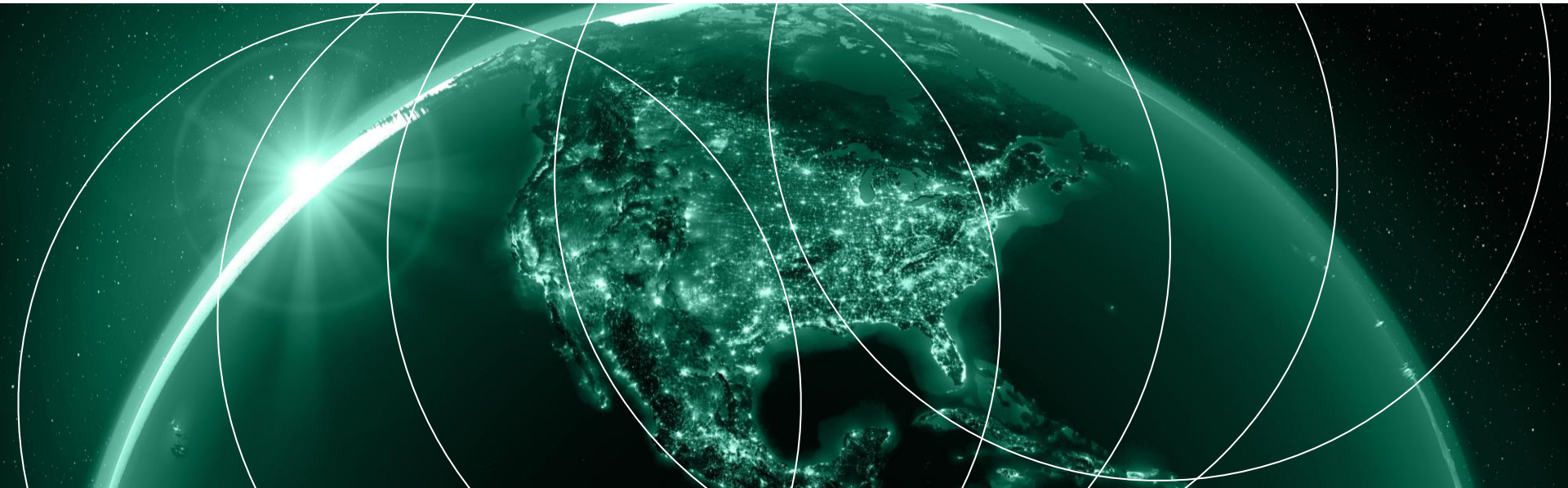


# True Cost Of Financial Crime Compliance Study, 2023 United States And Canada

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



# Executive Summary

The ever-changing technological and economic environment has redefined the compliance landscape for financial institutions. With 98% of institutions reporting increased financial crime compliance (FCC) costs, the economic pressures are undeniable. This uptick in costs is symptomatic of a broader spectrum of challenges. The shift to digital banking has amplified institutions' exposure to sophisticated 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.

However, there are many opportunities to evolve FCC. As institutions start to do this, focusing on customer experience (CX) is critical. 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 FCC requirements.

Commissioned by LexisNexis® Risk Solutions, Forrester Consulting conducted a global survey of financial crime compliance decision-makers to assess their priorities and challenges. This deck highlights findings from the US and Canada.



# CX And Compliance Are Shaping The Future Of Finance

The risk of financial crimes is growing in a world that's becoming more complex and connected. Balancing the drive for digital transformation with the desire for robust compliance, cost-effectiveness, and a superior customer experience is challenging.

Organizations are reevaluating their priorities and identifying the key areas that need immediate attention to counter rising financial crime.

