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STRATEGIC BUSINESS INTELLIGENCE FOR THE FINANCIAL SERVICES COMMUNITY

# NEW GOVERNANCE, RISK AND COMPLIANCE SYSTEM HELPS BANK EXPAND BUSINESS NATIONWIDE

CASE STUDY

With the support of:

GIEOM

software that drives
enterprise productivity

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# New Governance, Risk and Compliance System Helps Bank Expand Business Nationwide

The Commercial Bank of Ethiopia's (CBE) business expansion plan was constrained, amongst others, by an obsolescent governance, risk and compliance system. The implementation of a new system with enhanced automation that increased connectivity among branches and introduced a more effective staff training platform played a critical role in the expansion of the bank's business nationwide.

## Introduction

CBE is one of 19 commercial banks that operates in the heavily regulated and fiercely competitive Ethiopian banking industry. Like most banks, it focused on the retail and SME business segments sector through financing trade and agriculture. With the growth of the economy, the banking industry has seen tremendous growth in both revenue and profits in recent years. Consumer demands have also evolved and become more sophisticated. Banks have started to introduce modern banking products and services such as mobile banking. CBE is one of the country's leading banks and operates around 1,100 branches and 65 independent ATMs across the country. The bank offers traditional products and services such as deposit accounts and credit facilities. It has also introduced digital banking facilities as part of a national effort to promote financial inclusion amongst the unbanked population of Ethiopia. The bank claims to have the largest online and mobile banking user base in Ethiopia.

## Challenges to Growth

As the bank embarked on an expansion path to grow the scale and size of its business from a regional/provincial bank into a leading national bank with country-wide operation it ran into the constraints of its antiquated technology and operations infrastructure. In order to achieve its goals, the bank decided to enhance its operational efficiency by strengthening its internal processes and systems. One of the biggest challenges it faced was a compliance framework that was designed for a much smaller scale of business that was not scalable as volume grew and had become not only costly to operate but was also no longer fit for purpose. For example, the compliance confirmation protocols and risks were maintained manually, making timely detection of risk difficult. The absence of a structured and automated method to continually monitor and improve regulatory compliance within the organisation also led to increased stress on the compliance and operations departments of the bank. As a result, customer service was impacted negatively. Battling these inefficiencies, the bank felt it necessary to implement a better way of maintaining regulations, policies and procedures to track the impact of changes and to notify staff. The bank partnered GIEOM Business Solutions to implement a new automated system that could achieve:

- Consistent adherence to compliance regulations throughout the bank
- An efficient and integrated database
- Reduced stress on operations and compliance departments
- Improved customer service

