TRUE COST OF FINANCIAL CRIME COMPLIANCE STUDY

Global Report

June 2021

LexisNexis® RISK SOLUTIONS

TABLE OF CONTENTS

BACKGROUND AND OBJECTIVES

The *True Cost of Financial Crime Compliance Report - Global Edition* provides industry-driven insight Into financial crime compliance across four regions (APAC, LATAM, EMEA and North America) and specific markets within those regions.

The report informs on the current and trending state of compliance and helps financial services firms to:

- Understand the cost of compliance, its year-over-year trends, and degree to which costs are apportioned across resources and compliance activities
- Identify the compliance-related challenges facing financial services firms and ways these drive operational priorities
- Determine the business impact of the financial crime compliance environment and third parties, including the influence on compliance workflows, due diligence efficiencies/productivity, new customer acquisition, and costs
- Understand how compliance requirements can provide broader benefits to the business and see how the above differs across global markets
- Learn about the role of technology for supporting increased productivity and lessening costs
- Identify any challenges and impacts associated with the COVID-19 pandemic

METHODOLOGY

A comprehensive survey was conducted among 1,015 financial crime compliance decision makers across the markets and types of organizations shown below.

APAC
Indonesia
India
Philippines
Singapore

EMEA
UK*
France
Germany
Italy
Netherlands
South Africa
Baltic States (Estonia, Latvia, Lithuania)
Central E. Europe (Poland, Czech Republic, Hungary)
Middle East (Saudi Arabia, UAE, Qatar)

Four Regions

LATAM
Argentina
Brazil
Chile
Colombia
Mexico**

North America
Canada
United States

Respondents included decision makers who oversee:

- Know Your Customer (KYC) remediation
- Sanctions monitoring
- Anti-Money Laundering (AML)
- Transaction monitoring
- Compliance operations

Organizations represented:

- Banks
- Investment firms
- Asset Management firms
- Insurance firms

Asset size* is defined as follows:**

- Small: <$10B total assets
- Mid/large: $10B + total assets

* Conducted in a separate study, though the cost of financial crime compliance operations for the UK market were provided to this report.
** For the purpose of this study, Mexico is included with LATAM instead of North America.
*** All currency references in this report are based on USD.

COST OF FINANCIAL CRIME COMPLIANCE: MACRO AND MICRO VIEWS

The *True Cost of Financial Crime Compliance Report* informs on the cost of compliance from two levels as illustrated below.

1. **Projected total market view across all financial institutions** in countries included in the study; with country-level totals rolled up to regional and global levels.*

MACRO
TOTAL MARKET VIEW

MICRO
FINANCIAL INSTITUTION VIEW

MICRO
FINANCIAL INSTITUTION VIEW

2. **Annual cost of financial crime compliance for an individual institution;** from these, we obtain an average annual compliance spend across financial firms.

MICRO
FINANCIAL INSTITUTION VIEW

MICRO
FINANCIAL INSTITUTION VIEW

** The total cost of compliance per market is based on projecting average spend for financial institutions up to the total universe of firms in a given market. This is a calculation which multiplies the average spend for specific size segments (e.g., <$US1B assets, $US1B–$10B assets, $US10B–$49B assets, etc.) for each type of firm (e.g., banks, asset/wealth management, insurance) by the projected number of firms per size/type. The calculation also accounts for the percentage of firms that have multiple compliance operations.*

SUMMARY OF KEY FINDINGS

01

The projected total cost of financial crime compliance across all financial institutions in the 2020 study markets is $213.9B. This reflects sizeable year-over-year increases for all regions. The majority of this increase is represented by the Western European and United States markets.

02

The average annual cost of financial crime compliance per organization has increased significantly. It has increased the most among mid/large firms in Western Europe and North America. But across all regions, there has been a shift of costs towards labor.

03

Across regions, financial institutions are battling a broader range of key compliance operations challenges. Whereas previously there has been consensus on the top two or three ranked challenges, there is less of that in 2020. Customer risk profiling, sanctions screening, regulatory reporting, identification of politically exposed persons (PEPs), KYC for account onboarding, and efficient alerts resolution are similarly ranked as key challenges. That said, there are differences by region regarding the degree to which a challenge is more heightened.

04

The impact of COVID-19 has been significant, exacerbating existing challenges and leading to increased due diligence times and costs. Mid/large firms in North America and parts of LATAM experienced sizeable cost increases related to the impact of the COVID-19 pandemic. Key compliance operations challenges have been significantly heightened in these markets, including increased alert volumes and suspicious transactions, inefficiencies with alert resolution and due diligence, more manual work and limitations with proper risk profiling/sanctions screening/PEP identification.

05

Financial crime compliance challenges and issues are having a negative impact on productivity, particularly in APAC, EMEA and LATAM. Across regions, financial institutions expect compliance operations costs to increase by single-to-low double-digits over the next year, though that could be more of a desire than a reality.

06

Financial institutions that have invested in technology solutions to support financial crime compliance efforts have been more prepared and less impacted by increasing regulatory pressures and COVID-19.

KEY FINDING 01

The projected total cost of financial crime compliance across all financial institutions in this study market is $213.9B. This reflects sizeable year-over-year increases for all regions.

Macro

Western European countries and the U.S. continue to represent the significant majority of total projected costs (82.7%).

Germany and the U.S. bear the bulk of cost increases (+$9.6B and +$8.8B respectively), though the German market surpasses all others by a considerable amount.

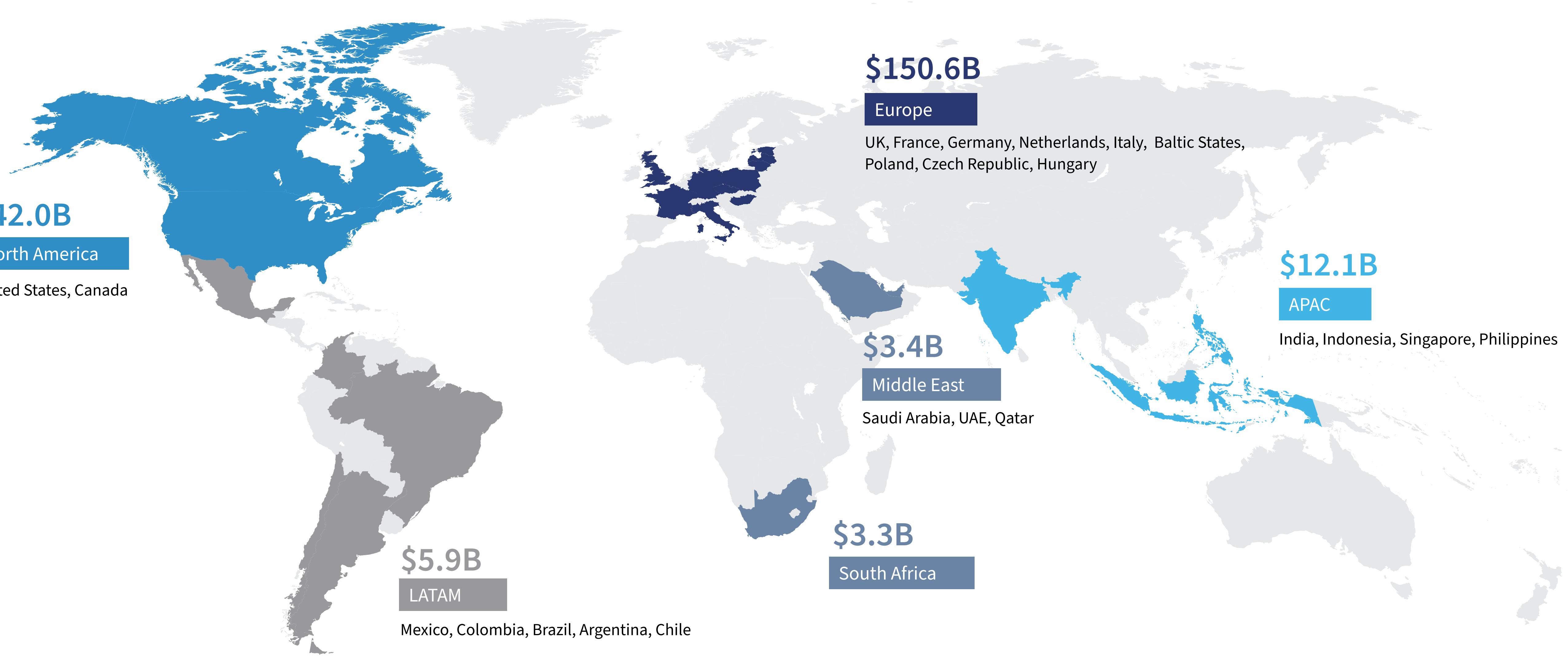
However, all regions have experienced sizeable year-on-year percentage increases.

Total projected spend is a function of each individual market in terms of the number of financial institutions and the size and average annual spend of those institutions. Significant increases with average annual financial crime compliance costs among mid/large financial institutions are driving increased costs across all markets.

MORE INFO

Macro

THE TOTAL PROJECTED COST OF FINANCIAL CRIME COMPLIANCE* ACROSS KEY GLOBAL MARKETS IS ESTIMATED AT $213.9B



** Representing the following markets: UK, Germany, France, Netherlands, Italy, Baltic States, Poland, Czech Republic, Hungary, South Africa, Saudi Arabia, United Arab Emirates, Qatar, India, Indonesia, Singapore, Philippines, U.S., Canada, Brazil, Mexico, Argentina, Chile, Colombia*

MORE INFO

Macro

PROJECTED TOTAL COST OF FINANCIAL CRIME COMPLIANCE* BY REGION

- **Germany has a high number of financial institutions.**
- **The UK, France and Italy have a similar number of financial institutions.**

Europe — $150.6B

Germany	$57.1B	Netherlands	$3.3B
UK	$39.8B	Eastern Europe	$3.0B
France	$24.8B	Baltic States*	$2.6B
Italy	$20.0B		

- **The U.S. has the highest number of financial institutions.**

North America — $42.0B

United States	$35.2B	Canada	$6.8B

- **Within APAC study markets, India and Singapore comprise the majority of total projected regional costs, but from different perspectives.**

APAC — $12.1B

India	$5.5B	Indonesia	$2.1B
Singapore	$3.8B	Philippines	$.69B

- **South Africa has slightly fewer financial institutions compared to France and Italy.**

South Africa, Middle East — $6.7B

South Africa	$3.3B	Saudi Arabia, UAE, Qatar	$3.4B

- **Across the five LATAM study markets, the number of financial institutions is just under the number for Germany alone.**