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

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



**76%** Improving CX



**74%** Improving the effectiveness and efficiency of compliance controls



**72%** Enriching payment data for improved processing



**70%** Cutting compliance costs

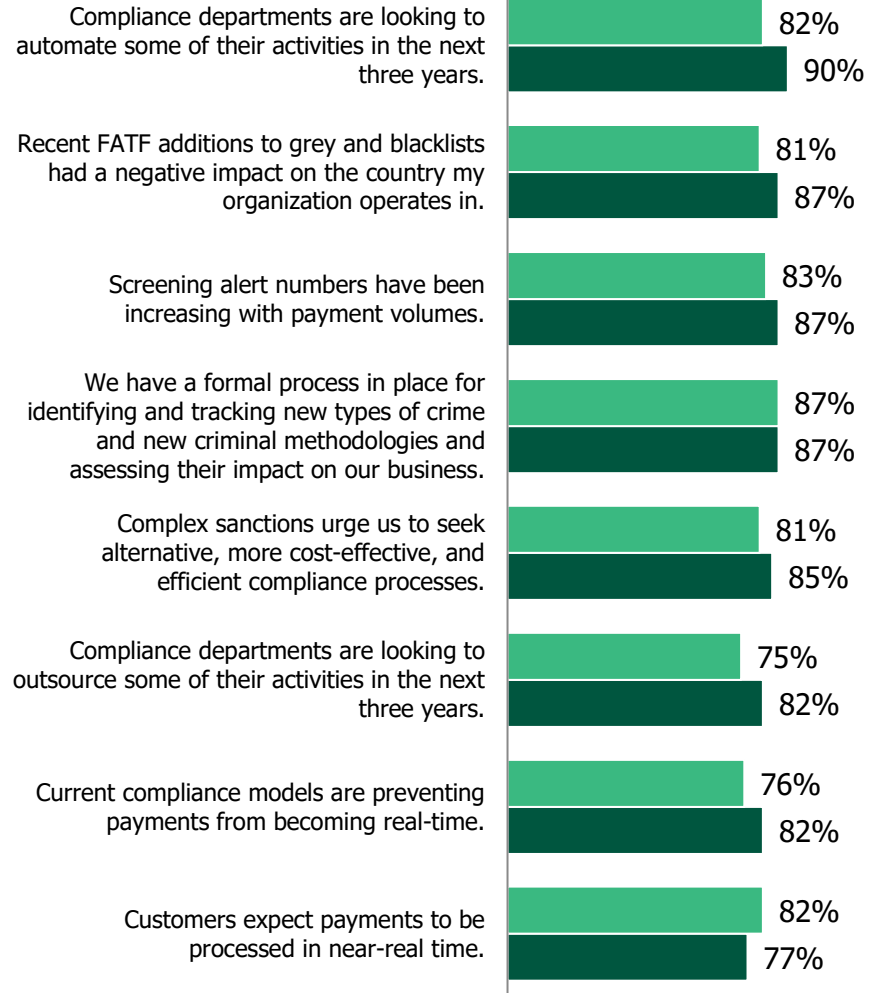
# Unraveling The Compliance Conundrum Amid Rapid Change

Financial institutions in the US and Canada face numerous critical pain points:

- Increasing screening alert numbers signal a steep rise in compliance workloads.
- Customers' expectations around real-time payments are hindered by current compliance models.
- Complex sanctions are prompting compliance departments to automate and outsource some of their activities — especially small financial institutions.

## Top Compliance Pain Points

■ Mid/large (\$10B+) ■ Small (<\$10B)

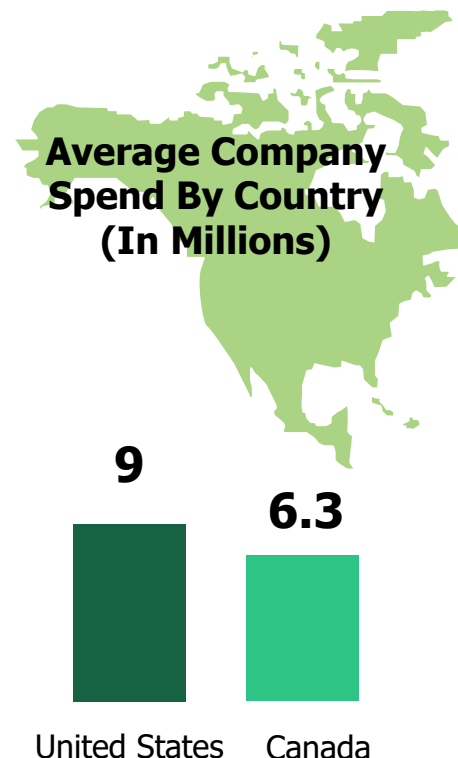
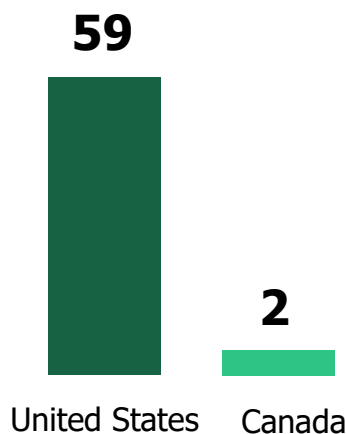