## Technology Partner and Product

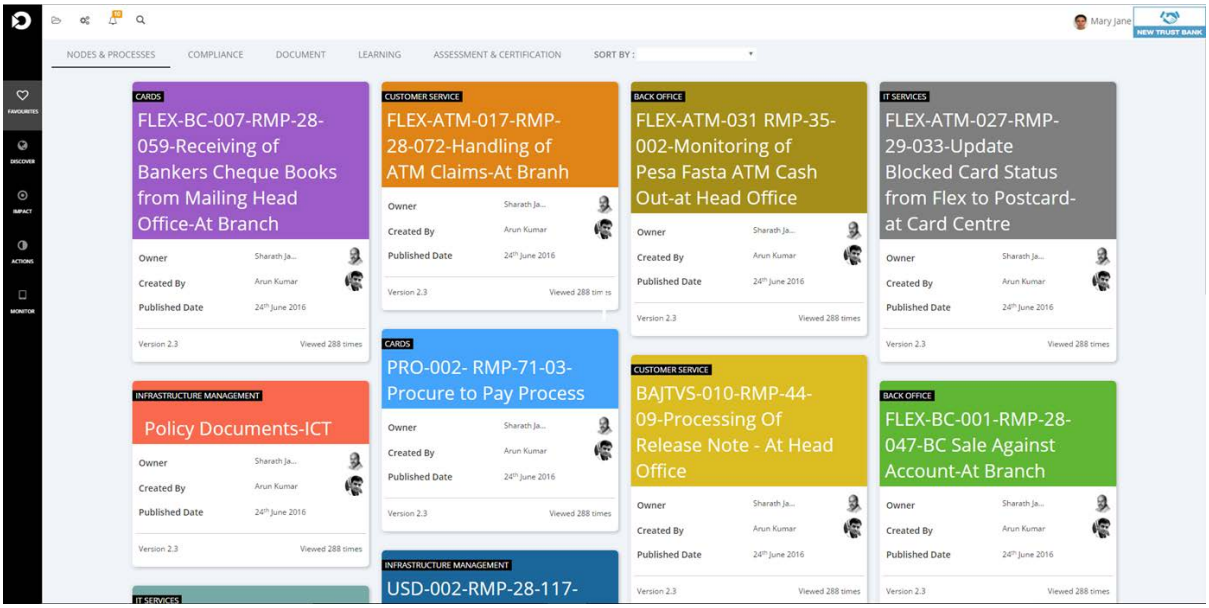
To address the issues related to increased cost of compliance along with the objective of stronger governance and risk framework, the bank partnered GIEOM Business Solutions, a cloud based software solution and analytics company headquartered in India. GIEOM offers a business visualisation technology with intelligent linking that monitors, controls and optimises operations and reduces risk. The company specialises in IT system upgrades, regulation and policy compliance, and business processes for new products. Through its compliance solutions, the company aims to eliminate irregularity of adherence at the employee level and overcome challenges (such as operational and compliance deficiencies, increased risks and higher costs) related to enforcing regulatory and process changes. Within six months of the project initiation, the company was able to implement a Microsoft-based solution that was capable of addressing the problems arising out of manual compliance and risk maintenance. It linked business processes and systems to deliver a powerful business tool to mitigate operational risks and implemented various compliance verification programmes.

