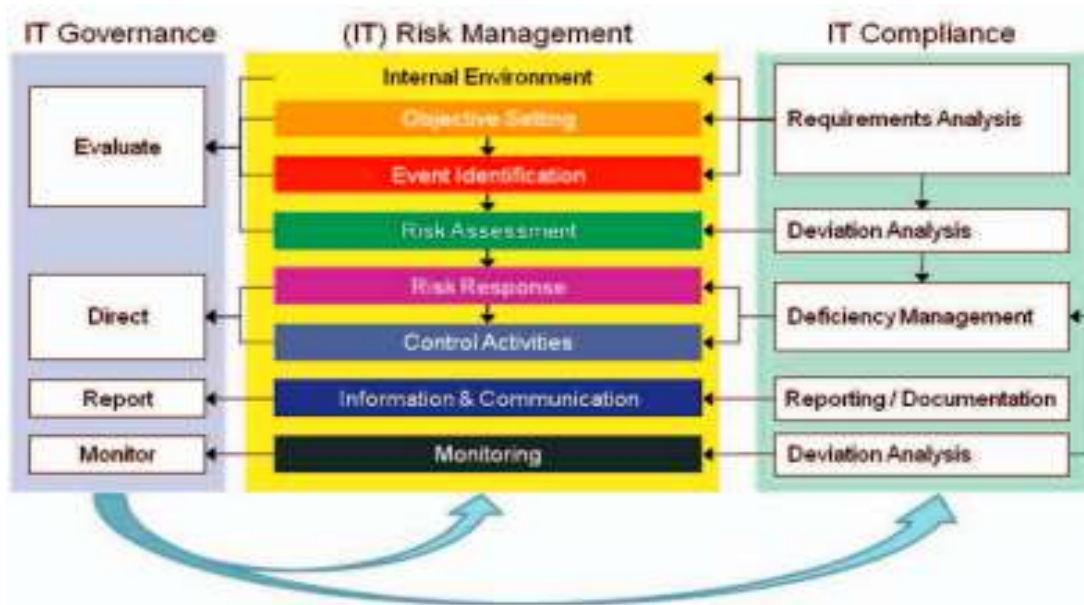


Figure 1. GRC process model

Source: (Vicente & Da Silva, 2011)

METHODOLOGY

This research is qualitative with an analytical descriptive approach utilized to collect data, assess, and interpret the outcomes in this qualitative research (Sugiyono, 2016). This research utilizes secondary data, such as journal papers, newspaper articles, novels, etc. Orientation, selection, and identification comprised the three phases of data collecting. The data were tested with the Miles and Huberman models. Miles and Huberman assert the following processes constitute qualitative data analysis: data reduction, data display, examination, and conclusion formation (Miles, M.B; Huberman, A.M; Sadana, 2015).

RESULTS AND DISCUSSION

The Financial Services Authority supervises and regulates the banking industry in Indonesia. The Financial Services Authority Regulations include the rules governing the Financial Services Authority's authority to supervise Financial Services Authority Regulation (POJK). The Indonesian government released Presidential Regulation (POJK) No. 18/POJK.03/2016 (or POJK 18 for short) and Financial Services Authority Circular Letter No.34/SEOJK.03/2016, which define risk management for Indonesian commercial banks. POJK describes the risk identification, risk analysis, risk evaluation, and risk treatment steps of a commercial bank's risk management procedure (Pricillia, 2021).

Alongside the development of the banking industry, which continues to grow significantly in terms of kind, scope, and business expansion, the risks connected with the Bank's increasingly complex activities necessitate the implementation of continual risk management. In compliance with the Financial Services Authority Regulation, banks continually revise their policies, infrastructure, and human resource quality in response to these challenges. Risk management is taken seriously by the bank's management through the Risk Management Committee, which comprises of the Assets and Liabilities Committee, Risk Management Committee, and Credit Policy Committee. In addition, the bank has a Risk Management Unit that reports to the Director of Compliance and Risk Management and serves as a non-voting member of the Risk Management Committee in order to conduct comprehensive, integrated, measured, and controlled risk management (Bank Mandiri, 2019).

The Financial Services Authority then creates a GRC Excellence Model which requires the main activities to be determined jointly by stakeholders in an organization such as business units, risk management, compliance, and audit functions. To achieve this, the following prerequisites are required (Komite Nasional Kebijakan Governance, 2020):

1. Guidance from the top and participation from all stakeholders
2. Mapping existing circumstances inside exterior and interior perimeters

3. Prioritizing critical risks and performance objectives

4. Establishing organization's objectives

Model in achieving GRC excellence by including various instruments required IT of GRC process model (Racz, Seufert, et al., 2010). However, Financial Services Authority recognizes that the standard model of the GRC's benefits lay not only in the process but also in its ability to provide an overview of the ideal conditions to be reached in implementing the GRC as a representation of the GRC implementation principles. Then, Financial Services Authority developed the Excellence Model, a recursive (continuous cycle) framework comprised of the following components:

- a. Learning Capability for continuous and directed learning based on feedback from review outcomes to facilitate adaptation.
- b. Adaptability Capability to respond appropriately to internal and external environmental change dynamics.
- c. Innovative Capability to effectively and efficiently identify solutions to the obstacles encountered and the objectives to be attained in order to enable adaptation.
- d. Persistence / continuity Capability to undertake consistent reviews and corrective measures to enhance procedures and end results.

