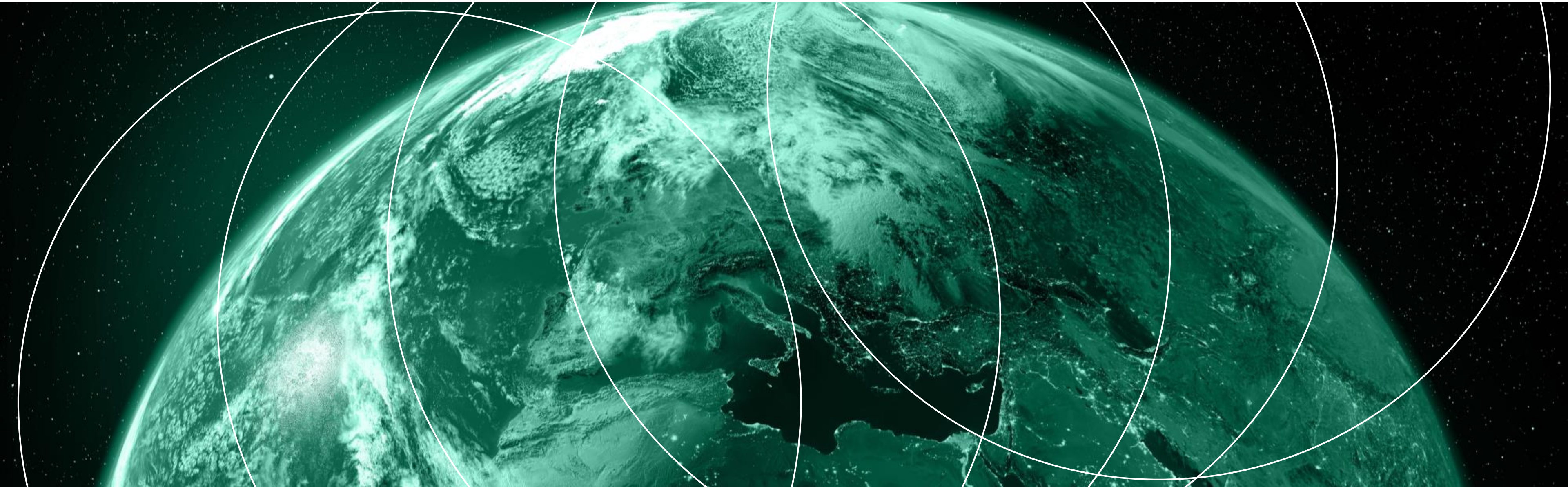
True Cost Of Financial Crime Compliance Study Europe, The Middle East, And Africa

A COMMISSIONED STUDY CONDUCTED BY FORRESTER CONSULTING ON BEHALF OF LEXISNEXIS® RISK SOLUTIONS, NOVEMBER 2023



Executive Summary

The ever-changing technological and geopolitical environment, as well as constant regulatory changes, have redefined the compliance landscape for financial institutions. With 98% of institutions reporting an increase in financial crime compliance costs, the economic pressures are undeniable. This uptick in costs is symptomatic of a broader spectrum of challenges. The wars in Europe and the Middle East make financial crime compliance more complex in 2023, with sanctions increasing in both volume and sophistication. The shift to digital banking has amplified institutions' exposure to advanced financial crimes, especially via digital payments, cryptocurrencies, and AI technologies. Coupled with these new technologies are the complexities introduced by intricate and time-consuming know-your-customer processes during account onboarding. While digital transformation has ushered in growth opportunities, it has also exposed institutions to higher risks of financial crimes.

Despite the various challenges, there are many opportunities to evolve financial crime compliance. As institutions move into this transformative phase, a focus on customer experience is key. Central to this is a proactive approach to financial crime risk management. With the right technologies and partnerships, financial institutions can achieve sustainable growth in customer numbers and revenue while meeting, and sometimes exceeding, applicable financial crime compliance requirements.

Commissioned by LexisNexis® Risk Solutions, Forrester Consulting conducted a global survey of financial crime and compliance decision makers to assess their priorities and challenges. This deck highlights findings from Europe, the Middle East, and Africa (EMEA).

