Internal HR Security Compliance and Risk Management Systems in a Major International Bank in a North African Country

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EXECUTIVE SUMMARY

This case looks at an international bank operating in an emerging market, which, due to ineffective HR compliance (employees from different departments failing to communicate and not keeping up-to-date records), suffered financial losses and negative publicity. A review of the nature of employee-based risk in banking is applied to an emerging market context based on documenting a real-life incident. The mistaken repossession of a property when seeking to recover debts took place partly due to inadequate employee record-keeping, poor communication, and with the possibility of employee fraud. The bank believed that one of their defaulting customers still owned the house, even though his mortgage had been cancelled many years previously. It would appear that an employee of the bank continued to lend the defaulting customer money, based on non-existent collateral, in connivance with a corrupt attorney friendly with the bank. Banks are commonly criticized for lack of adequate control mechanisms, and this detailed case shows the even greater challenges they face in emerging markets.

ORGANIZATIONAL BACKGROUND

This case study is based on a branch of a large international bank which operates all over the world and especially in emerging markets. Although it has grown organically, it has also grown by acquisition. First of all it was formed/enlarged by a giant merger. And then it has bought up smaller banks from around the world. It would seem that when the bank takes over a smaller bank, it hangs its sign on the wall and puts in one or two expatriates from head office, but does not change the systems in place from before, or at least takes a long time to put in new systems. This would seem to be especially problematic, particularly in terms of those systems related to security and risk management, and minimizing losses and problems in which the bank might find itself involved.

SETTING THE STAGE

In this case, a review of the nature of risk in banking is applied to an emerging market context based on documenting a real-life incident. An international bank operating in an emerging market unrealistically relied on employee memory and honesty and the existence of up-to-date public records, even though they had recently taken over a local bank without imposing their own culture and systems upon it. This led to financial losses and negative publicity for the bank, and could have been prevented if more robust systems of communications between departments of the bank had been in place. The mistaken repossession of a property when seeking to recover debts took place due to inaccurate ownership information and a failure of the bank to ensure that departments were speaking to each other. The bank believed that one of their defaulting customers still owned the house – even though his mortgage had been cancelled many years previously – by the same bank and even by the same people working in the same office.

   This case looks at one incident in one emerging market country. The multinational bank based their decision on making searches of the local central property register, but the lawyer involved in the original purchase of the house in 2006 had failed to register the sale and kept the tax owed to the government, apparently a common scenario. As this case is being written, the bank were still defrauded, the defaulting customer had escaped, the dishonest lawyer was still practicing, but the bank admitted some partial blame and compensated the property owner. Professional indemnity insurance for lawyers is only just being introduced. Banks are commonly criticized for lack of adequate control mechanisms, and this detailed case shows the even greater challenges they face in emerging markets. What lessons can be learned here for businesses to contain risks when doing business in developing countries?

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