LATAM — $5.9B

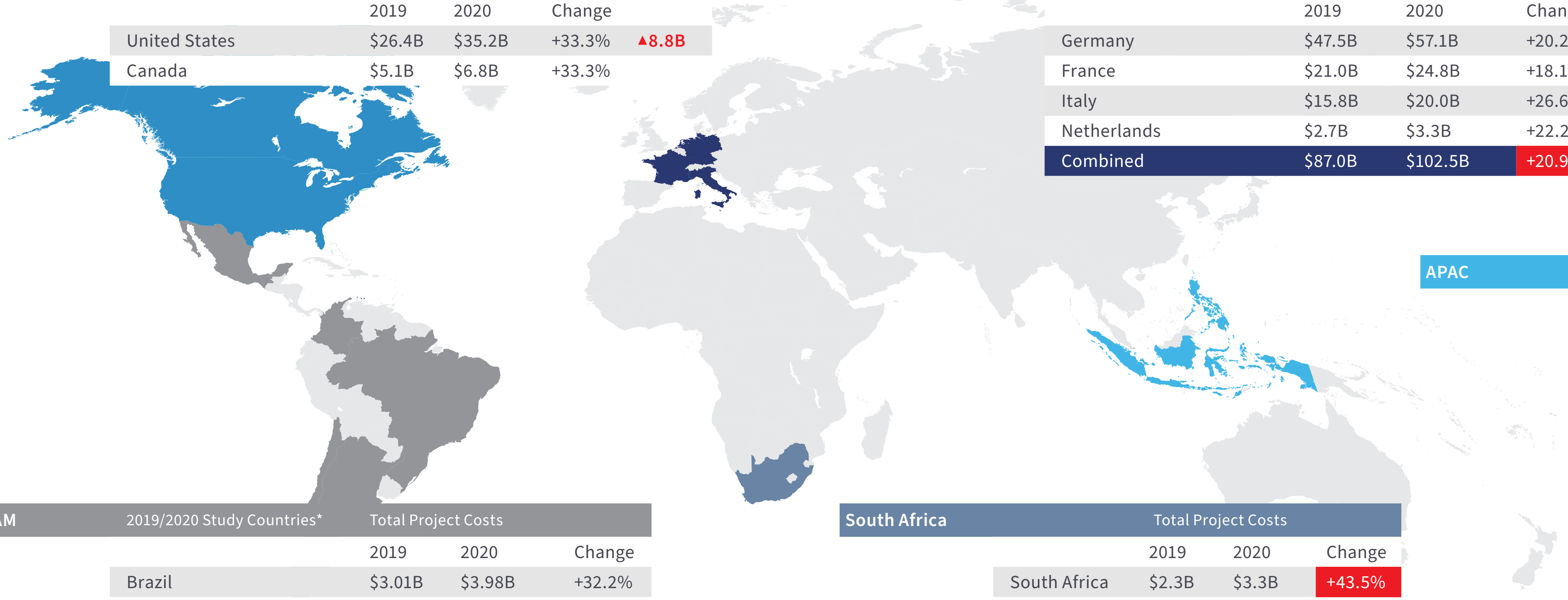
Brazil	$3.98B	Chile	$.50B
Mexico	$.90B	Colombia	$.18B
Argentina	$.39B		

** Baltic States include Estonia, Latvia and Lithuania; Eastern Europe countries include Poland, Czech Republic and Hungary*

MORE INFO

Macro

THERE HAS BEEN A SIGNIFICANT INCREASE IN FINANCIAL CRIME COMPLIANCE COSTS ACROSS ALL REGIONS



North America	2019/2020 Study Countries*	Total Project Costs			
		2019	2020	Change	
	United States	$26.4B	$35.2B	+33.3%	▲8.8B
	Canada	$5.1B	$6.8B	+33.3%	

Europe	2019/2020 Study Countries*	Total Project Costs			
		2019	2020	Change	
	Germany	$47.5B	$57.1B	+20.2%	▲9.6B
	France	$21.0B	$24.8B	+18.1%	▲4.2B
	Italy	$15.8B	$20.0B	+26.6%	▲3.8B
	Netherlands	$2.7B	$3.3B	+22.2%	
	Combined	$87.0B	$102.5B	+20.9%	

APAC	2019/2020 Study Countries*	Total Project Costs		
		2019	2020	Change
	Singapore	$3.1B	$3.8B	+21.7%
	Indonesia	$1.6B	$2.1B	+32.1%
	Philippines	$0.48B	$0.69B	+43.8%
	Combined	$5.18B	$6.59B	+27.2%

LATAM	2019/2020 Study Countries*	Total Project Costs		
		2019	2020	Change
	Brazil	$3.01B	$3.98B	+32.2%
	Mexico	$0.71B	$0.90B	+26.8%
	Argentina	$0.33B	$0.39B	+18.2%
	Chile	$0.31B	$0.50B	+61.3%
	Colombia	$0.15B	$0.18B	+20.0%
	Combined	$4.5B	$5.9B	+31.1%

South Africa		Total Project Costs		
		2019	2020	Change
	South Africa	$2.3B	$3.3B	+43.5%

** Can only show for countries included in the 2019 and 2020 surveys as noted in the tables.*

KEY FINDING 02

The average annual cost of financial crime compliance per organization has increased significantly.

Micro

The average annual cost of financial crime compliance per organization has increased the most among mid/large firms in Western Europe and North America.

That said, annual compliance costs have increased across all regions.

The distribution of average annual financial crime compliance costs has shifted more towards labor. Some of this could be attributed to additional contracting or entry-level hiring to address increased volumes and risks during COVID-19. Training is also a part of labor costs, with regard to increasingly strict regulations and liability as well as COVID-19 impacts.

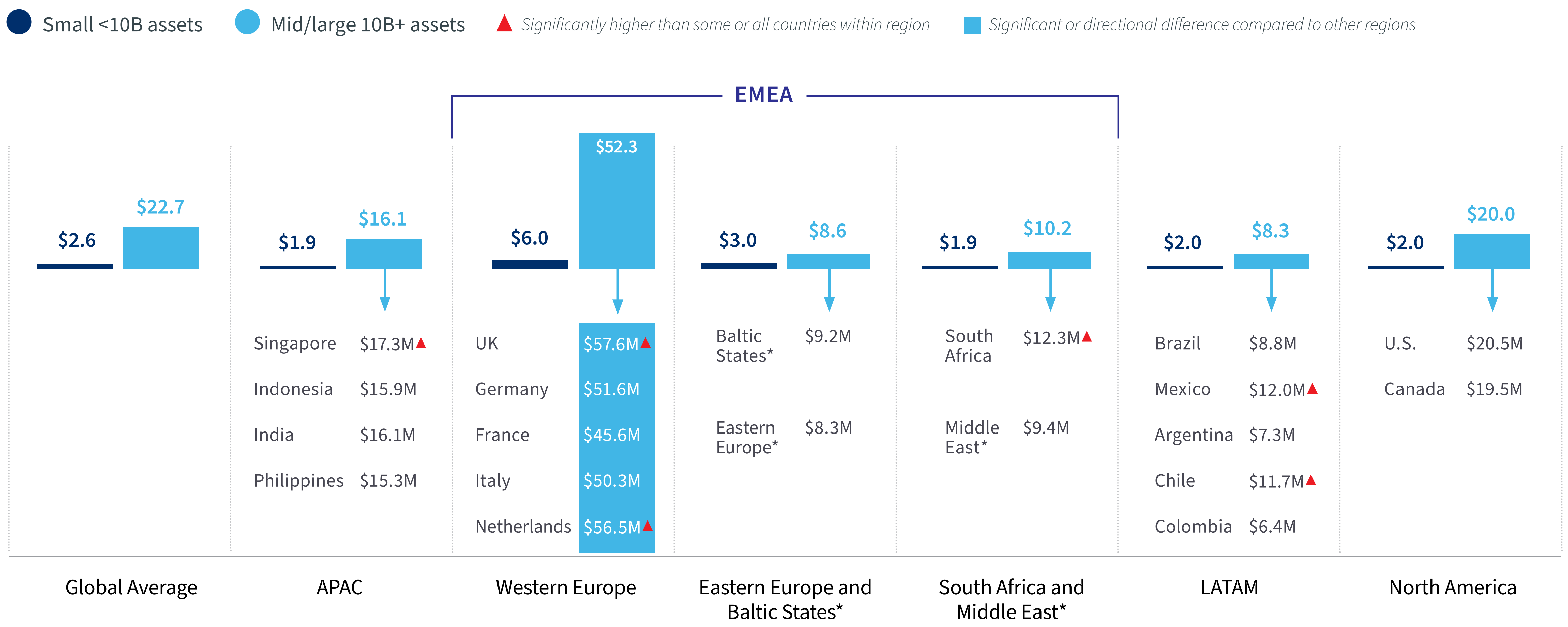
Annual financial crime compliance costs for larger Dutch firms likely reflect a new initiative among the five largest banks to establish a centralized transaction monitoring platform.

MORE INFO

Micro

AVERAGE FINANCIAL CRIME COMPLIANCE OPERATIONS SPEND PER ORGANIZATION

(Annual cost USD in millions)



* Baltic States include Estonia, Latvia and Lithuania; Eastern Europe countries include Poland, Czech Republic and Hungary; Middle East includes Saudi Arabia, UAE and Qatar

MORE INFO

Micro

CHANGE IN MID/LARGE AVERAGE FINANCIAL CRIME COMPLIANCE OPERATIONS SPEND PER ORGANIZATION 2019 – 2020

(Annual cost USD in millions)

2019 | 2020 | ☐ *Denotes a significant or directionally higher change compared to some or all countries within region* | ▲ *Significantly higher than some or all countries within region*

APAC

YOY CHANGE +21.1% | +$2.8M

2019: $13.3 | 2020: $16.1

	2019	2020
Singapore	$13.9M	$17.3M ▲ +24.0%
Indonesia	$13.7M	$15.9M +16.2%
India**	$13.5M	$16.1M +19.3%
Philippines	$11.9M	$15.3M ▲ +28.0%

EMEA

Western Europe

YOY CHANGE +12.7% | +$5.9M

2019: $46.4 | 2020: $52.3

	2019	2020
UK	$53.8M	$57.6M +7.0%
Germany	$46.1M	$51.6M +11.9%
Italy	$44.4M	$50.3M +13.3%
France	$41.0M	$45.6M +11.2%
Netherlands	$49.3M	$56.5M ▲ +14.6%

Eastern Europe and Baltic States

YOY CHANGE +10.3% | +$0.8M

2019: $7.8 | 2020: $8.6

	2019	2020
Baltic States*	$8.8M**	$9.2M +4.5%
Eastern Europe*	$7.5M**	$8.3M +10.7%