Customer Experience And Compliance Are Shaping The Future Of Finance

Financial crime compliance is essential for safeguarding consumers' interests and the integrity, reputation, and stability of financial institutions and businesses. In the balancing act of digital transformation, robust compliance, and cost-effectiveness, organizations in EMEA have customer experience as a key objective, with Europe (86%) and the Middle East (90%) putting it at the top of their priority list.

In the fight against complex financial crimes, organizations in EMEA prioritize harnessing enriched payment data, with Africa making this their top priority (85%). Enriching payment data with additional information enhances the effectiveness and accuracy of financial crime detection and prevention measures, ultimately improving the effectiveness and efficiency of compliance controls (80%) — another key priority for organizations in EMEA. Respondents also highlighted optimizing their compliance costs (81%) as a key priority to improve profitability, remain agile in adapting to evolving regulatory requirements, and gain a competitive advantage in the market.

"To what extent is your department prioritizing the following objectives over the next 12 months?"

(Showing "Critical priority" and "High priority")

86% Improving customer experience

82% Enriching payment data for improved processing

81% Cutting compliance costs

80% Improving the effectiveness and efficiency of compliance controls

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Unraveling The Compliance Conundrum Amid Operational Constraints

Financial institutions in EMEA face numerous critical pain points:

- Customers expectations around real-time payments are hindered by current compliance models.
- Growing compliance complexity restrains business involvement.
- Complex sanctions are prompting compliance departments to automate and outsource some of their activities.

Top Compliance Pain Points

1. Customers expect payments to be processed in near real time.
2. Complex regulations/sanctions create limitations on the type of business our organization can be involved with.
3. We have a formal process in place for identifying and tracking new types of crime and new criminal methodologies and assessing their impact on our business.
4. Compliance departments are looking to automate some of their activities in the next three years.
5. Compliance departments are looking to outsource some of their activities in the next three years.
6. Current compliance models are preventing payments from becoming real time.
7. Screening alert numbers have been increasing with payment volumes.
8. Recent FATF additions to gray and blacklists had a negative impact on the country my organization operates in.

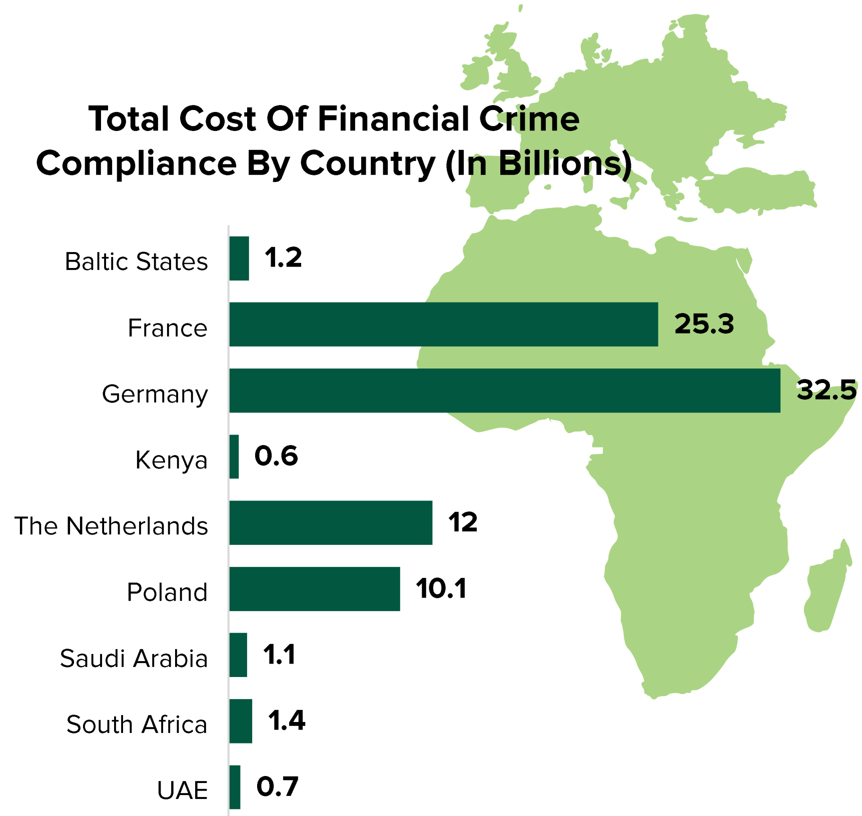
Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Note: Showing top 8 responses and "Strongly agree" and "Agree" responses
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