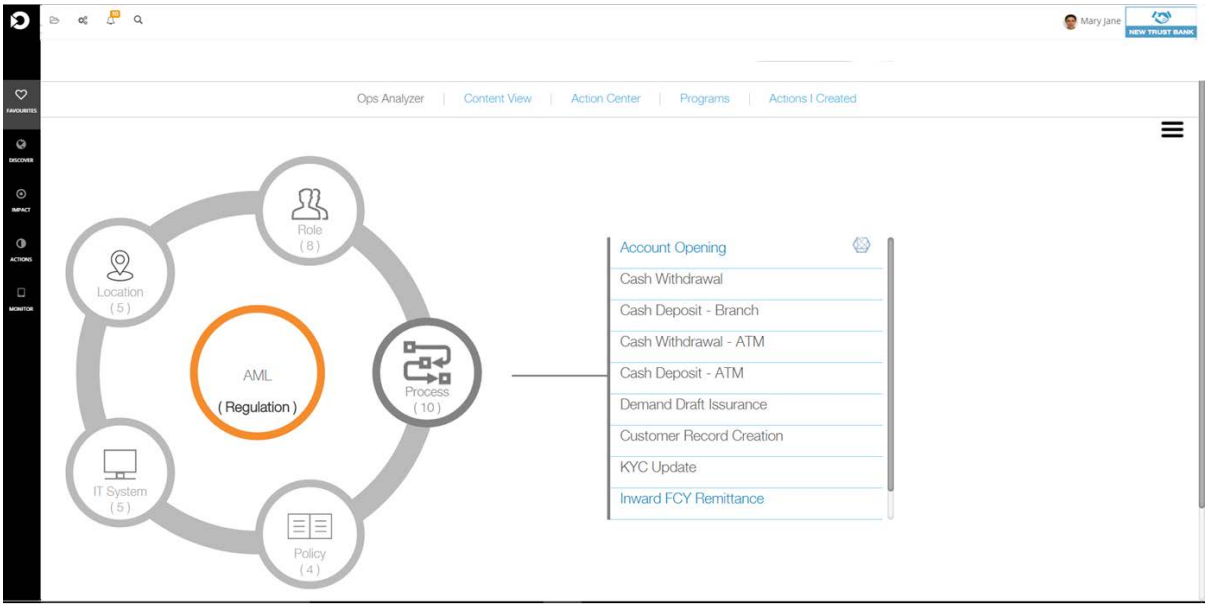
## Features and Functionalities

The bank's existing governance, risk and compliance framework was inadequate to meet the bank's plans for expansion. The internal procedures and systems required in a large country-wide bank differ substantially from those required for in a smaller bank. The existing framework comprised manual handling of compliance confirmation protocols and risk profiles. The manual procedures increased operational risk, the possibility of serious non-compliance and required a large amount of human intervention. Subsequent costs of errors and reworks would also negatively impact business performance and customer service. The solution implemented by GIEOM was built on Microsoft technology called .Net. It was employed to digitise a number of the bank's governance, risk and compliance functions, such as; the maintenance of regulations, policies and procedures; tracking the impact of changes while notifying the staff. Digitisation of the bank's standard operating processes and procedures helped to mitigate the impact of increasing operational risks and costs.Through the digitisation process, GIEOM automated the change notification and acknowledgement processes. This also involved the implementation of process and compliance training content for self-paced and convenient delivery to staff. This enabled automated scoring, assessment and certification for staff within the bank. The new system linked business processes, and integrated regulatory compliance controls and verifications. The enhancement of documentation, risk assessments and audits coupled with an interactive dashboard help track organisation-wide status of compliance actions. The governance risk and compliance platform which includes employee competency management and business IT system information delivers a powerful business tool to measure both market and regulatory impact on CBE's business.

- The GIEOM initiative brought about a structured and automated method to monitor and improve regulatory compliance within the organisation
- GIEOM was able to digitise the bank's policies and procedures through easy capture of interlinkages and dissemination of information to staff according to their roles
- The solution follows the n-tier framework and was deployed on three tiers in the bank
    - Tier 1: The Front End System: This is responsible for serving the user requests and hosting the web application and other web and API services
    - Tier 2: The Clustered Group of Database Servers : This is responsible for holding the configuration and content external to the GIEOM system, which is integrated with the bank's infrastructure for authentication
    - Tier 3: Centralised Server: This is the centralised server at the bank's data centre that serves all branches of the country. Staff in all the branches of the bank have access to the server through a secure VPN connection, thus enabling remote branches to overcome challenges related to connectivity as data and information are automatically synced with the central server everyday.

The following diagram provides a view of the interactive dashboard employed by GIEOM to combine multiple databases into one for an integrated compliance view (*Source: GIEOM*).