South Africa and Middle East

YOY CHANGE +9.7% | +$0.2M

2019: $9.3 | 2020: $10.2

	2019	2020
South Africa	$10.0M	$12.3M ▲ +21.8%
Middle East		$9.4M +4.4%

Latin America

YOY CHANGE +18.6% | +$1.3M

2019: $7.0 | 2020: $8.3

	2019	2020
Brazil	$6.0M	$8.8M ▲ +45.5%
Mexico	$8.4M	$12.0M ▲ +42.9%
Argentina	$6.4M	$7.3M +14.1%
Chile	$7.4M	$11.7M ▲ +58.1%
Colombia	$5.6M	$6.4M +14.3%

North America

YOY CHANGE +40.9% | +$5.8M

2019: $14.2 | 2020: $20.0

	2019	2020
U.S.	$14.3M	$20.5M +43.4%
Canada	$14.0M	$19.5M +39.3%

** Baltic States include Estonia, Latvia and Lithuania; Eastern Europe countries include Poland, Czech Republic and Hungary; Middle East includes Saudi Arabia, UAE and Qatar*
*** Country not included in the 2019 True Cost of Financial Crime Compliance study; 2019 cost extrapolated using 2020 stated costs and year-on-year cost change*

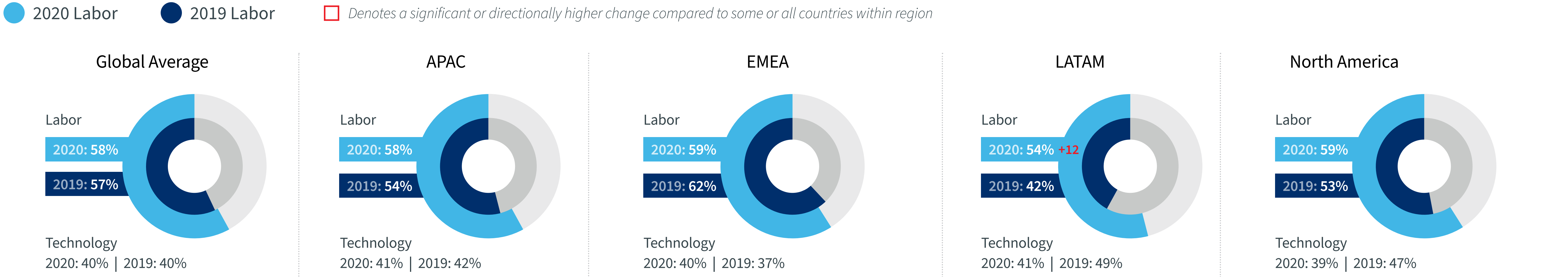
LexisNexis® RISK SOLUTIONS

MORE INFO

Micro

THERE HAS BEEN A SIGNIFICANT SHIFT OF COSTS TOWARDS LABOR, WHICH IS A KEY FACTOR BEHIND INCREASING FINANCIAL CRIME COMPLIANCE COSTS AMONG MID/LARGE FIRMS

Average Distribution of Financial Crime Compliance Costs (Mid/Large Firms)



Markets with Significant Increases Towards Labor

APAC — Labor % increase 2019-2020

Singapore	52% to 60%
Philippines	51% to 58%
Indonesia	51% to 58%

EMEA — Labor % at 60% or more

Italy	65%	Middle East*	61%
Netherlands	64%	South Africa	61%
Baltic States*	63%	Germany	60%
Eastern Europe*	62%		

Increase among Mid/Large French firms from 42% to 49%

LATAM — Labor % increase 2019-2020

Mexico	50% to 63%	+13
Argentina	43% to 56%	+13
Chile	46% to 57%	+12
Brazil	39% to 51%	+12

North America — Labor % increase 2019-2020

U.S.	54% to 60%

** Baltic States include Estonia, Latvia and Lithuania; Eastern Europe countries include Poland, Czech Republic and Hungary; Middle East includes Saudi Arabia, UAE and Qatar*

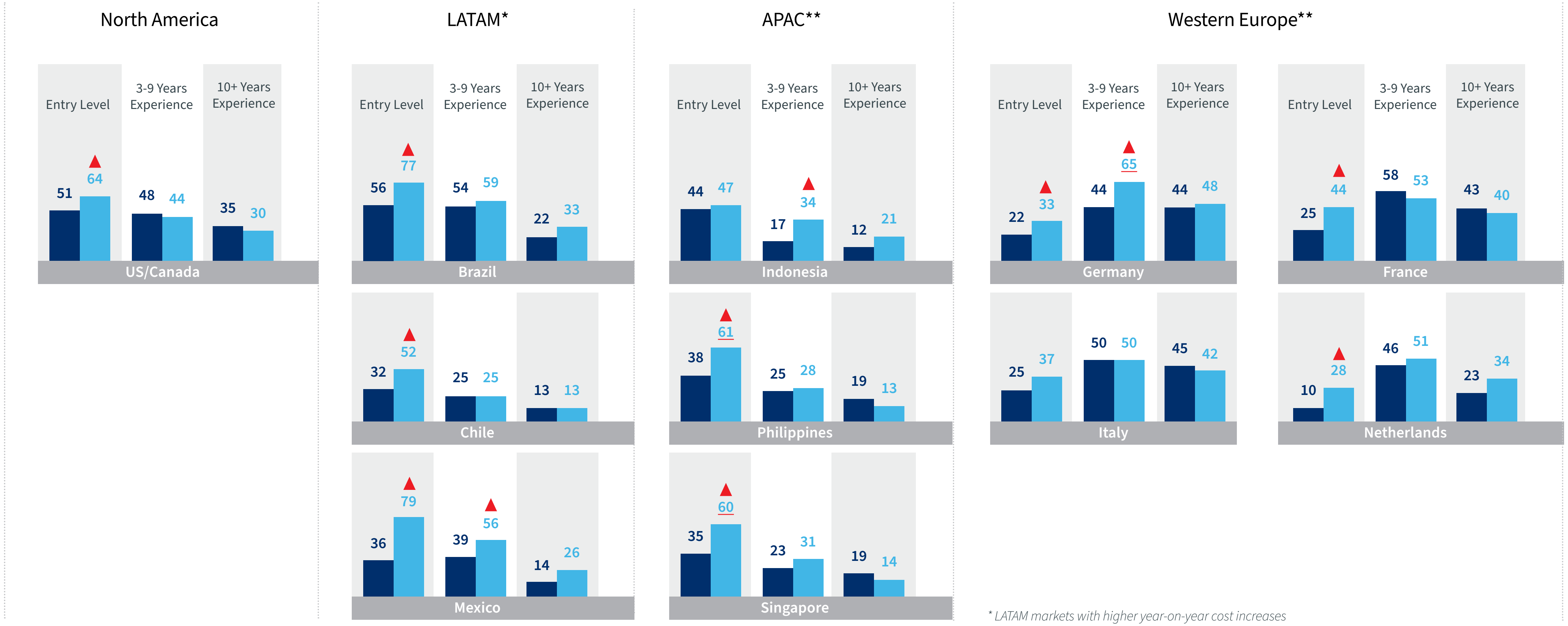
Micro

ENTRY LEVEL POSITIONS HAVE INCREASED IN MID/LARGE FINANCIAL FIRMS

This has been most dramatic for mid/large financial organizations in Brazil, Mexico, Chile, Philippines and Singapore.

Average Financial Crime Compliance Operations FTE Staff by Tenure : 2019 – 2020 Mid/Large Firms

2019 2020 ▲ *Significant or directional increase from 2019* — *Denotes a significant or directionally higher change compared to some or all countries within region*



** LATAM markets with higher year-on-year cost increases*
*** Only includes countries represented in the 2019 True Cost of Financial Crime Compliance study*

KEY FINDING 03

Across regions, financial institutions are battling a broader range of key compliance operations challenges compared to prior years.

While there has been consensus around the top two or three challenges across regions in past years, there is less of that occurring in 2020.

Six challenges were tested; respondents were asked to select their top three.

In APAC, Western Europe and South Africa, there was little consensus around ranking the top three challenges.

In LATAM, there was consensus around a single top challenge, though not the second and third.

Only in North America was there some coalescing around three challenges.

This suggests that financial institutions are battling a wider range of issues.

However, there are differences by region with regard to the degree to which these and additional challenges are more heightened within specific regions.

Identification of PEPs has risen significantly as a challenge for North American, South African and APAC financial institutions.

Sanctions screening is a challenge among significantly more North American firms compared to those in other regions. There are also significantly more North American and South African firms ranking this as a top challenge compared to 2019.

Customer risk profiling is significantly more of an issue for LATAM markets.

Regulatory reporting is ranked as a top challenge among more Western European firms compared to previous years.

FINANCIAL CRIME AND ITS IMPACTS ARE NOT LINEAR

They are a complex web of cause and effect that continues to create headaches for financial crime compliance professionals.

Cryptocurrency

- Easy to hide transaction details; lack transparency about transaction and entities
- Provides anonymity
- Online wallets and exchanges facilitate these transactions

Proceeds of Trafficking

- Easy to conceal, sensitive to false positives
- Hard to detect through remote transactions; less in-person opportunity to monitor individual topologies and spot anomalies between entities
- Strong links to funding of terrorist activities, particularly through pre-paid cards

Trade-Based Money Laundering

- Establishment of multiple accounts by an entity – a sole trader account, a business account, a personal account can make it difficult to discern illicit from legal transactions
- Lack understanding about letter of credit documents or how inspection reports are produced; lack visibility into full transactions through accounts and supply chains

Professional Enablers

- Professional enablers of illicit transactions – taking advantage of trust and a good name
- Ongoing relationships with professional third parties tend to build trust – this can create a false confidence that goes unchecked