# The Total Cost Of Financial Crime Compliance In The US And Canada

**Total Cost Of Financial Crime Compliance**



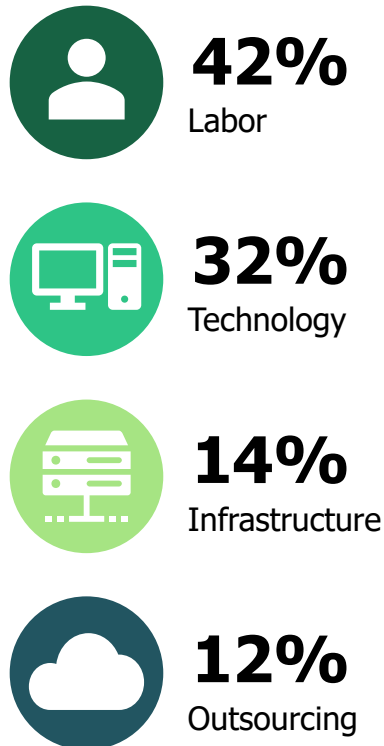
**Total Cost Of Financial Crime Compliance By Country (In Billions)**



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.

# Labor Is The Biggest Cost Driver For Financial Institutions In The US And Canada

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



# The Key Contributors To Rising Compliance Costs

## FCC Cost Increase In The Last 12 Months

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

■ Labor ■ Technology ■ External Costs

Technology 77%

External costs related to outsourcing 75%

Labor 71%

**Over three in four** respondents agree that technology costs are increasing for financial institutions in the US and Canada, underscoring the expense of technological investment needed to meet stringent compliance requirements.

# The Key Contributors To Rising Compliance Costs In The US And Canada

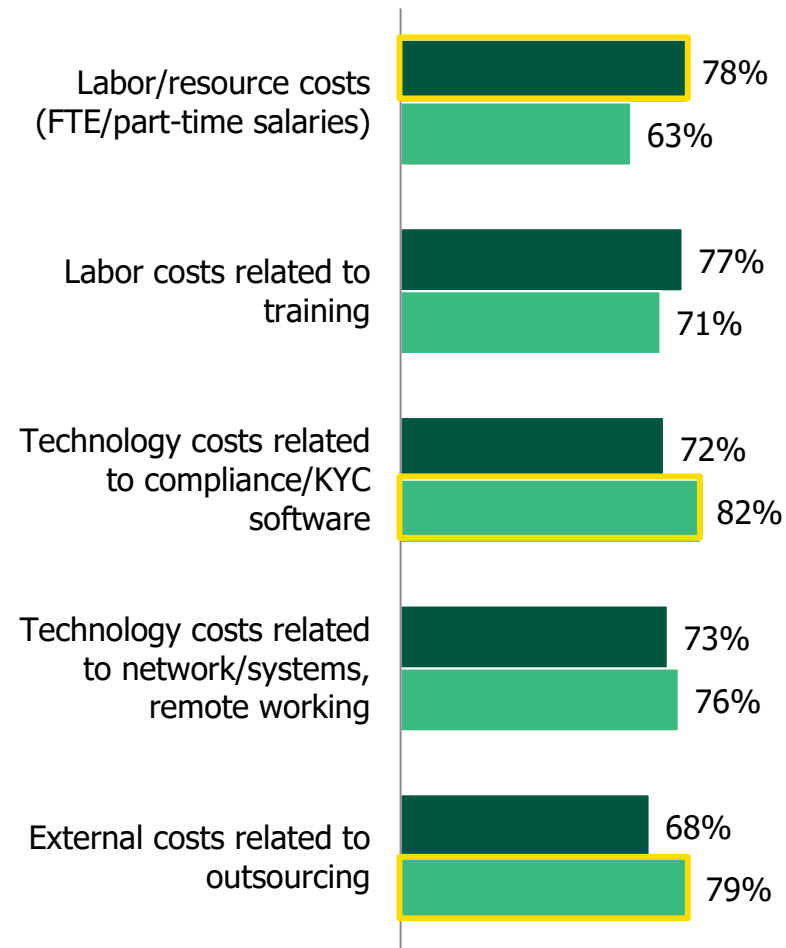
78% of surveyed small financial institutions reported higher FCC cost increases in labor costs compared to only 63% of mid and large-sized organizations.

On the other hand, mid and large financial institutions reported cost increases for technology related to compliance KYC software (82%) as well as external costs related to outsourcing (79%).