The Total Cost Of Financial Crime Compliance In EMEA

Total Cost Of Financial Crime Compliance

$85B

Total Cost Of Financial Crime Compliance By Country (In Billions)



Note: The total annual cost of financial crime compliance is calculated using the number of financial institutions in the surveyed markets and survey data regarding financial crime costs. A spend amount is generated for each region by multiplying its average reported total cost of financial crime compliance operations by the number of financial institutions in that region.

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Labor In The Form Of Salaries Is The Biggest Cost Driver For Financial Institutions In EMEA, Consistent With 2022 Trends

"What percentage of your organization's FCC cost would you say is related to the following?"

41%
Labor

34%
Technology

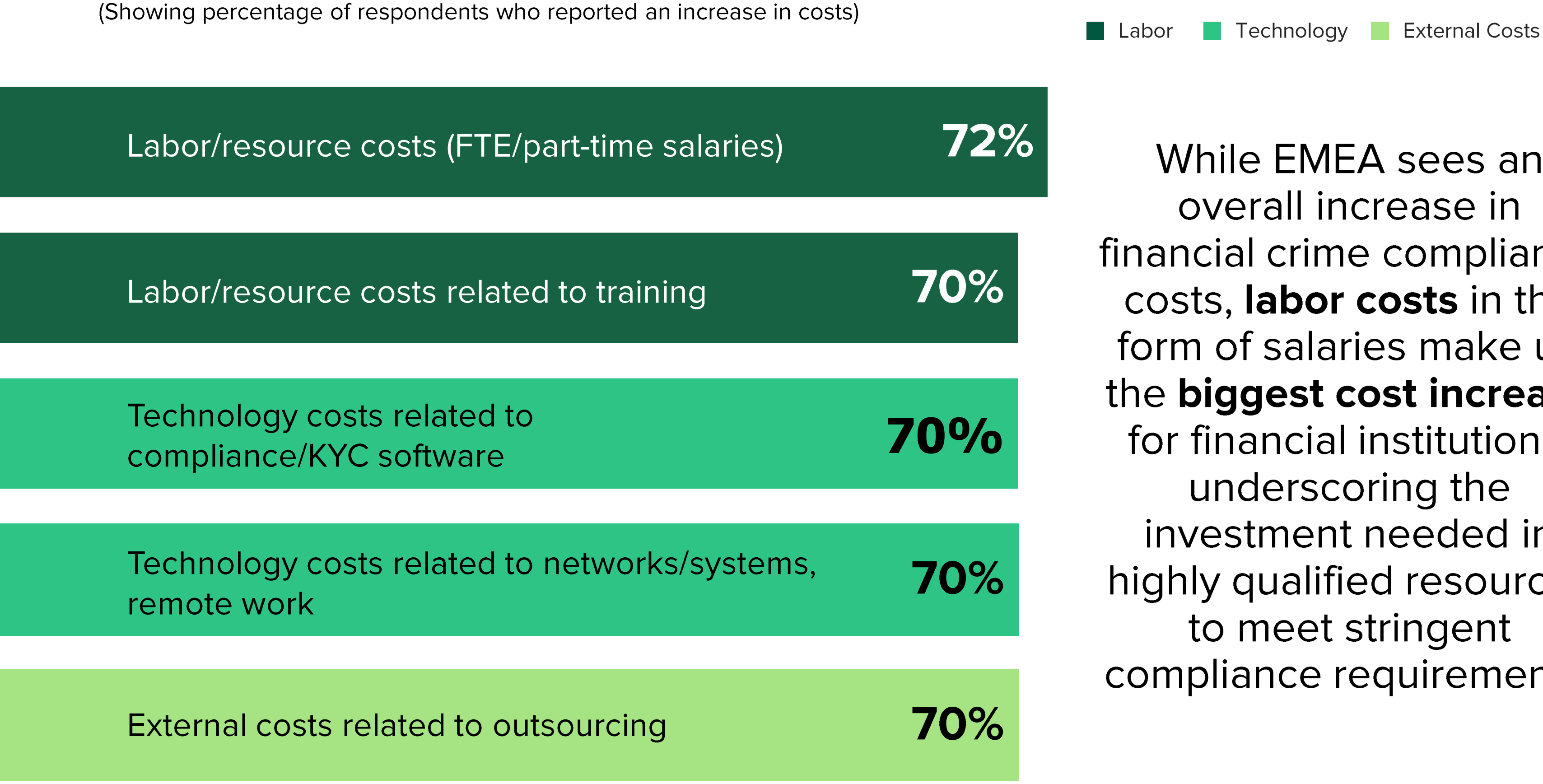
14%
Infrastructure

11%
Outsourcing

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

The Key Contributors To Rising Compliance Costs

“Please provide your organization’s approximate increase in financial crime compliance costs in the last 12 months.”
(Showing percentage of respondents who reported an increase in costs)



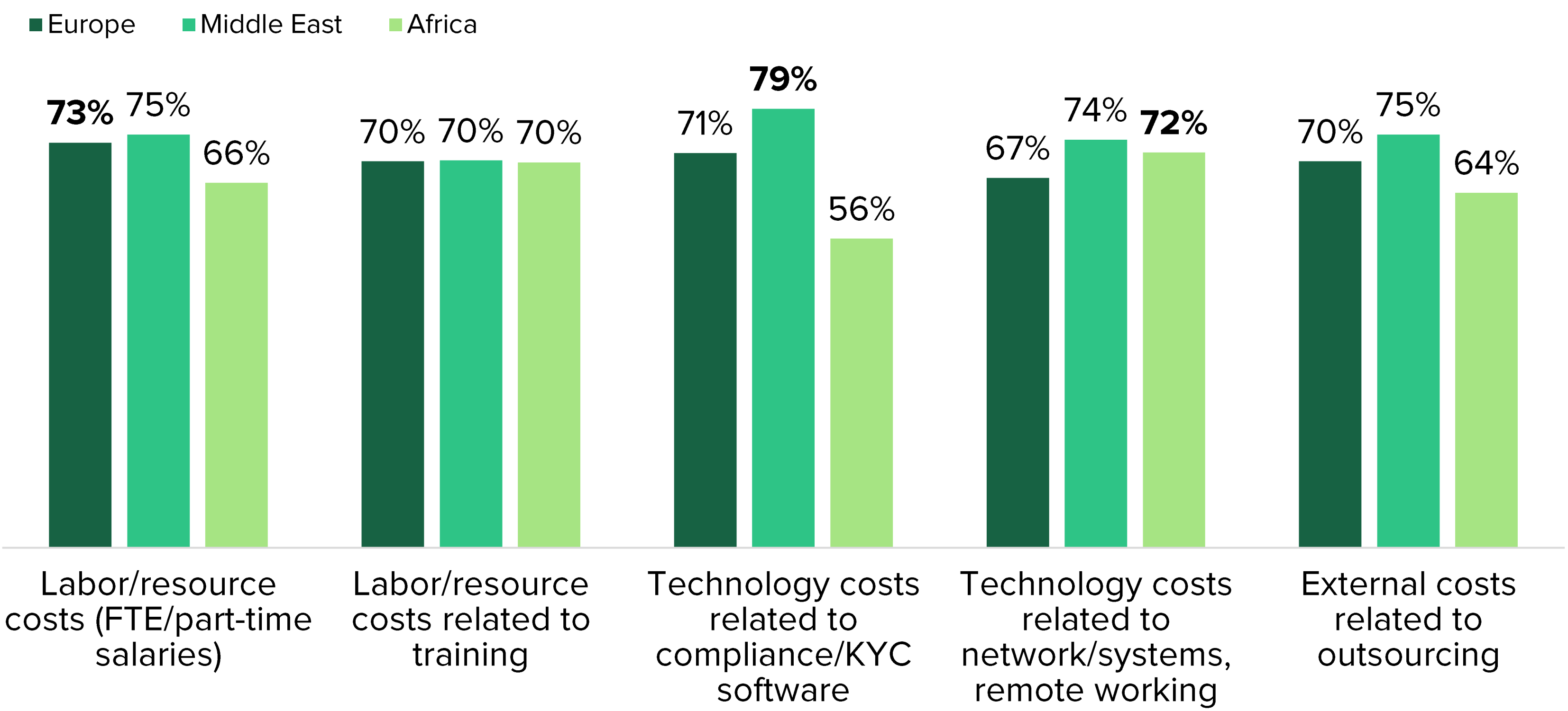
While EMEA sees an overall increase in financial crime compliance costs, **labor costs** in the form of salaries make up the **biggest cost increase** for financial institutions, underscoring the investment needed in highly qualified resources to meet stringent compliance requirements.