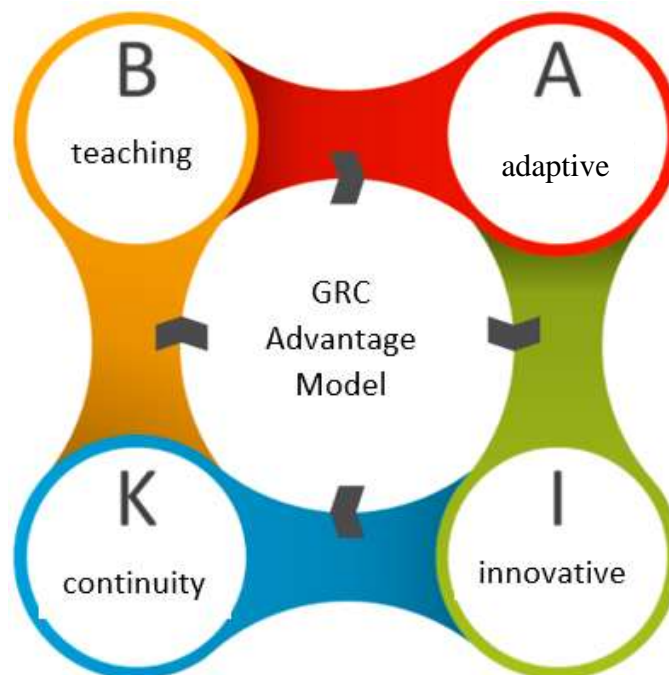


Figure 2. GRC Advantage Model

Source: (Otoritas Jasa Keuangan, 2020)

The ideal conditions for each element of the GRC Excellence Model are mirrored in the components of process, people, and tools excellence, as shown in the figure below:



Figure 3. GRC Advantage Model Interaction

Source: (Otoritas Jasa Keuangan, 2020)

Each component of excellence is comprised of the following criteria: The Process Excellence Component consists of four (four) criteria, whereas the People Excellence Component (human resources) consists of three (three) criteria and the Tools Excellence Component (methodology and information system) consists of two (two) criteria. Each component of the excellence criteria is described in detail below:

Table 1. Components of Excellence GRC

Process Aspect	People Aspect	Tools Aspect
Process and Capabilities	Human Resources and Competence	Methodology and Information Systems
1. Dissemination of information and communication in a transparent, relevant, reliable, and timely manner. 2. Continuous and superior learning and innovation. 3. Effective governance with adequate definition of structure and tasks. 4. Effective risk management and inherent in a sustainable business strategy.	1. Development of reliable and integrity human resources. 2. Continuous knowledge improvement and effective performance measurement. 3. Rewards for appropriate performance and remuneration.	1. Information systems that support an effective decision-making process. 2. An effective monitoring system to monitor deviations from objectives and new threats.

Source: (Otoritas Jasa Keuangan, 2020)

Banking organizations can utilize the GRC as a "context setting" and as "scope, context, and criteria." The GRC achieves its goals by (1) enhancing performance, (2) fostering innovation, and (3) facilitating the attainment of targets. GRC must be integrated into organizational procedures as part of governance. Implementation of the GRC also demands the leadership and dedication of senior management, as well as the participation of all organization members. Businesses cannot fully benefit from solutions for strong corporate governance, effective risk management, and regulatory compliance (Governance, Risk Management, and Compliance / GRC) if they are not adequately prepared (Sofyani et al., 2020). A complete GRC can help the organization realize its objectives to the fullest extent.

CONCLUSION

The Financial Services Authority supervises and regulates the banking industry in Indonesia. The Financial Services Authority has the authority to supervise financial institutions in Indonesia, and the Financial Services Authority Regulations include its guidelines (POJK). The Indonesian government released Presidential Regulation (POJK) No. 18/POJK.03/2016 (or POJK 18 for short) and Financial Services Authority Circular Letter No.34/SEOJK.03/2016, which define risk management for Indonesian commercial banks. The Financial Services Authority then developed the GRC Excellence Model, which mandates that an organization's stakeholders, such as business units, risk management, compliance, and audit functions, establish the primary tasks together. The components of process, people, and tools excellence reflect the optimal circumstances for each element of the GRC Excellence Model. Banking organizations can utilize the GRC as a "context setting" and as "scope, context, and criteria." Implementation of the GRC also demands the leadership and dedication of senior management, as well as the participation of all organization members. Businesses cannot fully benefit from solutions for strong corporate governance, effective risk management, and regulatory compliance (Governance, Risk Management, and Compliance / GRC) if they are not adequately prepared.

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