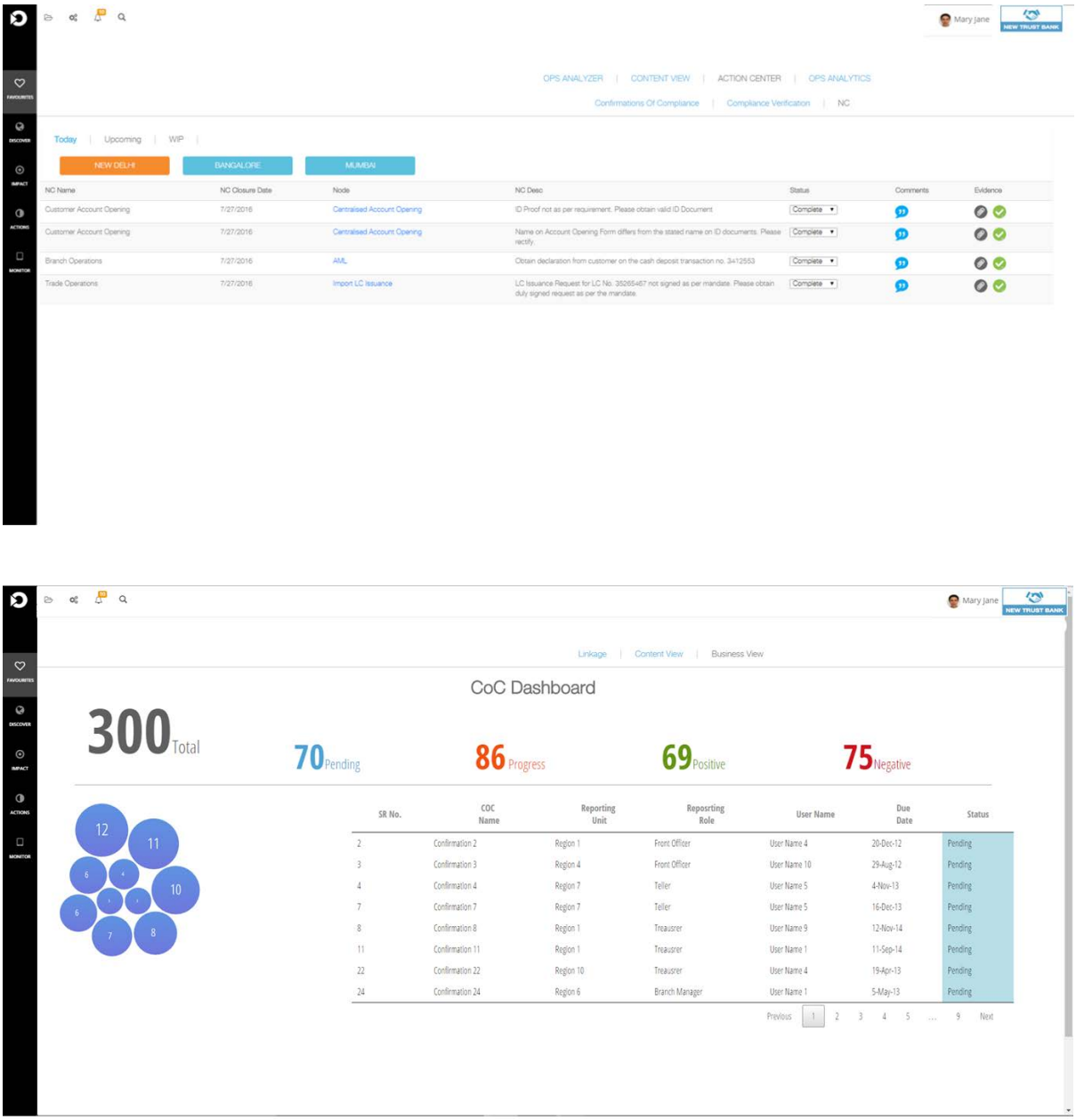






*Diagram 1: View of the GIEOM deployed dashboard*

## Business Impact

Commercial Bank of Ethiopia has achieved the following key business benefits from this project: cost reduction; reduced stress on compliance and operations departments; and measurement of market and regulatory impact on CBE's business. Automation of verification processes has significantly reduced costs and enhanced efficiency within the bank. Coupled with an expected return on investment at 30%, these benefits are likely to aid the bank in its goal of expansion as the largest bank in Ethiopia.

Key Highlights:

- Through the digitisation of processes, the bank has been able to virtually eliminate the costs of error and reworking compliance documents
- Through the implementation of a convenient and interactive process and compliance training program, automated scoring, assessment and certification of risk have been made possible, reducing the stress of compliance and operations departments
- The interlinkages created by the bank to connect processes, compliance, documents and IT systems among others have assisted CBE to estimate the impact of market and regulatory change on operations in minutes as opposed to the weeks it would previously take
- The new system has also helped to include remote branches, where connectivity is a challenge, to comply with regulatory changes
- The project has given the bank the ability to reflect regulatory and operational changes on processes and ensure maximum adherence to these changes

The interactive dashboard tracks organisation-wide compliance actions and the automation of the mitigation of risk provided by compliance verification programs. It significantly reduces costs and the possibility of errors. The automation has also reduced the stress on the compliance and operations departments of the bank as manual scoring and assessment has been replaced with automated certification of risk. Further, the interlinking of processes and systems ensures universal adoption of and compliance with regulatory requirements and changes.