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

The Key Contributors To Rising Compliance Costs In Europe, The Middle East, And Africa

“Please provide your organization’s approximate increase in financial crime compliance costs in the last 12 months.”

(Showing percentage of respondents who reported an increase in costs)



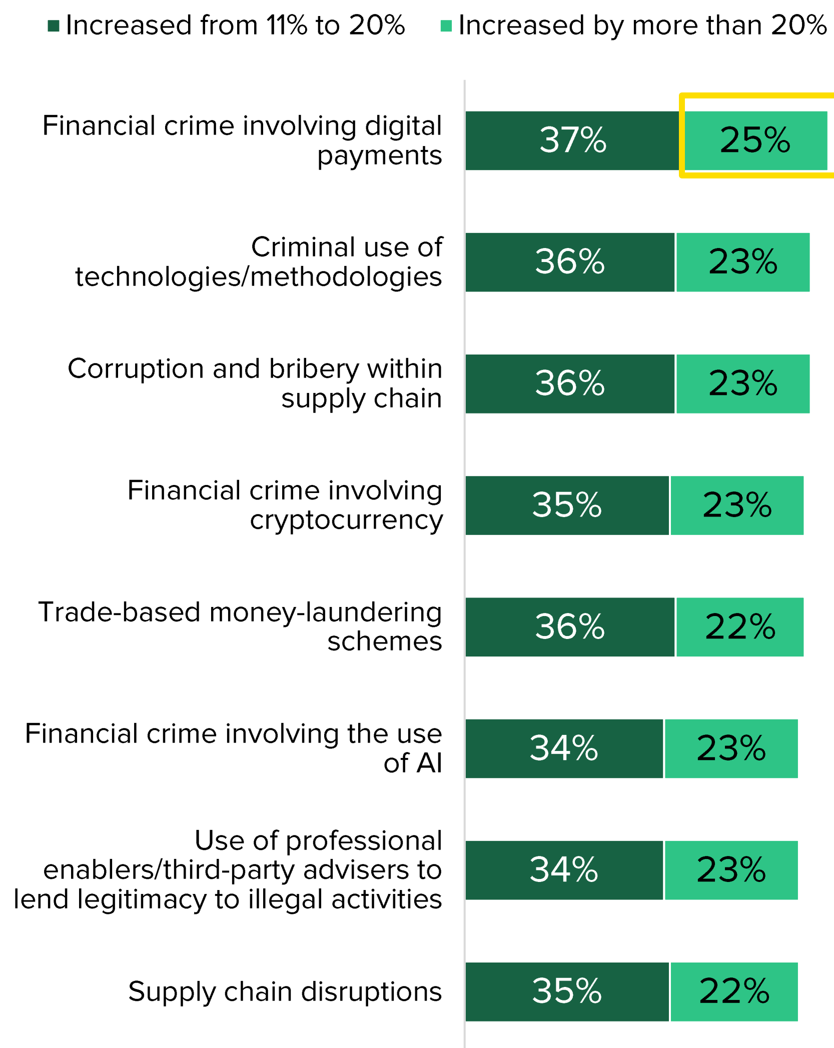
Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Firms Face An Overall Increase Of Financial Crime Threats And Money-Laundering Activities

Cryptocurrencies, digital payments, and AI technologies — once seen as catalysts for progress — are now proving to be tools for illicit activities. Both trade-based money laundering schemes and corruption within supply chains have experienced significant growth, noted by 58% and 59% of respondents, respectively. This indicates a significant risk in supply chain operations. Organizations are feeling the impact and grappling with these sophisticated criminal methodologies — all within an already complex regulatory landscape.

