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RISK CONSIDERATION DURING DIGITAL INNOVATION AT A COMMERCIAL BANK

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Abstract:

Banks must continually adjust their business models to include new digital technologies in response to rapidly changing customer needs, Fintech entrants, and competitors' innovative offerings. Implementation of innovative responses to these three challenges carries significant risks. While literature on digital innovation in banks and emerging risks from such innovation exists, there is very little written about risk consideration during the innovation lifecycle, the focus of this study. The topic is therefore relevant in the light of changing market conditions. An adverse internal audit report of the studied bank suggested that risk-taking during digital innovation was not given adequate consideration. The report did not address the contribution of behavioural factors causing non-compliance to policy and framework requirements. To address this gap in the present study, senior managers involved in decision-making of innovation projects (innovators) were interviewed to investigate their perceptions of how risk management was included during the digital innovation processes. The semi-structured interview data were analysed using a risk culture indicator model to guide the coding. When prompted about challenges posed to innovation, participants raised concerns regarding the risk management framework, which was not keeping pace with industry changes. Innovators' accountability for the risk management process also emerged as an issue, because of their lack of understanding of this process. For the sake of expediency in meeting changing customer demands, participants chose speedy project delivery and avoidance of missed opportunities over comprehensive risk consideration. Participants' recommendations for improving risk management during digital innovation included increased awareness of the risk management process. Based on this study's findings, more in-depth studies on risk management practices during digital innovation at more financial institutions are recommended.

Key words:

Digital innovation, risk consideration, behavioural factors, risk culture, decision-making