## FCC Cost Increase In The Last 12 Months

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

■ Small (<\$10B) ■ Mid/large (\$10B+)



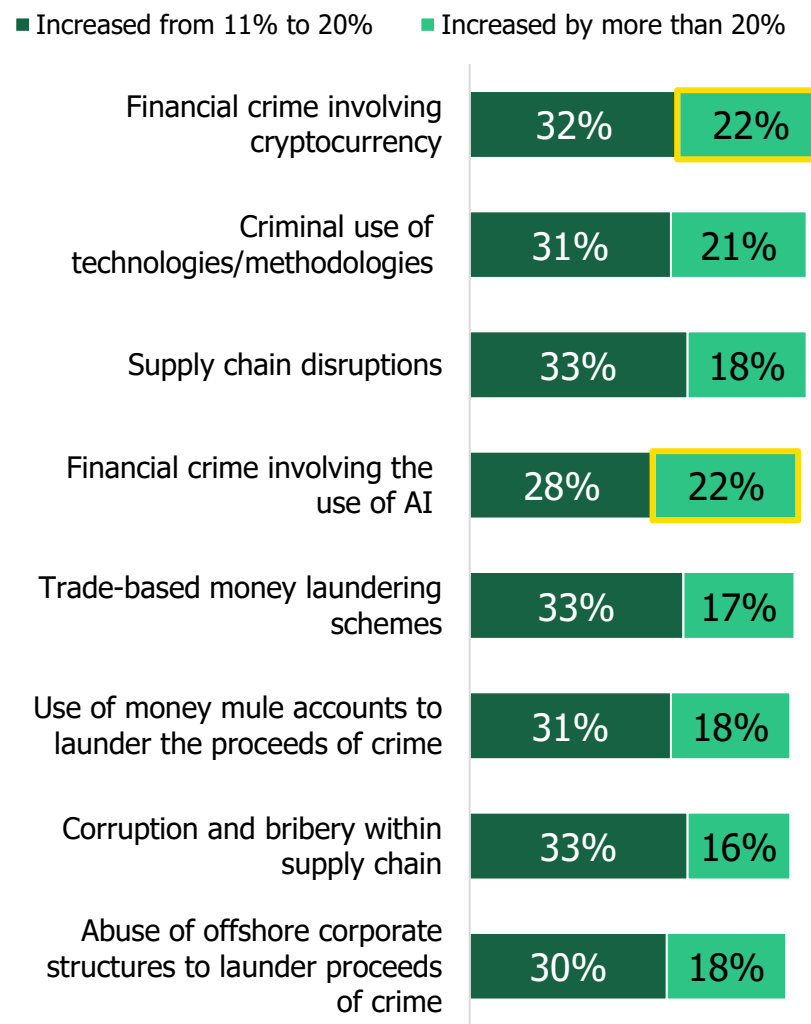


# Firms See An Overall Increase In Financial Crime And Money-Laundering Activities

Cryptocurrencies, digital payments, and AI technologies — once seen as catalysts for progress — are now proving to be tools for illicit activities. Organizations are feeling the impact and grappling with these sophisticated criminal methodologies within an already complex regulatory landscape.

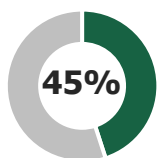
Financial crime involving cryptocurrencies (22%) and the use of AI (22%) has seen the highest increase by more than 20% in the past 12 months.

## Top 8 Increased In The Past 12 Months



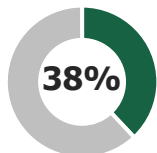
# Top Factors Driving FCC Costs Increases Over The Last 12 Months

## Small (<\$10B)



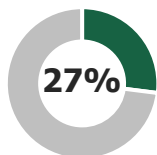
45%

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



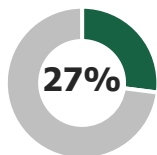
38%

Increasing financial crime regulations and regulatory expectations



27%

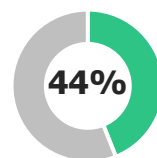
Evolving criminal threats (e.g., increases in financial crime typologies and evolving sophistication)



27%

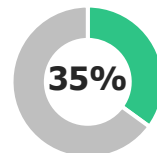
Requirements around perpetual KYC

## Mid/Large (\$10B+)



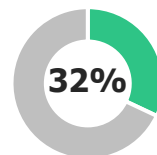
44%

Increasing financial crime regulations and regulatory expectations



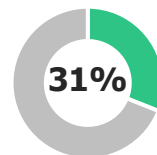
35%

Evolving criminal threats



32%

Increase in scope and/or price of external services (e.g., legal costs for arbitration)



31%

Increased competition (e.g., from fintechs/challenger banks)

# Compliance Screening Operations' Top Challenges


Compliance screening is crucial for detecting and preventing financial crime and maintaining a secure financial ecosystem. Challenges in this process include navigating complex KYC procedures, accurately profiling customer risks, ensuring up-to-date records of sanctioned entities and politically exposed persons, and continuous sanctions screening. Additionally, accurate and comprehensive regulatory reporting is essential but can be difficult due to the complex regulatory landscape and data and technology challenges.

