LexisNexis®
RISK SOLUTIONS

Survey Report

LexisNexis® Risk Solutions

The True Cost of Anti-Money Laundering Compliance

European Edition

September 2017

Table of Contents

Executive Summary

EU regulations governing anti-money laundering (AML) compliance continue to evolve, most recently with the EU's Fourth AML Directive coming into force in June 2017. The expanded focus of this new Directive increases pressure on compliance teams, with significant fines and reputational damage with violations.

This adds to the AML compliance cost burden among European financial institutions. Their most significant cost component is labour resources, which include not just salaries but also benefits, taxes and other corporate-required contributions. With increasing compliance workloads – including an expectation of increased volumes of alerts - there could be a time relatively soon where the reliance on human resources shows diminishing returns in the face of rising workloads and costs. There are also indirect costs associated with lost productivity and delayed on-boarding which causes customer friction and lost new business. Whilst risk compliance technology is being used by European financial institutions, there is opportunity to better leverage it to improve processes efficiencies and offset the negative impact of these costs.

What is the true cost of AML compliance for financial institutions operating in European markets? And are there any benefits of AML compliance?

To answer these questions, LexisNexis® Risk Solutions conducted an in-depth survey of AML, compliance and risk professionals across five markets (France, Germany, Italy, Switzerland and the Netherlands) in Europe. The survey focused heavily on the banking industry, though also included insurers, asset management and money services bureau firms. The objective of the research was to identify the true cost of compliance and the underlying factors driving it.

Key findings from this study include the following:

- Extrapolating survey results to all financial institutions across the five study markets, we estimate the true cost of compliance across these countries to be US$83.5 billion annually. This is a function of the number and size of financial firms and, thereby, varies by each country.
- Whilst European financial institutions must adhere to AML compliance regulations, they look beyond just the requirement and view such regulation as an opportunity to improve business results, including better data to manage customer relationships and risk analyses.
- However, since labour resources represent a significant component of compliance spend (average 74%) and activities, firms are burdened with this expense along with decreased productivity and lost prospective customers.
- Financial institutions of all sizes get hit hard by AML compliance costs because of basic overhead investments required. Whilst larger firms spend significantly more in terms of total dollar outlays, the cost to smaller firms takes a larger bite in terms of per cent of total assets.
- Since most due diligence time is spent on more complex corporate accounts, where assets and ownership beneficiaries can be more difficult to identify, sources of information used by human resources need improvement in order to keep up with increased workloads.
- This cost and productivity burden is expected to grow, with increased alert volumes and resource needs. Without re-balancing AML cost components to involve more compliance risk management technology, financial institutions can get caught up in an upward swirl of AML costs.

Let's take a more detailed look at insights from participating financial crime and compliance professionals.

AML Compliance Drivers and Influencers

Business performance and risk management are key drivers of AML compliance initiatives for financial institutions in Europe.

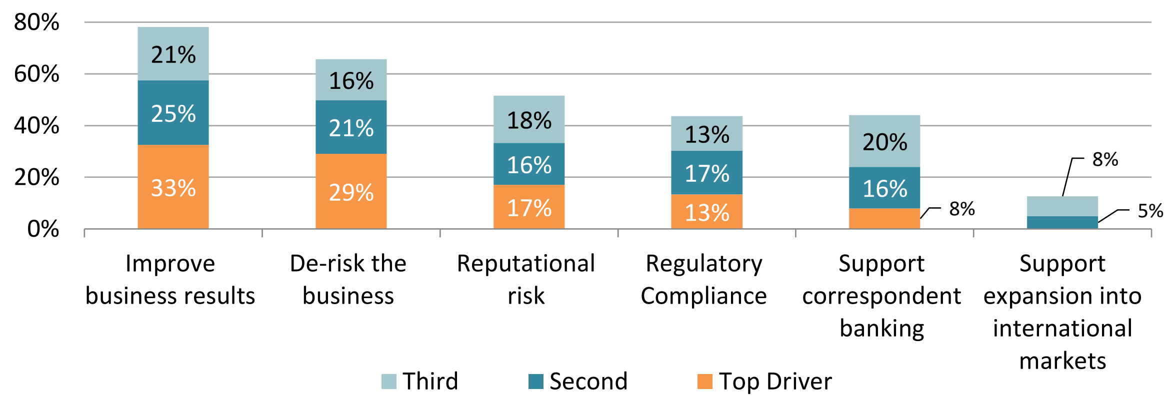
Key Findings:

- **Improving business results and de-risking** are the top AML compliance drivers among financial institutions in France, Germany, Italy, Switzerland and the Netherlands.
- However, **financial institutions are not seeing these results** in full yet given the cost of AML compliance and impacts of regulations on productivity and customer friction.