## Project Implementation

The full implementation of the project was completed within the time schedule of six months with zero cost overrun. The return on investment at the time of implementation was estimated at 30%. The process of implementation followed GIEOM's standard operating procedure, whereby workshops were conducted with the bank to understand the subject matter and analyse existing processes and regulatory mechanisms. IT training simulations were created for self-learning and practice, and these were finally deployed to the bank in the form of interlinks between multiple elements such as processes, policies and regulations. The diagram below shows the operating procedure employed by GIEOM in the digisation of the governance, risk management, and compliance framework (*Source: GIEOM*).

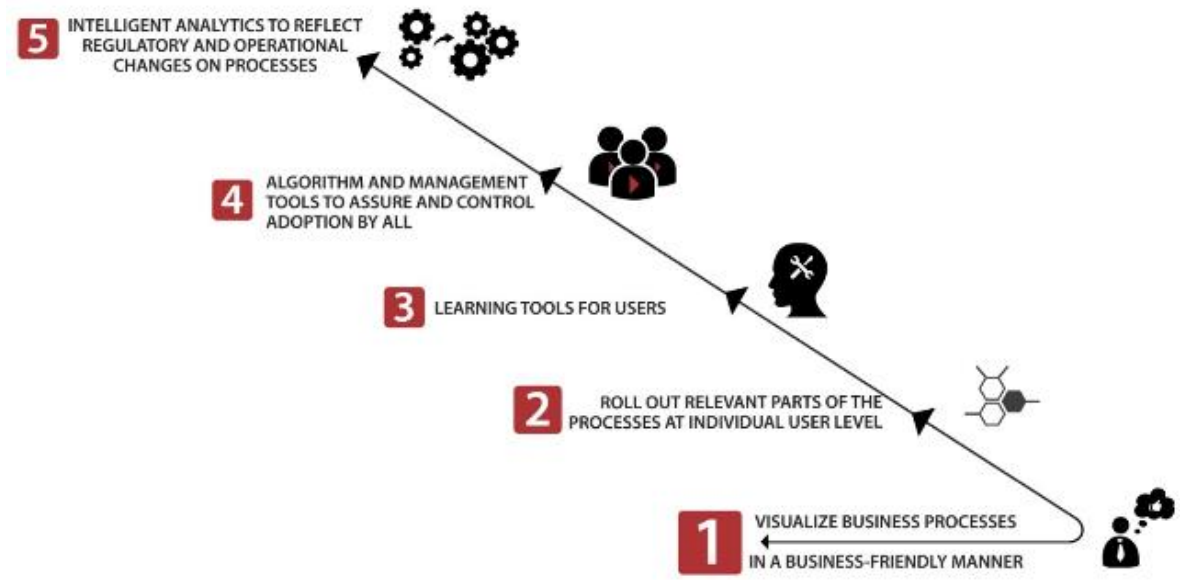



*Fig 2: Diagrammatic representation of the operating procedure*

## SWOT Analysis

### Strengths

- Enabled regularity of compliance and enhanced risk profiling across the network of the organisation
- Enhanced efficiency throughout network by incorporating branches in remote locations
- Introduced a scalable and effective method to train staff on changes in compliance and regulation

### Weaknesses

- Time requirement to train new staff of the system

### Opportunities

- Regularity in compliance opens doors for further expansion of the bank and strengthening of the brand
- Reduction of costs related to errors in risk and compliance will enhance productivity

### Threats

- Further enhancement of international regulatory bodies and the National Bank of Ethiopia may require further enhancements to the system

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