Financial crime involving digital payments has seen the highest increase by more than 20% in the past 12 months.

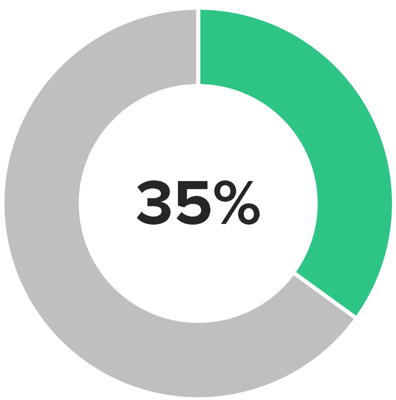
Top 8 Increased In The Past 12 Months



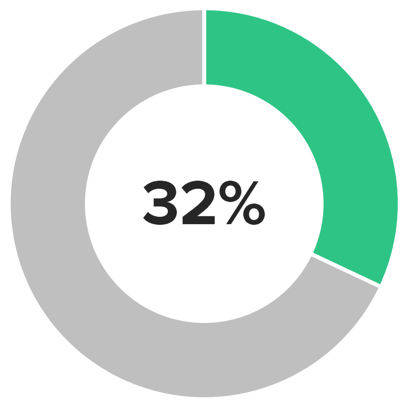
Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

The Cost Drivers Of Financial Crime Compliance

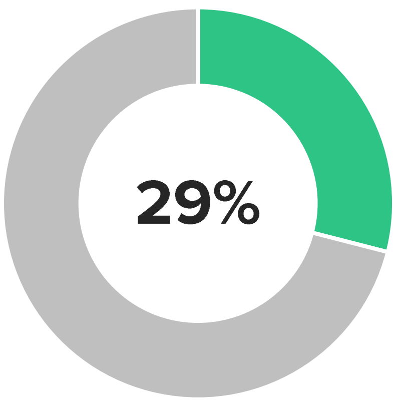
Top Factors Driving Financial Crime Compliance Costs Increase Over The Last 12 Months



Increasing financial crime regulations and regulatory expectations



Increased requirement for automation, data, and tools to support financial crime compliance



Evolving criminal threats

Base: 473 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Top Challenges In Financial Crime Compliance

43% Customer risk profiling

42% KYC for account onboarding

39% Ongoing monitoring

38% Detection of sanctioned entities or PEPs

35% Regulatory reporting

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Note: PEP refers to "politically exposed person;" top five responses that ranked among respondents' top three.
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Charting The Future Of Financial Crime Compliance: Reshaping Operations For Efficiency And Customer Experience

Financial institutions are facing the need to reevaluate their financial crime compliance processes due to sophisticated financial crime threats, regulatory pressures, and technological advancements. Planned changes over the next few years aim to enhance data quality, transaction monitoring, KYC procedures, internal compliance solutions, and anti-money laundering (AML), with anticipated benefits including streamlined products, increased efficiencies, and improved collaboration between compliance and payment teams ultimately transforming compliance practices and benefiting customers and employees alike.

Planned Changes To Financial Crime Compliance In Next Three To Five Years

56%	Data quality
54%	Transaction monitoring
54%	Developing internal compliance solutions to improve efficiency
53%	Know your customer (KYC)
51%	Anti money-laundering (AML)

Base: 482 decision-makers at financial institutions based in EMEA with responsibility for financial crime compliance strategy
Note: Showing top 5 responses.
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Expected Benefits From Changing Financial Crime Compliance Process

56%	Simplified compliance products and the integration into existing payment models
56%	Improved collaboration between compliance team and payment team
53%	Improved customer payment experience
52%	Improved operational efficiencies for the compliance team
47%	Simplified employee experience

Base: 478 decision-makers at financial institutions based in EMEA with responsibility in financial crime and compliance strategy.
Note: Showing top 5 responses.
Source: A commissioned study conducted by Forrester Consulting on behalf of LexisNexis® Risk Solutions, June 2023

Key Recommendations

Balance compliance effectiveness with customer experience. In the digital era, financial institutions are in a battle to acquire and retain customers. Those that can deliver seamless customer onboarding and transaction experiences will be the winners. Striking the balance between customer experience and financial crime compliance efficiency entails streamlining KYC and onboarding processes, reducing false positives, and letting a higher number of legitimate transactions go through without inconveniencing the customer.