Money Mules

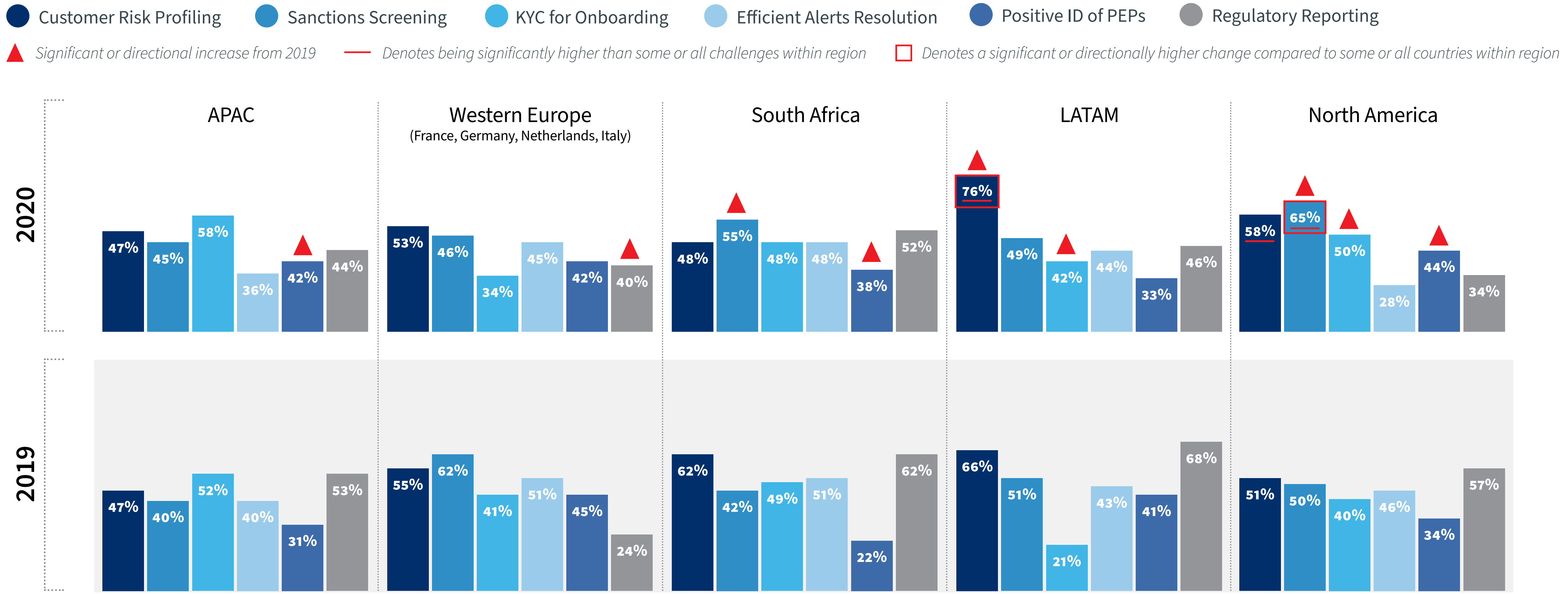
- Hard to discern between legitimate and criminal transactions; complex criminal networks confuse transaction monitoring
- Newer financial institutions lack history on the account entity in order to assess behavior
- Can recruit persons disguised as legitimate work – especially from home – especially appealing to economically at-risk individuals or during times of downturn

Impacts on Financial Crime Compliance

- Difficult to identify ultimate beneficial owners (UBOs) and politically exposed persons (PEPs)
- Weakens ability to develop customer risk profiles
- Increases risk of sanctions-related violations
- Causes friction for potentially legitimate customers during onboarding

WITHIN REGIONS, THERE IS LESS CONSENSUS AROUND RANKING OF THE TOP THREE CHALLENGES. INSTEAD, THERE ARE VARIOUS COMPLIANCE ISSUES FACING FINANCIAL INSTITUTIONS, IN VARYING DEGREES WITHIN AND ACROSS REGIONS

Top Challenges with Financial Crime Compliance Operations: Mid/Large Firms (Ranked of Top 3)



MORE INFO

NORTH AMERICAN FINANCIAL INSTITUTION FIRMS BRACED FOR NEW REGULATORY SCRUTINY COMING INTO 2020, WITH RISK PROFILING, SANCTIONS SCREENING, PEP IDENTIFICATION AND ONBOARDING RISING AS CHALLENGES

North America (Pre-COVID 2019 – Q1 2020)

INCREASED REGULATORY SCRUTINY

FINANCIAL CRIME PROFILE
Key Risk Factors & Challenges*

Financial Crimes

Common Types of **Financial Crime** (Not exhaustive)
- Money Laundering
- Terrorist Financing
- Bribery/ Corruption

Common Means of **Financial Crime Attacks**
- Use of Money Mules
- Misuse of Cryptocurrency, Crypto Exchanges
- Abuse of Offshore Structures
- Trade-Based Transactions
- Proceeds of Trafficking
- Criminal Use of Third Parties

Top Ranked Financial Crime **High Risk Sectors**
- Retail
- eCommerce
- Real Estate
- Professional Services (Legal, Accounting, etc.)
- Media, Gaming
- Hospitality

Top Ranked Operational **Compliance Challenges**
- Risk Profiling ↑
- Sanctions Screening ↑
- KYC for Onboarding ↑
- Alert Resolution Efficiency
- PEP Identification ↑
- Regulatory Reporting

↑ Indicates a growing challenge compared to 2019

*Risk factors and challenges of particular note; does not suggest that the other factor are not present in the market

LexisNexis® RISK SOLUTIONS

MORE INFO

LATAM CONTINUES TO BE A HIGH-RISK REGION. GROWTH IN CRYPTOCURRENCY ADDS TO RISING CHALLENGES WITH RISK PROFILING AND UBO IDENTIFICATION, AND POUROUS BORDERS ENABLE TRADE-BASED MONEY LAUNDERING

LATAM (Pre-COVID 2019 – Q1 2020)

HIGH RISK REGION FOR MONEY LAUNDERING; KYC DUE DILIGENCE CHALLENGES

FINANCIAL CRIME PROFILE

Key Risk Factors & Challenges*

Financial Crimes

Common Types of **Financial Crime** (Not exhaustive)
- Money Laundering
- Terrorist Financing
- Bribery/ Corruption

Common Means of **Financial Crime Attacks**
- Use of Money Mules
- Misuse of Cryptocurrency, Crypto Exchanges
- Abuse of Offshore Structures
- Trade-Based Transactions
- Proceeds of Trafficking
- Criminal Use of Third Parties

Top Ranked Financial Crime **High Risk Sectors**
- Retail
- eCommerce
- Real Estate
- Professional Services (Legal, Accounting, etc.)
- Media, Gaming
- Hospitality

Top Ranked Operational **Compliance Challenges**
- Risk Profiling ↑
- Sanctions Screening
- KYC for Onboarding ↑
- Alert Resolution Efficiency
- PEP Identification
- Regulatory Reporting

↑ Indicates a growing challenge compared to 2019

*Risk factors and challenges of particular note; does not suggest that the other factor are not present in the market

MORE INFO

EUROPEAN FIRMS CONTINUE TO FACE EXPANDING MONEY LAUNDERING DIRECTIVES. CRYPTOCURRENCY, MONEY MULES AND TRAFFICKING PROCEEDS CREATE VARIOUS PROFILING AND IDENTIFICATION CHALLENGES

Europe (Pre-COVID 2019 – Q1 2020)

HIGH RISK FOR MONEY LAUNDERING; REGULATORY PRESSURES

FINANCIAL CRIME PROFILE
Key Risk Factors & Challenges*

Financial Crimes

Common Types of **Financial Crime** (Not exhaustive)
- Money Laundering
- Terrorist Financing
- Bribery/ Corruption

Common Means of **Financial Crime Attacks**
- Use of Money Mules
- Misuse of Cryptocurrency, Crypto Exchanges
- Abuse of Offshore Structures
- Trade-Based Transactions
- Proceeds of Trafficking
- Criminal Use of Third Parties

Top Ranked Financial Crime **High Risk Sectors**
- Retail
- eCommerce
- Real Estate
- Professional Services (Legal, Accounting, etc.)
- Media, Gaming
- Hospitality

Top Ranked Operational **Compliance Challenges**
- Risk Profiling
- Sanctions Screening
- KYC for Onboarding
- Alert Resolution Efficiency
- PEP Identification
- Regulatory Reporting

Indicates a growing challenge compared to 2019

*Risk factors and challenges of particular note; does not suggest that the other factor are not present in the market

MORE INFO

CRYPTOCURRENCY IS GROWING IN SOUTH AFRICA; FIRMS ARE DEALING WITH INCREASING CHALLENGES AROUND PEP IDENTIFICATION AND SANCTIONS SCREENING AS ALERT VOLUMES RISE

Middle East & South Africa (Pre-COVID 2019 – Q1 2020)

HIGH RISK REGION FOR MONEY LAUNDERING; KYC DUE DILIGENCE CHALLENGES

FINANCIAL CRIME PROFILE
Key Risk Factors & Challenges*

Financial Crimes

Common Types of **Financial Crime** (Not exhaustive)
- Money Laundering
- Terrorist Financing
- Bribery/ Corruption

Common Means of **Financial Crime Attacks**
- Use of Money Mules
- Misuse of Cryptocurrency, Crypto Exchanges
- Abuse of Offshore Structures
- Trade-Based Transactions
- Proceeds of Trafficking
- Criminal Use of Third Parties

Top Ranked Financial Crime **High Risk Sectors**
- Retail
- eCommerce
- Real Estate
- Professional Services (Legal, Accounting, etc.)
- Media, Gaming
- Hospitality

Top Ranked Operational **Compliance Challenges**
- Risk Profiling
- Sanctions Screening
- KYC for Onboarding
- Alert Resolution Efficiency
- PEP Identification
- Regulatory Reporting

Indicates a growing challenge compared to 2019

*Risk factors and challenges of particular note; does not suggest that the other factor are not present in the market

MORE INFO

APAC FINANCIAL INSTITUTIONS OPERATE IN A HIGH-RISK REGION FOR MONEY LAUNDERING WITH INCREASING SCRUTINY BY REGULATORS

APAC (Pre-COVID 2019 – Q1 2020)

HIGH RISK FOR MONEY LAUNDERING; REGULATORY PRESSURES

FINANCIAL CRIME PROFILE
Key Risk Factors & Challenges*

Financial Crimes

Common Types of **Financial Crime** (Not exhaustive)
- Money Laundering
- Terrorist Financing
- Bribery/ Corruption

Common Means of **Financial Crime Attacks**
- Use of Money Mules
- Misuse of Cryptocurrency, Crypto Exchanges
- Abuse of Offshore Structures
- Trade-Based Transactions
- Proceeds of Trafficking
- Criminal Use of Third Parties

Top Ranked Financial Crime **High Risk Sectors**
- Retail
- eCommerce
- Real Estate
- Professional Services (Legal, Accounting, etc.)
- Media, Gaming
- Hospitality

Top Ranked Operational **Compliance Challenges**
- Risk Profiling
- Sanctions Screening
- KYC for Onboarding
- Alert Resolution Efficiency
- PEP Identification
- Regulatory Reporting

Indicates a growing challenge compared to 2019

*Risk factors and challenges of particular note; does not suggest that the other factor are not present in the market

LexisNexis® RISK SOLUTIONS

KEY FINDING 04

The impact of COVID-19 has been significant, exacerbating existing challenges and leading to increased due diligence times and associated costs.