Understanding the reasons that European financial institutions pursue anti-money laundering (AML) initiatives provides context for understanding AML costs. We asked financial compliance professionals to rank the top three drivers for AML initiatives within their firms, with results indicating that compliance programmes are viewed as a strategic tool to grow and protect their businesses in a competitive market, not just as a requirement.

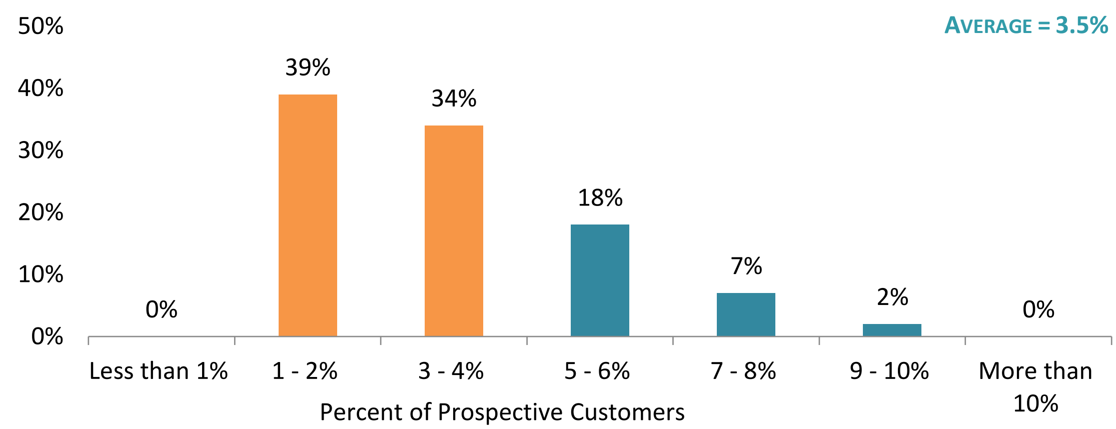
Improving business results and *de-risking* emerged as the top drivers of AML initiatives by a significant margin. Whilst due diligence aims at limiting financial crime activity, firms need to be careful to avoid de-risking of whole sectors, which can lead to negative business results from regulatory actions and impact on brand reputation. Unsurprisingly, given the increasing level of EU financial crime scrutiny, *regulatory compliance* was also an important driver of these initiatives, though secondary to business issues for a majority of firms.

Figure 1: Top Drivers of AML Initiatives at Firms



Improving business results corresponds with the top perceived AML compliance change benefits, which are *improvements in data management for [stronger] customer relationship management and [better] financial risk management.* Both of these lead to better, and presumably, faster decisions. However, financial institutions in Europe may not be experiencing these expected benefits in full. An overall theme from respondents was the degree to which AML compliance can cause customer friction, through delayed on-boarding, thereby having a negative impact on customer acquisition. In fact, nearly three-fourths (73%) reported losing up to 4% of prospective customers because of friction during on-boarding. Therefore, we can see that European financial institutions are struggling with both the direct cost of compliance as well as the opportunity costs resulting from process inefficiencies and negative customer experiences.

Figure 2: Opportunity Cost of Refused Accounts or Customer Walkouts Due to AML Compliance



Whilst *improving business results* is a common top driver across countries, there are some differences with other drivers by particular segments.

- Firms in Switzerland were more likely than others to select *reputational risk* (69%) and *regulatory compliance* (56%) as key drivers. Historically, client anonymity and privacy has been the hallmark of Swiss banking; trust and reputation are the foundation for this. But negative coverage during recent years, including the US-led crackdown on Swiss banking transparency and various tax-related and money laundering scandals, have proven damaging to certain banks' reputations.[1] This, along with an agreement with the Organisation for Economic Co-operation and Development (OECD) to share data – entering into force in 2018 – is likely behind the importance of reputational risk among these firms.