Find the right financial crime compliance partner to manage risks and improve efficiency. Labor costs top the list of financial crime compliance spending and contribute to the biggest cost increase. The high inflation rates in many EMEA countries in the first half of 2023 are one of the drivers of the significant increase of labor costs. While in-house compliance teams with expertise are essential, financial institutions should also leverage external financial crime compliance technology providers to help reduce some of the labor costs and improve compliance efficiency. To find the right partner, organizations should zoom in on their future fit capabilities, such as proven financial crime compliance expertise for digital financial services, ease of integration, data management capability, advanced analytics, lightweight software-as-a-service deployments, and the ability to balance financial crime compliance effectiveness with customer experience.

Embrace new technologies to respond to new financial crimes. Criminals are increasingly using new technologies such as AI, cryptocurrencies, and digital channels to carry out their activities. New channels like cryptocurrencies have also been increasingly used for money laundering. To beat the cybercriminals and thwart their more sophisticated financial crimes, financial institutions must be equipped with advanced AI- and ML-based compliance models; they must also leverage privacy-preserving technologies and advanced analytics in their financial crime compliance solutions to identity new crime patterns rapidly.

Methodology

In this study, Forrester conducted a global online survey of 1,181 senior decision-makers at financial institutions to evaluate the cost, current state, and challenges presented by financial crime compliance operations. Survey participants from Europe, the Middle East, and Africa include 482 senior decision-makers in the Baltic States, France, Germany, Kenya, Poland, Saudi Arabia, South Africa, the Netherlands, and the UAE. Questions provided to the participants asked about organizations' priorities; exposure to financial crime activities; financial crime spend and factors driving an increase in financial crime costs; challenges in compliance screening operations; the benefits of financial crime operations; and future implementation plans. Respondents were offered a small incentive as a thank-you for time spent on the survey.

The study began in May 2023 and was completed in June 2023.

ABOUT FORRESTER CONSULTING

Forrester provides independent and objective research-based consulting to help leaders deliver key outcomes. Fueled by our customer-obsessed research, Forrester's seasoned consultants partner with leaders to execute their specific priorities using a unique engagement model that ensures lasting impact. For more information, visit forrester.com/consulting.

Project Team

Antonie Bassi, Market Impact Consultant
Emilie Beaud, Associate Market Impact Consultant

Contributing Research

Forrester's Security & Risk research group

Demographics

Geography	
Baltic States	**11%**
France	**11%**
Germany	**11%**
Kenya	**11%**
Poland	**11%**
Saudi Arabia	**11%**
South Africa	**11%**
The Netherlands	**11%**
UAE	**11%**

Respondent Level	
C-level executive	**23%**
Vice president	**44%**
Director	**33%**

Annual Worldwide Revenue (USD)	
\$10M to \$99M	**5%**
\$100M to \$199M	**5%**
\$200M to \$299M	**10%**
\$300M to \$399M	**11%**
\$400M to \$499M	**14%**
\$500M to \$999M	**22%**
\$1B to \$5B	**19%**
More than \$5B	**13%**

Industry	
Financial services	**100%**

Department	
Finance	**34%**
Compliance	**22%**
Technology	**17%**
Executive team	**14%**
Risk	**13%**

Number Of Employees	
100 to 499	**14%**
500 to 999	**26%**
1,000 to 4,999	**29%**
5,000 to 19,999	**19%**
20,000 or more	**12%**

Note: Percentages may not total 100 due to rounding.