Mid/large firms in North America and parts of LATAM experienced sizeable cost increases related to the impact of the COVID-19 pandemic.

These are also the markets that have experienced larger year-on-year percentage cost increases.

Key compliance operations challenges have been significantly heightened in these markets since the start of the pandemic, including increased alert volumes and suspicious transactions, inefficiencies with alert resolution and due diligence, more manual work and limitations with proper risk profiling/sanctions screening/PEP identification.

Micro

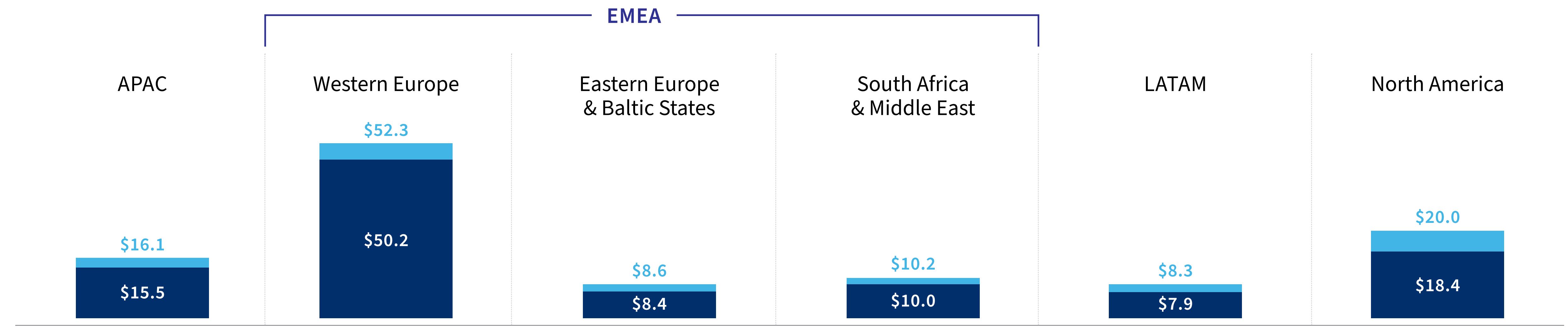
WESTERN EUROPE, NORTH AMERICA AND PARTS OF LATAM EXPERIENCED SIZEABLE COST IMPACTS FROM COVID-19

COVID-19 Impact on Average Annual Financial Crime Compliance Costs: 2019 – 2020 Mid/Large Firms

2020 (Pre-COVID-19) 2020 (Since COVID-19)

Denotes a significant or directionally higher change compared to some or all countries within region

Denotes a significant or directionally higher change compared to some or all other countries/regions



APAC

	Pre-COVID	Since COVID
Overall	$15.5M	+3.9%
Singapore	$16.8M	+3.0%
Indonesia	$15.4M	+3.2%
India	$15.7M	+2.6%
Philippines	$14.8M	+3.4%

Western Europe

	Pre-COVID	Since COVID
Overall	$50.2M	+4.2%
UK	$55.8M	+3.2%
Germany	$50.3M	+2.6%
Italy	$48.7M	+.3.%
France	$44.3M	+2.9%
Netherlands	$54.2M	+4.2%

Eastern Europe & Baltic States

	Pre-COVID	Since COVID
Overall	$8.4M	+2.4%
Baltics*	$9.1M	+1.1%
E. Europe*	$8.1M	+2.5%

South Africa & Middle East

	Pre-COVID	Since COVID
Overall	$10.0M	+2.0%
South Africa	$11.9M	+3.4%
Middle East*	$9.3M	+1.1%

LATAM

	Pre-COVID	Since COVID
Overall	$7.9M	+5.1%
Brazil	$7.8M	+12.8%
Mexico	$10.5M	+14.3%
Argentina	$7.2M	+1.4%
Chile	$10.5M	+11.4%
Colombia	$6.2M	+3.2%

North America

	Pre-COVID	Since COVID
Overall	$18.4M	+8.7%
U.S.	$19.1M	+7.3%
Canada	$17.6M	+10.8%

** Baltic States include Estonia, Latvia and Lithuania; Eastern Europe countries include Poland, Czech Republic and Hungary; Middle East includes Saudi Arabia, UAE and Qatar*

LexisNexis® RISK SOLUTIONS

THE PANDEMIC HAS INCREASED PRESSURES AND PUT GREATER RELIANCE ON NORTH AMERICAN COMPLIANCE TEAMS AS THEY DEAL WITH NEW REGULATORY SCRUTINY

NORTH AMERICA

2018 – Q1 2019

- **More aggressive regulatory** monitoring of North American wealth management/ investment firms
- **Canada has been cited as a major money-laundering jurisdiction** by the U.S. State Department

PRE-COVID H2 2019 – Q1 2020

Increased Regulatory Scrutiny

- **Financial Crimes Enforcement Network (FinCEN), and federal and state financial regulators prioritized actions with regard to further AML/CFT compliance scrutiny**
- Compliance officers put on notice of being held personally liable for decisions they make regarding AML/ CFT regulation
- Cryptocurrency and digital assets have risen as top risks for AML; both present challenges for due diligence and beneficial ownership
- Canada's OSFI increases risk assessments on banks in order to tighten compliance. Changes to Canadian AML laws within PCMLTFA continue to place pressure on financial institutions to strengthen customer due diligence around UBO

SINCE COVID-19

COVID-19 Pandemic Pressures

- **PPP passed swiftly and put pressure on compliance teams to adapt** (and even develop) protocols for diligence, with different standards between SBA and CDD beneficial ownership requirements
- **More manual work** for those without protocols to detect lending (PPP) related financial crime/money laundering
- Pandemics and chaos increase risk for financial crime, putting financial institutions at even greater risk; while some leniency may have been granted by regulators, **compliance rules and red flags still remain**

IMPACTS FROM REGULATION & COVID-19

- **Risk of financial crime increased** significantly with pandemic
- **Federal regulators added pressure,** and did not provide leniency to compliance teams because of pandemic; instead, they added further scrutiny, expecting adherence to BSA obligations
- **Alert volumes increased;** alert resolution efficiency dropped
- **Transition to remote working added challenges** including access to KYC/due diligence information and need for increased surveillance of remote workers
  - **Plans to cut staff pre-COVID-19 were halted by some,** due to the need to maintain compliance expertise in the middle of uncertainty.[22] Some actually hired junior staff[23]
  - **Longer due diligence hours** stretched team capacity and lengthen onboarding; budgets targeted compliance personnel, training, surveillance and communications monitoring[24]

[22] *https://www.reuters.com/article/us-usa-banks-results-expenses/u-s-banks-say-cost-cuts-mostly-out-of-sight-during-coronavirus-idUSKBN21Z2ZR*
[23] *Nasdaq survey, Compliance hires as finance firms ramp up spying on staff, https://www.fnlondon.com/articles/banks-plan-compliance-hiring-boom-as-pandemic-drives-staff-tracking-20201216*
[24] *Ibid*

LATAM FIRMS HAVE NEEDED TO BALANCE INCREASING CRIME RISKS WITH REMOTE WORKING CHALLENGES DURING THE PANDEMIC. ROBUST KYC INFORMATION FOR UBO IDENTIFICATION IS PARTICULARLY DIFFICULT TO OBTAIN IN THIS REGION.

LATAM

PRE-COVID H2 2019 – Q1 2020

Regulatory & Financial Crime Pressures

- **[Mexico] UBO challenges** relying on self-reported data; high risk market for cross-border trafficking and financial crime
- **[Mexico/Brazil/Chile] Negative impact of non-bank payment providers causing** increased alert volumes are more of an issue for firms in Brazil, Chile, and Mexico. In 2019, 41% of Mexican firms said they would add compliance staff within 12 months to address these issues
- **Geographic risk factors** with unregulated trade zones and long borders
- **Criminal threats** with drug trafficking, human and cash smuggling that contribute to high money laundering risk
- **[Brazil] New regulatory requirements** using risk-based approach, requiring more detailed and documented risk assessments with UBOs and transaction monitoring

SINCE COVID-19

COVID-19 Pandemic Pressures

Fraudsters, money launderers, and corrupt government officials capitalizing on COVID-19 pandemic[25]:

- **Criminal organizations stepping up recruitment** to support money laundering activities
- **Increase in illicit financial flows** and criminal smuggling of cash, gold, and diamonds across borders
- **Increased money laundering** through unregulated sectors (real estate, pawn shops, informal financing)
- **Growing concern with cryptocurrency** to hide illicit funds from blackmail, extortion, imposter/investment scams, and charities fraud
- **Increased alerts** caused by behavioral changes in clients and third parties[26]

IMPACTS FROM REGULATION & COVID-19

- **Challenges preventing, detecting, and reacting** to compliance risks in remote working environments
- **Surges in alerts** caused by behavioral changes of clients, employees, and third parties
- **Remote working challenges**
  - **Providing remote personnel the resources and support necessary** to perform their duties; allocating human and financial resources to ensure that AML obligations continue to be met[27]
  - **Potential delays in obtaining information** required for analysis or investigation of SARs
  - **Increased manual workloads**
- **Increased labor costs**

[25] https://www.gafilat.org/index.php/es/biblioteca-virtual/gafilat/documentos-de-interes-17/3823-gafilat-covid19-en-gafilat/file
[26] https://www.legal500.com/gc-magazine/interview/2020-compliance-trends-in-latin-america/
[27] https://www.orrick.com/en/Insights/2020/05/COVID-19-Creates-Increased-Risk-of-Financial-Crimes-and-AML-Exposure-FATF-and-FinCEN-Guidance

COVID-19 HAS TESTED EUROPEAN FIRMS' PREPAREDNESS WITH NEW REGULATIONS EARLY ON, AND WITH 6MLD COMING INTO FORCE AT THE END OF 2020

EUROPE

2018 – Q1 2019

Pressures contributing to added workloads:

- **GDPR**
- **High profile sanctions violations**
- **Increased compliance regulations,** including stricter focus on ultimate beneficial ownership

PRE-COVID H2 2019 – Q1 2020

Regulatory & Financial Crime Pressures

Being 5MLD compliant while preparing for 6MLD

- **5MLD (effective January 2020) requires enhanced and expanded due diligence** for more challenging aspects of KYC involving complex transactions, cryptocurrency and more thorough UBO and PEP identification
- **6MLD introduces more focus on identifying association** with 22 predicate offenses and increases personal and corporate accountability