- 
- 1 KYC for account onboarding
  - 2 Sanctions screening
  - 3 Regulatory reporting
  - 4 Positive identification of sanctioned entities or PEPs
  - 5 Customer risk profiling

# Charting The Future Of FCC: Reshaping Operations For Efficiency And Customer Experience


Financial institutions are facing the need to reevaluate their financial crime compliance processes. Planned changes over the next few years aim to enhance various FCC processes with anticipated benefits, including streamlined products, increased efficiencies, and improved collaboration, ultimately transforming compliance practices and benefiting customers and employees alike.

## Planned Changes To FCC In Next Three To Five Years

- 59%** Outsourcing more compliance services
  - 55%** Developing internal compliance solutions to improve efficiency
  - 54%** Anti-money laundering (AML)
  - 54%** Data quality
  - 48%** KYC
- 

Base: 160 decision-makers at financial institutions in the US and Canada 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 FCC Process

- 59%** Simplified compliance products and the integration into existing payment models
  - 58%** Improved operational efficiencies for the compliance team
  - 57%** Improved collaboration between compliance team and payment team
  - 48%** Improved customer payment experience
  - 43%** Simplified employee experience
- 

Base: 159 decision-makers at financial institutions in the US and Canada 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

# Key Recommendations

**1. Find the right FCC partner to manage costs and improve efficiency.** Labor costs top the list of FCC spending. While in-house compliance teams with expertise are essential, financial institutions should also leverage external FCC technology providers to 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 FCC expertise for digital financial services, ease of integration, data management capability, advanced analytics, lightweight software-as-a-service deployments, and the ability to balance FCC effectiveness with CX.

**2. Balance compliance effectiveness with customer experience.** Financial institutions are battling to acquire and retain customers in the digital era. Those that can deliver seamless customer onboarding and transaction experiences will be the winners. Striking the balance between CX and FCC efficiency entails streamlining KYC and onboarding processes, reducing false positives, and letting many legitimate transactions go through without inconveniencing the customer.

**3. Embrace new technologies to respond to new financial crimes.** Criminals increasingly use new technologies such as AI, cryptocurrencies, and digital channels to carry out their activities. To beat the cybercriminals and thwart their more sophisticated financial crimes, financial institutions need to be equipped with advanced AI- and ML-based compliance models; they need to also leverage privacy-preserving technologies and advanced analytics in their FCC solutions to identify 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 include 160 senior decision-makers for financial crime compliance in the United States and Canada. Questions provided to the participants asked about organizations' priorities, exposure to financial crime activities, financial crime spending 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 the 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](https://forrester.com/consulting).

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## Project Team

Antonie Bassi, Market Impact Consultant  
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## Contributing Research

Forrester's [Security & Risk](#) Research Group

# Demographics

Geography	
Canada	<b>20%</b>
United States	<b>80%</b>

Assets	
>\$100B	<b>12%</b>
\$50B to \$100B	<b>22%</b>
\$10B to \$49B	<b>28%</b>
\$1B to \$9B	<b>21%</b>
\$500M to \$999M	<b>11%</b>
\$100M to \$499M	<b>6%</b>

Respondent Level	
C-level executive	<b>26%</b>
Vice president	<b>29%</b>
Director	<b>45%</b>

Number Of Employees	
100 to 499	<b>14%</b>
500 to 999	<b>22%</b>
1,000 to 4,999	<b>29%</b>
5,000 to 19,999	<b>21%</b>
20,000 or more	<b>14%</b>

Industry	
Financial services	<b>100%</b>

Department	
Finance	<b>29%</b>
Compliance	<b>24%</b>
Executive team	<b>18%</b>
Technology	<b>15%</b>
Risk	<b>14%</b>

Note: Percentages may not total 100 due to rounding.

# Demographics

Type Of Financial Institutions	
Wholesale/commercial bank	<b>23%</b>
Retail bank	<b>21%</b>
Investment bank/securities firm	<b>19%</b>
Asset management firm	<b>18%</b>
Insurance company	<b>13%</b>
Money services business (MSB)	<b>6%</b>

Responsibilities Within The Organization	
Financial crime compliance	<b>80%</b>
Anti-money laundering policies and procedures	<b>46%</b>
Risk assessment and effective risk management	<b>46%</b>
Know your customer (KYC)/customer due diligence	<b>45%</b>
Internal audit and reporting	<b>44%</b>
Sanctions monitoring	<b>42%</b>
Reporting	<b>41%</b>
Transaction monitoring	<b>38%</b>
Managing compliance data/IT systems	<b>26%</b>

Note: Percentages may not total 100 due to rounding.



# Explore More

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

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