Demographics

Type Of Financial Institutions	
Insurance company	**21%**
Retail bank	**20%**
Investment bank/securities firm	**20%**
Wholesale/commercial bank	**17%**
Asset management firm	**15%**
Money services business (MSB)	**6%**

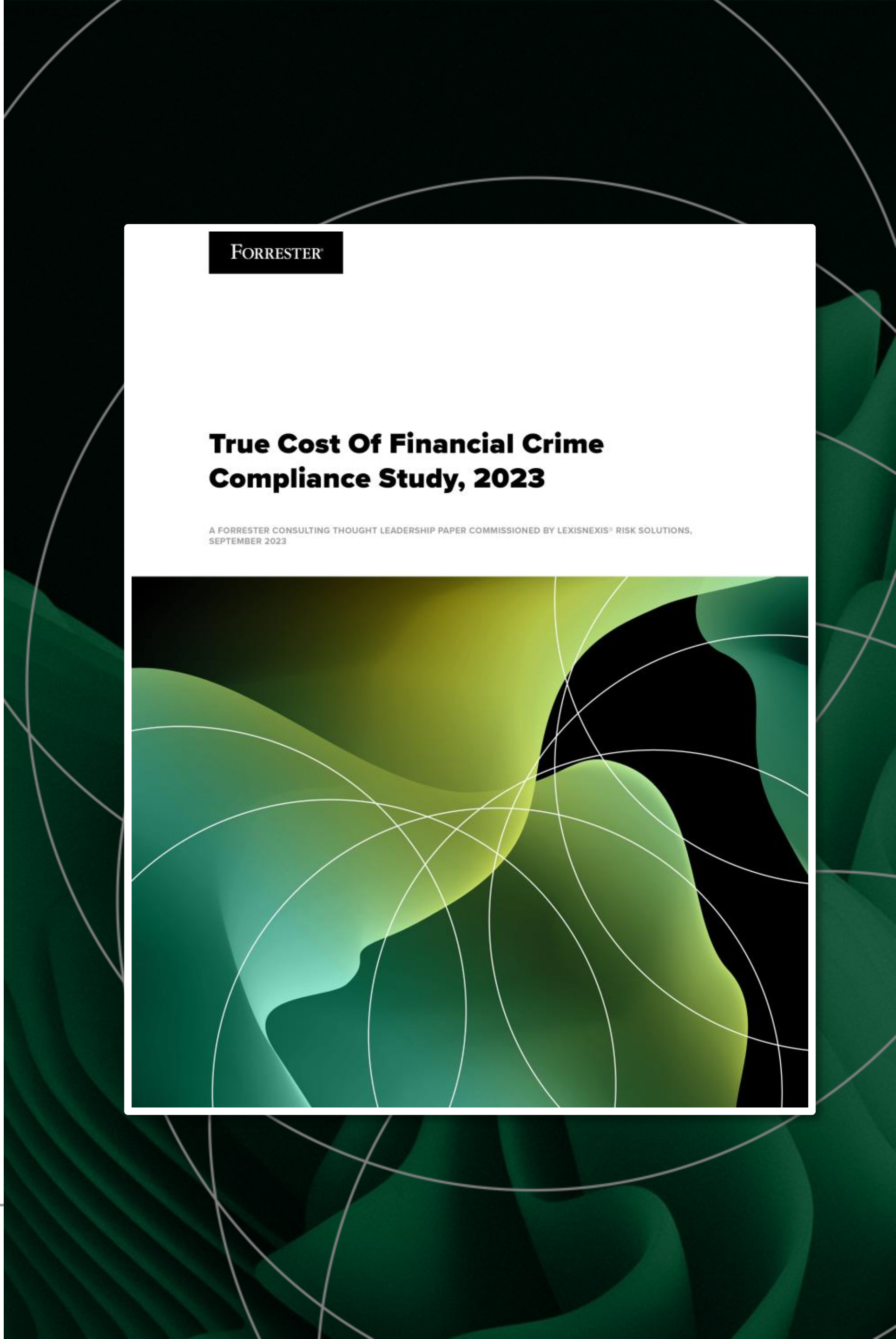
Responsibilities Within The Organization	
Financial crime compliance	**73%**
Know your customer (KYC)/customer due diligence	**55%**
Anti-money laundering policies and procedures	**51%**
Internal audit and reporting	**50%**
Risk assessment and effective risk management	**48%**
Transaction monitoring	**47%**
Reporting	**46%**
Sanctions monitoring	**43%**
Managing compliance data/IT systems	**30%**

Note: Percentages may not total 100 due to rounding.

Explore More

Download the full study: “True Cost Of Financial Crime Compliance Study, 2023”

Read now →



CONTACT LEXISNEXIS® RISK SOLUTIONS FOR MORE INFORMATION.