SINCE COVID-19

COVID-19 Pandemic Pressures

Increased criminal activity tested financial institutions' preparations for 5MLD early on and gave insight into what to expect with 6MLD

- **More financial crime** involving predicate offenses, including various types of trafficking and supply/distribution schemes that facilitate money laundering[28]
- **Increased alert and suspicious transaction volumes**
- **Remote working challenges** including accessing KYC data, working collaboratively with alert remediation, information sharing, transaction monitoring, and reporting[29]

IMPACTS FROM REGULATION & COVID-19

- **Need for investing** in updating processes, systems and training
- **Compliance team overload;** increased alert and suspicious transaction volumes during a time of remote working challenges
- **Concern with brand reputation risk;** this has been an increasingly key driver for AML/CFT objectives[30]
  - Five of the largest Dutch banks joined forces to launch a coordinated system of transaction monitoring; this coincides with a series of scandals that could damage reputations
- While EU firms invest in compliance technology to support increased workflows, **there has also been a pattern in recent years to add more human resources** as regulations and due diligence volumes increase in the face of greater personal liability for compliance officers
  - Labor remains a majority source of compliance costs

[28] *Europol, How COVID-19-related crime infected Europe in 2020, https://www.europol.europa.eu/publications-documents/how-covid-19-related-crime-infected-europe-during-2020*
[29] *https://www.complianceweek.com/risk-management/8-compliance-challenges-facing-european-companies-in-coronavirus-crisis/28670.article*
[30] *LexisNexis Risk Solutions True Cost of Compliance/EMEA studies 2017, 2019*

CRIMINALS HAVE TAKEN ADVANTAGE OF CHALLENGES POSED TO APAC FINANCIAL INSTITUTIONS SINCE THE PANDEMIC, HEIGHTENING ISSUES WITH KYC DUE DILIGENCE EFFICIENCY AND EFFECTIVENESS

APAC

PRE-COVID H2 2019 – Q1 2020

Regulatory & Financial Crime Pressures

- **[India]** Various money laundering vulnerabilities
- **[Philippines]** Ongoing money laundering risks
- **[Indonesia]** 240% increase in suspicious transactions through capital markets over the first two quarters of 2020
- **[Singapore]** Broader scope for due diligence; new Payment Services Act, increased regulatory focus on financial institutions, eCommerce scams involving money laundering activities have run rampant

SINCE COVID-19

COVID-19 Pandemic Pressures
Criminals taking advantage of COVID-19 challenges:

- **Increase in money mule scams, medical scams, cybercrimes and fake crowdfunding scams,** earning undue profits, and transferring illegally earned money across borders[31]
- **Unauthorized account access through skimming and phishing** has surged during the pandemic
- **Bitcoin and unsubstantiated deposits or fund transfers** have also increased in reporting[32]

IMPACTS FROM REGULATION & COVID-19

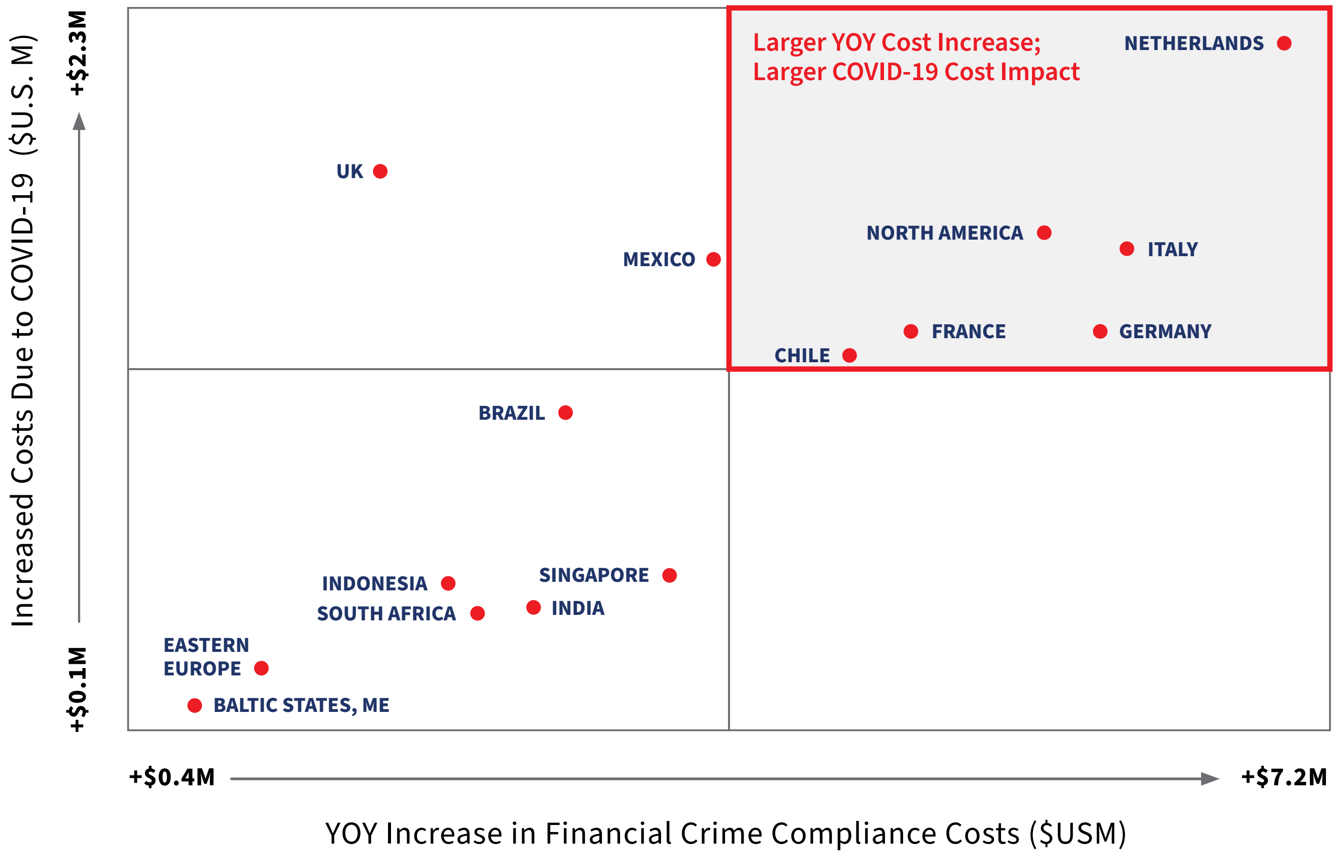
- **Longer due diligence times impacting KYC for onboarding**
- **More manual work,** particularly where remote working connectivity has been an issue
- **Increased alert and suspicious transaction volumes** during a time of remote working challenges
- **Lower productivity**
- **Challenges with PEP identification and risk profiling**

[31] *https://www.digiconasia.net/features/tackling-the-rise-in-financial-crime-during-covid-19*
[32] *https://www.bloomberg.com/news/articles/2020-11-20/philippines-sees-surge-in-financial-scams-during-pandemic*

MARKETS EXPERIENCING THE LARGEST YEAR-ON-YEAR COST INCREASES ARE THOSE THAT HAVE BEEN MOST IMPACTED FINANCIALLY BY COVID-19

These markets have also experienced increased challenges that could involve the need for more labor in order to address the heightened financial crime risks and sudden change in working scenarios.

Impact of COVID-19 on YOY Cost Increases: Relative Comparison by Country



Potential Impacts Driving Higher Costs

(Based on top COVID-19 challenges per country)

Increased alert volumes and suspicious transactions (Netherlands, Chile)

Alert resolution inefficiencies (Netherlands, Italy, Chile)

Longer customer due diligence times/delayed onboarding/ KYC onboarding challenges (Netherlands, Mexico, Italy)

Remote-working challenges:

- Difficulty accessing KYC information remotely (Italy, Mexico)
- Reduced controls & monitoring capabilities (Germany, Chile)

Less productivity/more manual work (Germany, Chile)

Risk profiling/sanctions screening/PEP identification (France, Italy, Mexico)

Increased Staff (or Contractors)

Entry level increases:

- Netherlands
- Germany
- France
- Chile
- Mexico
- U.S./Canada

More Skilled Hiring

- Germany
- Mexico

Distribution of Costs to Labor (2019-20)

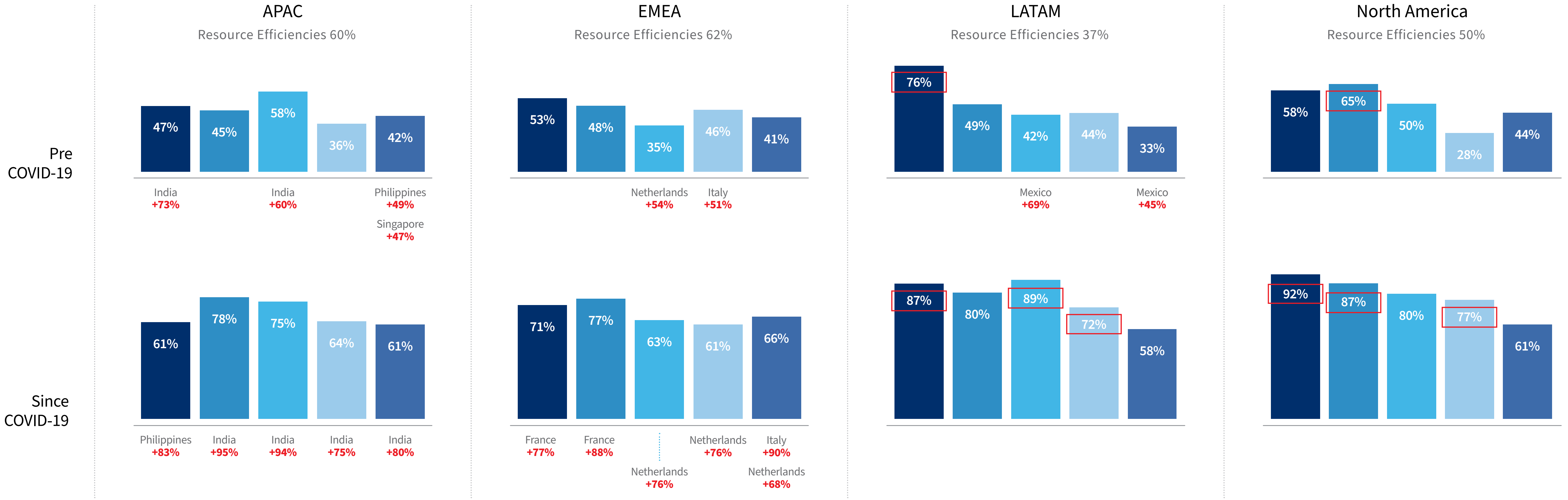
- Netherlands (up from 62% to 64%)
- Italy (up from 61% to 65%)
- Germany (constant at 60%)
- Chile (up from 46% to 57%)
- Mexico (up from 50% to 63%)
- North America (up from 53% to 59%)