[1] Switzerland: Rebuilding the brand, March 2016, Financial Times; https://www.ft.com/content/909a43e6-f1a9-11e5-aff5-19b4e253664a

- There are also differences in drivers across firm size, measured by total assets. Most notably, the growth objectives of large firms (US$50 billion or more in assets) reflect their higher likelihood of ranking *support for correspondent banking* and *international expansion* as additional AML drivers. Interestingly, though, both of these are in decline relative to bank de-risking. Correspondent banking is an essential underpinning of the global payments system and cross-border transactions settlements; however, the inherent challenge of "knowing your customers' customers" has made these relationships more risky in the stricter KYC environment such that the number of correspondent banking relationships has declined in recent years.[2] Similarly, some European banks have pulled back from or pulled out of certain Asian sectors, based on profitability pressures in their domestic markets and AML/KYC challenges that pose reputational risks.[3] This latter point coincides with a push for more Asian banks to step in as "national champions" and regional banks. [4]

When comparing findings to those from Asian firms (collected in the equivalent 2015/2016 study), we see the difference in these growth objectives play out, with *international expansion* as a top AML compliance driver among almost half (46%) of Asian firms while it falls to the bottom of the list among European firms (13%). On the other hand, *improving business results* was only a secondary driver in Asia. These differences may reflect a relatively more mature approach to AML compliance in Europe, where firms are not simply adhering to regulations but also seeking broader business benefits.

[2] https://www.fx-mm.com/news/68707/correspondent-banking-relationships-fall/
[3] http://www.ey.com/Publication/vwLUAssets/EY-banking-in-asia-pacific/$FILE/EY-banking-in-asia-pacific.pdf
[4] Ibid

The Cost of AML Compliance

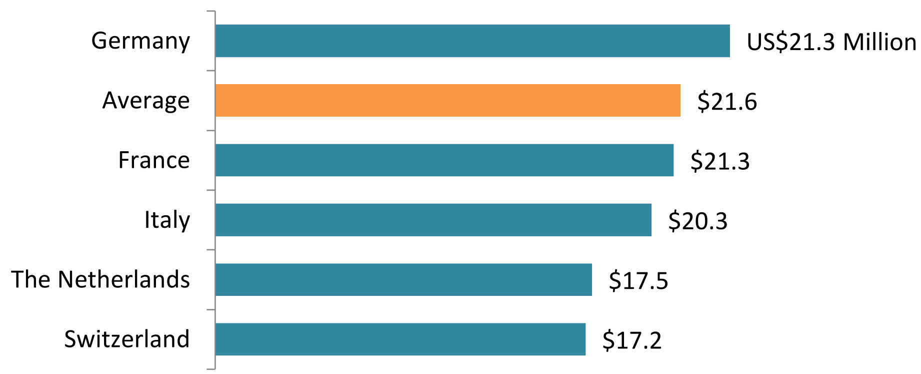
AML compliance spending is high and varies across Europe.

Key Findings:

- **The true cost of AML compliance** across financial institutions in France, Germany, Italy, Switzerland and the Netherlands is estimated at US$83.5 billion annually.
- **Labour is the significant component** of AML compliance costs, with costs scaling upwards for larger firms. Costs will continue to increase, making labour more expensive.
- **The cost of AML compliance differs by country** and is a function of each country's number and size of financial institutions. Germany represents the highest cost of AML compliance based on these factors.

Financial firms were asked to estimate the annual cost of their AML compliance operations, including labour/resources, systems/data, and other governance activities for all aspects of compliance such as customer due diligence, sanctions screening, transaction monitoring, investigations, reporting, analytics/risk assessment, auditing and training. Looking at the results by country, average AML compliance costs per financial institution range from US$17.2 million in Switzerland to US$23.9 million in Germany. The differences are heavily driven by the distribution of firm sizes in each country; across the countries surveyed, Switzerland has the highest share of very small firms (less than US$1 billion in assets) whilst Germany has the highest share of very large firms (more than US$100 billion in assets).