COVID-19 SIGNIFICANTLY HEIGHTENED CURRENT CHALLENGES WITH FINANCIAL CRIME COMPLIANCE OPERATIONS

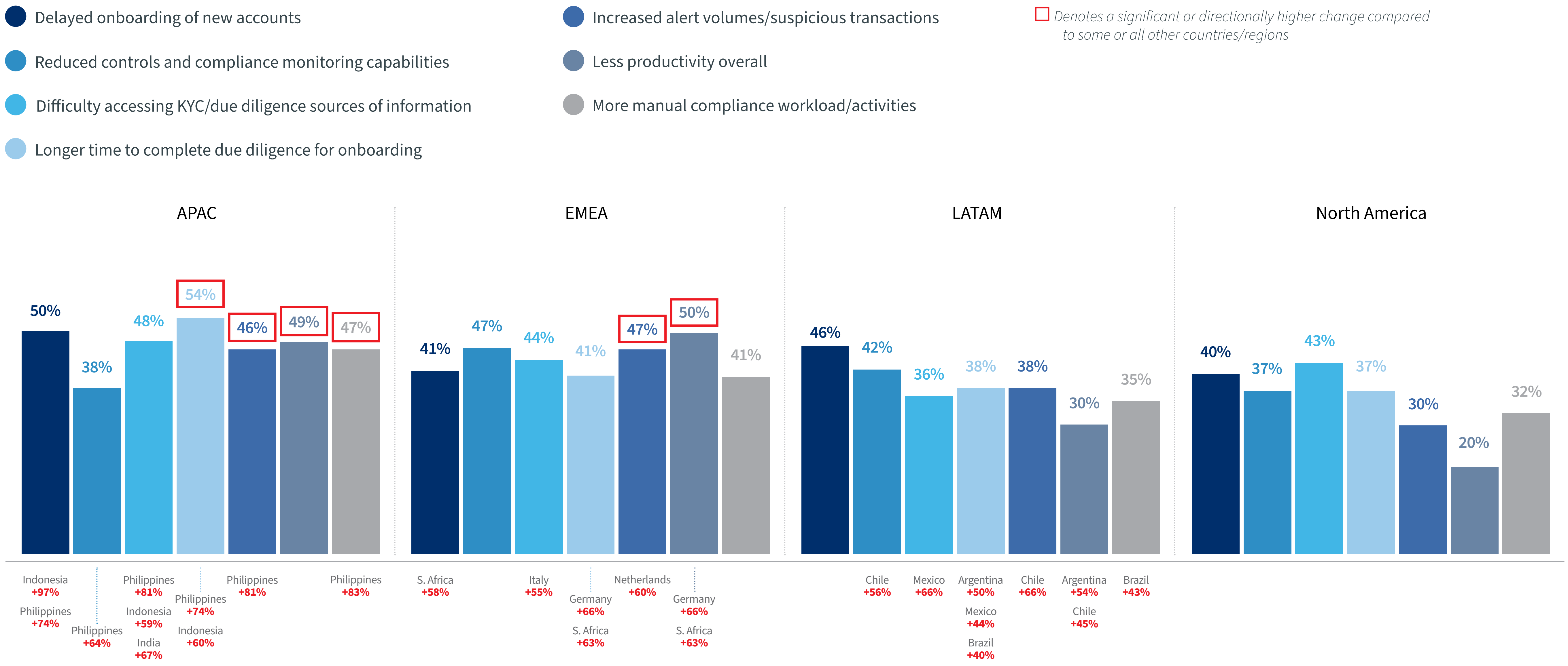
Impact of COVID-19 on Financial Crime Compliance Operation: Mid/Large Firms (% Moderately or Significantly Negative)

Customer Risk Profiling · Sanctions Screening · KYC for Onboarding · Efficient Alerts Resolution · Positive ID of PEPs

Denotes a significant or directionally higher change compared to some or all other countries/regions



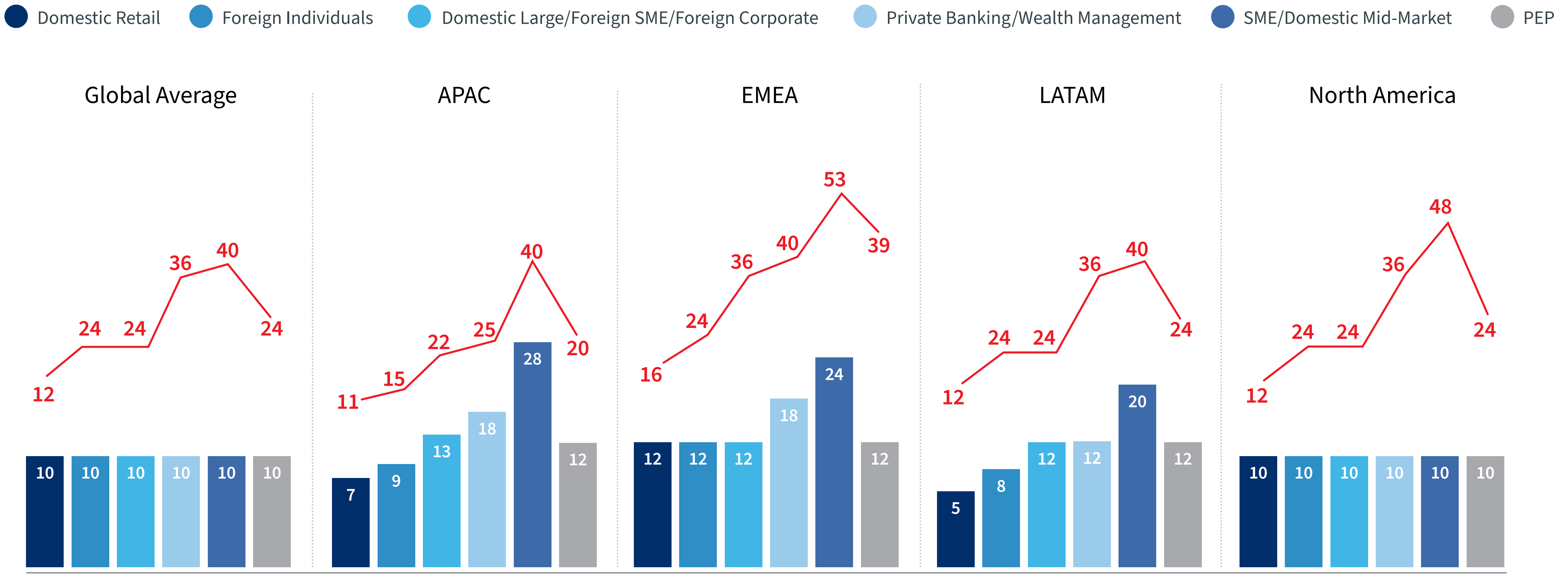
ADDITIONAL CHALLENGES EXPERIENCED DURING THE COVID-19 PANDEMIC VARY BY MARKET, IMPACTING PRODUCTIVITY AND RISK



NOT SURPRISINGLY, MEDIAN DUE DILIGENCE TIMES INCREASED SIGNIFICANTLY DURING THE PANDEMIC, PARTICULARLY FOR LARGER AND FOREIGN BUSINESS ACCOUNTS

EMEA and North America firms indicated longer times for domestic large/foreign SME & corporate compared to other regions.

Median Hours Required for Completing Customer Due Diligence



KEY FINDING 05

Financial crime compliance challenges and issues are negatively impacting productivity, particularly in APAC, EMEA and LATAM.

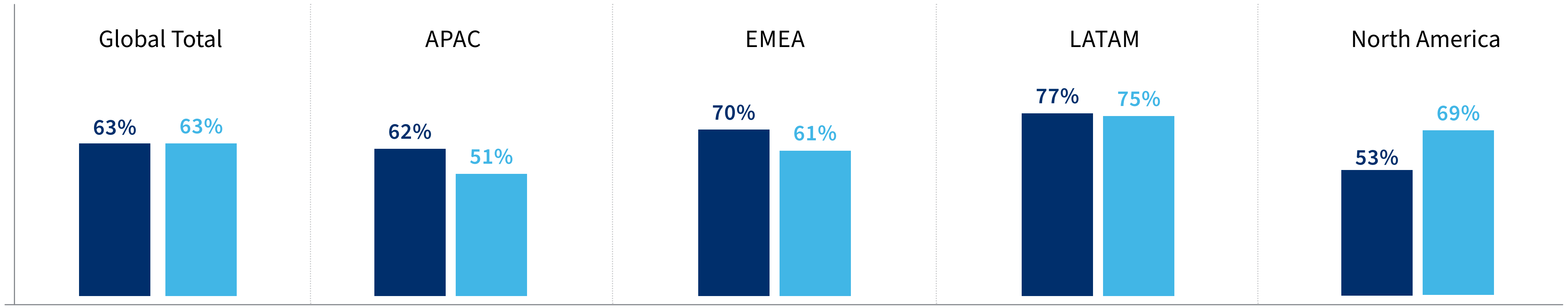
Regardless of the difference in cost increases and COVID-19 impacts across various markets, all regions indicate that their financial crime compliance operations are having a negative impact on productivity and customer acquisition efforts.

That said, this is most pronounced among EMEA and LATAM firms.

Across regions, financial institutions expect compliance operations costs to increase by single-to-low double-digits over the next year, though that could be more of a desire than a reality.

% INDICATING NEGATIVE IMPACT OF FINANCIAL CRIME COMPLIANCE PROCESSES ON PRODUCTIVITY AND CUSTOMER ACQUISITION

Productivity | Customer Acquisition



APAC	Productivity	Customer Acquisition
Singapore	61%	46%
Indonesia	51%	51%
India	70%	65%
Philippines	51%	52%

EMEA	Productivity	Customer Acquisition
Germany	81%	67%
France	71%	61%
Italy	61%	69%
Netherlands	60%	47%
South Africa	60%	48%
Baltic States	59%	63%
C.E. Europe	87%	81%
Middle East	63%	56%

LATAM	Productivity	Customer Acquisition
Brazil	79%	77%
Mexico	81%	81%
Argentina	67%	64%
Chile	70%	71%
Colombia	79%	76%

North America	Productivity	Customer Acquisition
U.S.	54%	68%
Canada	50%	76%

70% Concerned with job satisfaction in compliance department

Highest For

C.E Europe	India	Baltic States
98%	88%	83%

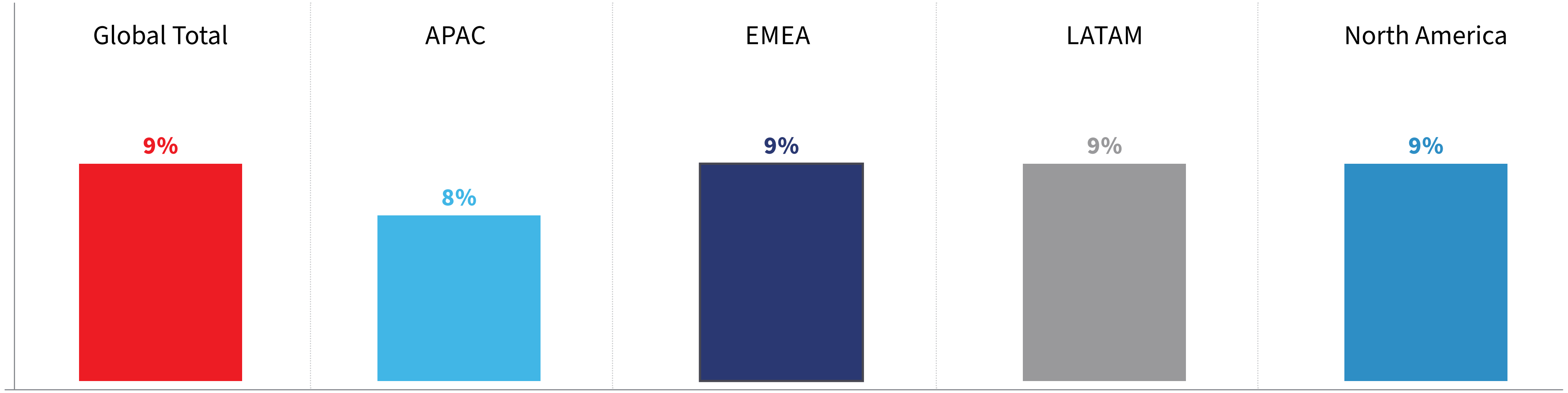
102 Average hours of annual lost productivity per FTE compliance analyst due to job dissatisfaction

Highest For

Baltic States	Middle East	C.E Europe
127	120	117

FINANCIAL INSTITUTIONS ACROSS REGIONS EXPECT SINGLE OR LOW DOUBLE DIGIT INCREASES TO THEIR AVERAGE ANNUAL FINANCIAL CRIME COMPLIANCE COSTS OVER THE NEXT 12 MONTHS

Expected Average Increase in Financial Crime Compliance Costs Over the Next 12 Months



APAC		EMEA		LATAM		North America	
Singapore	8%	Germany	10%	Brazil	8%	U.S.	10%
Indonesia	9%	France	11%	Mexico	6%	Canada	6%
India	10%	Italy	10%	Argentina	11%		
Philippines	7%	Netherlands	8%	Chile	13%		
		South Africa	7%	Colombia	11%		
		Baltic States	8%				
		C.E. Europe	9%				
		Middle East	9%				

KEY FINDING 06

Financial institutions which have invested in technology solutions to support financial crime compliance efforts have been more prepared and less impacted by increasing regulatory pressures and COVID-19.

Compared to financial institutions that distribute more of their annual compliance costs to labor, those that have allocated costs more toward technology have realized:

- Smaller year-on-year financial crime compliance operations cost increases
- Lower costs per FTE
- Fewer pandemic-related challenges

When investing in compliance technology, adopting a multi-layered approach to financial crime compliance and identity proofing is an essential best practice.

A MULTI-LAYERED APPROACH TO FINANCIAL CRIME COMPLIANCE AND IDENTITY PROOFING IS ESSENTIAL AS CRIMINALS BECOME MORE SOPHISTICATED

Based on the variety of unique risks that emerge from individuals, transactions, and contact channels, it is important to assess both the individual and the business (if applicable) with a need for real-time behavioral data/analytics.

Risks

Bogus business or misrepresentation of business ownership with intent to commit financial crime

Fake, synthetic identities developed from breached data

Mobile and online channel transactions, and digital onboarding that provide anonymity for synthetic identities

Non-bank payment providers/systems that make transaction and customer transparency difficult, and pose risk of being non-compliant themselves

Cryptocurrencies that enable criminals to move illicit funds, especially across borders

Challenges

- Customer risk profiling
- Sanctions screening
- Efficient alerts resolution
- Complex payment chains
- Positive ID of PEPs

Effective Solution

A multi-layered approach to financial crime compliance and identity proofing should:

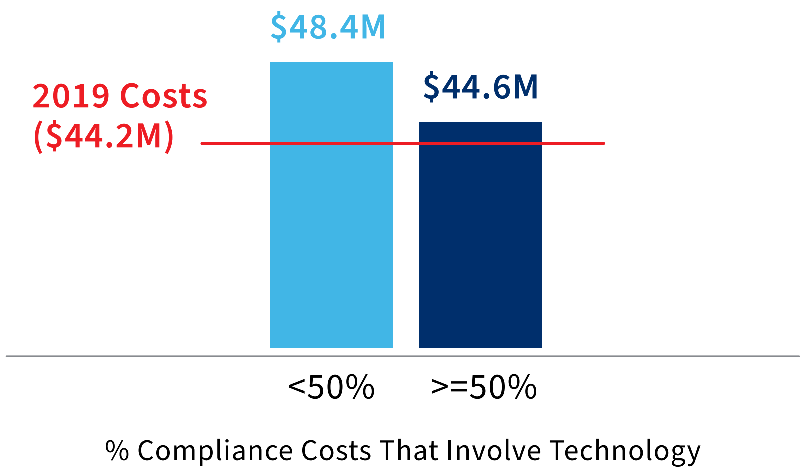
- ✓ Investigate both the **physical** (name, address, documents) and **digital identity attributes** (the digital footprint, devices, and behavior of the entity)
- ✓ Assess both the **individual** (Is this the right person?) and the **transaction** (Are there anomalies with the transaction?)
- ✓ Incorporate both KYC **(individual)** and KYB **(business)** processes
- ✓ Leverage data analytics to assess risks and behaviors in real-time

FINANCIAL INSTITUTIONS THAT ALLOCATE A LARGER SHARE OF FINANCIAL CRIME COMPLIANCE COSTS TO TECHNOLOGY EXPERIENCE LESS SEVERE FINANCIAL AND COMPLIANCE OPERATIONS IMPACTS

As an illustration, mid/large financial firms in the highest spending EMEA markets that dedicate 50% or more of their annual compliance costs to technology experienced the following during 2020:

A Smaller YOY Compliance Cost Increase

Mid/Large Average Annual Compliance Costs: Markets with Highest Annual Spend: France, Germany, Italy, Netherlands (2020 Costs in Millions)



Fewer Negative Impacts from COVID-19 Challenges to Compliance Operations

% Compliance Costs That Involve Technology

% Mid/Large Indicating Significantly Negative Impacts from COVID-19	<50%	>=50%
Customer risk profiling	57%	42%

% Mid/Large Ranking the Following as a Top Challenge Based on COVID-19	<50%	>=50%
More manual compliance workload/activities	42%	20%
Delayed onboarding of new accounts	44%	26%
Difficulty accessing KYC data	47%	26%

FINANCIAL INSTITUTIONS THAT ALLOCATE A LARGER SHARE OF THEIR FINANCIAL CRIME COMPLIANCE COSTS TO TECHNOLOGY ALSO HAVE LOWER COST PER COMPLIANCE PROFESSIONAL

The below illustrates mid/large firms in the highest spending EMEA markets that dedicate 50% or more of their annual compliance costs to technology.

	Technology Spend <50% of Annual Compliance Costs	Technology Spend >=50% of Annual Compliance Costs
Average of AML Compliance Spend: Mid/Large Financial Institutions (Annual Cost USD in Millions)	$48.4 M	$44.6 M
% Costs for Labor	65%	39%
Average Cost of Labor	$31.5M	$17.4M
Average # Compliance Staff	121	126
Average Cost of Compliance per FTE	$260,330	$138,095

IMPLICATIONS

1 Preparation is key

More than ever, financial institutions need to be extremely prepared for increased financial crime compliance burdens and risks.

- Financial crime has increased in sophistication, through cryptocurrency and cyber fraud.
- More institutions are facing a broader set of due diligence challenges, brought about not only by increasing financial crime risks, but also increased regulatory requirements that involve harsher penalties.
- It is unclear what the landscape will look like over the next 1-2 years as shaped by the COVID-19 pandemic. Additionally, financial criminals have sharpened their skills and adapted within a very challenging environment; those learnings will be used to further financial crime as we move out of the pandemic.

2 Balance costs across people and technology

Skilled professionals are an important resource in the fight against financial crime, though there is a point of diminishing returns with regard to the cost of compliance.

- As demand for more experienced professionals grows, so too will the cost of salaries and overhead, particularly since there is a limited universe of top skills.
- Compliance technology is a necessary and valuable resource to complement and support compliance professionals across skill levels and years of experience; it does not need to replace them.
- Financial firms that have invested in compliance solutions will be more prepared to deal with the new normal and any further sudden changes. They can implement stronger due diligence that reduces onboarding times, decreases remediation costs, lessens processing times, increases throughput (without hiring more people) and creates a more effective means of preventing financial crime over the long term.

IMPLICATIONS CONTINUED

3

Consider enhanced due diligence and analytics

A multi-layered approach to due diligence and financial crime risk assessment is essential to compliance technology investment approaches.

- As financial crime complexity grows in the digital age, and regulations require more due diligence on beneficial ownership and risk assessment, in-house compliance solutions may be challenged to keep pace.
- There are unique risks that emerge from individuals, transactions, and contact channels. It is important to assess both the individual and the business, with a particular need for real-time behavioral data/analytics in this digital age.

4

The data is just as important as the solution

In addition to technology, it is essential to have robust and accurate data. Without the support of expanded sources, bad data can lead to bad decisions. Good data can lead to lower risks with benefits to the wider organization.

- Having accurate data and highly capable solutions generates a degree of utility for not just compliance, but other functional areas as well. This includes business development and marketing; knowing more about customers can help inform the right products and services to position with customers.

LexisNexis® RISK SOLUTIONS

FOR MORE INFORMATION

risk.lexisnexis.com/FCC

United States and Canada
+1.800.658.5638

Europe, Middle East and Africa
+44 203 2392 601

Asia
+852 3905 4010

Brazil
0800 892 0600

Mexico
01 800 062 4989