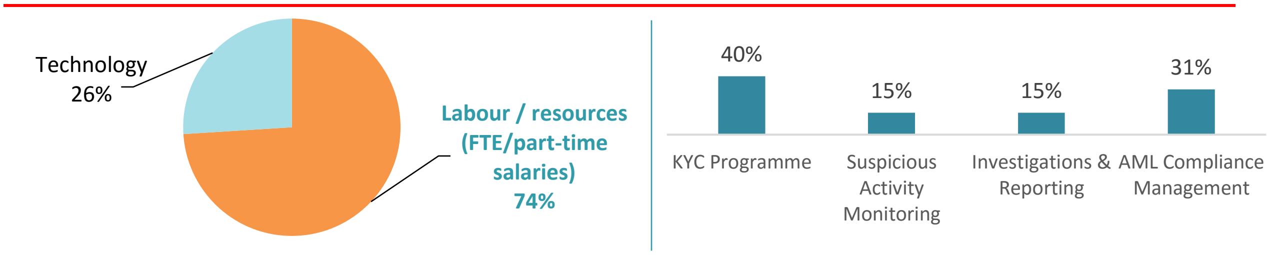
Figure 3: Average Annual Cost of AML Compliance Operations by Country (US$ in Millions)



Labour accounts for a majority of AML compliance costs.

Of total spend on AML compliance operations, financial institutions among European study countries attribute roughly three-quarters to labour and one-quarter to technology. The distribution is similar across countries and types / sizes of firms. Given the sizeable labour component, it is possible that risk management technology is not being used optimally. If true, that would be a factor contributing to high compliance costs, since labour expenditures increase year-on-year and cover not only salaries but benefits, taxes and other company contributions.

Figure 4: AML Compliance Cost Breakdown by Type and Compliance Activity

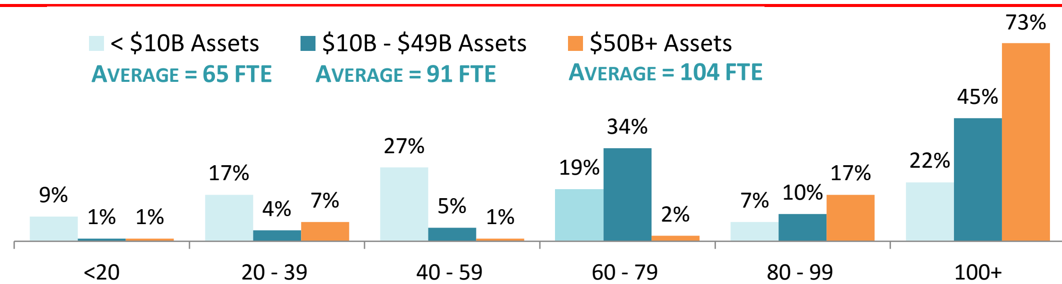


Know Your Customer (KYC) programmes account for the largest activity of AML compliance spend (40%). KYC consumes labour hours through information collection and – where risk management solutions are not being used – list screening and risk assessment. AML compliance programme management is the second largest expense, accounting for 31% of spend. This is consistent with firms relying more heavily on human than technology-aided decision making. The above distribution of costs is fairly similar across countries and types / sizes of firms.

Size of firm by total assets scales roughly to size by AML compliance teams. This impacts the average annual cost of AML compliance.

Among firms with more than US$50 billion in assets, 73% had teams greater than 100 full-time employees (FTE), with the estimated average of 104. Among firms with less than US$10 billion in assets, the estimated average team size was 65 FTEs.

Figure 5: FTE Staff Employed in AML Compliance Operations by Firm Asset Size



In terms of AML compliance team structure, they typically include both compliance and sanctions screening analysts, with some firms leveraging the same teams to cover both activities.[5]

- Compliance screening analysts represent the largest portion of overall AML compliance teams, with an average of seventy-four percent of overall Compliance organisation FTEs involved with this function.
- Sixty-two percent of overall Compliance organisation FTEs are involved with sanctions screening.
- Roughly 40% of firms use the same team for both compliance and sanctions, more often found among smaller total asset-based firms (<$10B) and those in the Netherlands and France.

As with total compliance team size, the numbers of compliance and sanctions screening analysts vary with overall firm asset size, with larger firms having more analysts (see Figures 6 and 7).

Figure 6: FTE Staff Employed in Compliance Screening Operations by Firm Asset Size

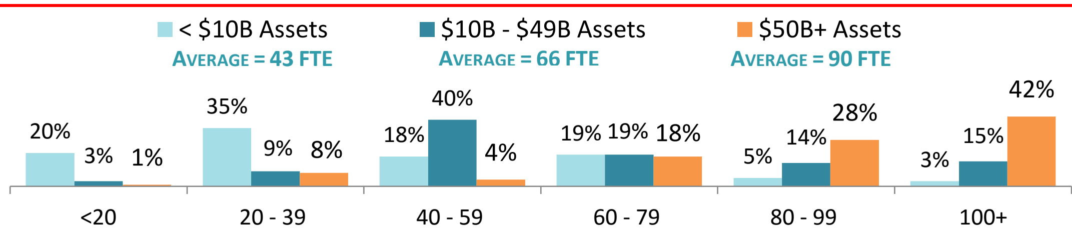
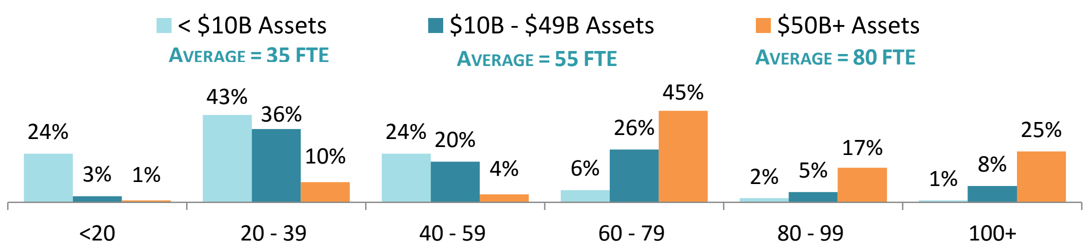


Figure 7: FTE Staff Employed in Sanctions Screening Operations by Firm Asset Size

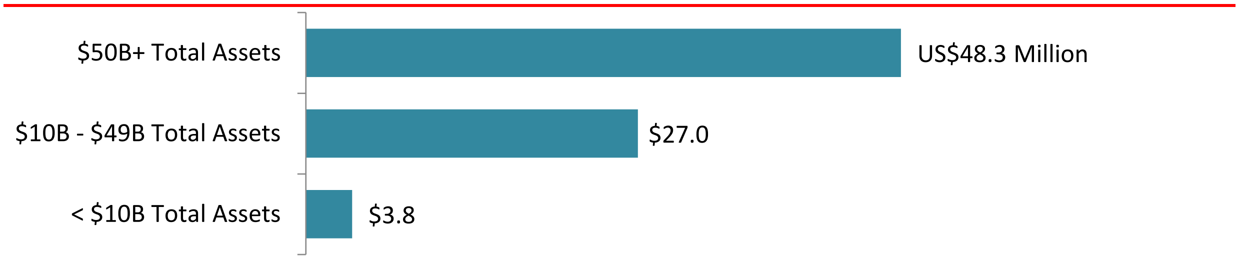


[5] Compliance screening refers to watch list screening for KYC/on-boarding and periodic customer checks. Sanctions screening refers to watch list screening of cross-border payments to ensure that international fund transfers do not involve individuals, corporations or countries on government sanctions lists.

If labour drives the significant portion of AML compliance costs, then firms with more resources should spend more. And, if resource size scales with firm size by total assets, then firms with higher total assets must spend more as well.

And, that's exactly what is occurring. Compliance spend by firm size is heavily correlated with total assets. As show in Figure 8, firms with less than US$1 billion in total assets reported average annual costs of US$3.8 million, while large firms with more than US$50 billion in total assets reported US$48.3 million on average.

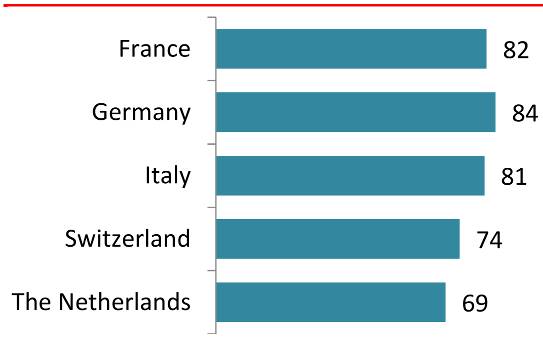
Figure 8: Average Annual Cost of AML Compliance Operations by Firm Total Asset Size (US$ in Millions)



Note: Total Assets = AUM for banks and investment firms and direct written premiums for insurance firms.

Since average AML compliance team sizes vary by country, this explains the difference in the average annual spend across each study country. As shown in Figure 9, firms in the Netherlands and Switzerland have relatively smaller AML compliance teams, driven by the skew to smaller total asset-sized firms. On the other hand, firms in Germany, France and Italy, which tend to be larger in terms of assets, have larger compliance teams. As such, we find somewhat higher average spend per financial institution in these latter three countries (see Figure 2)

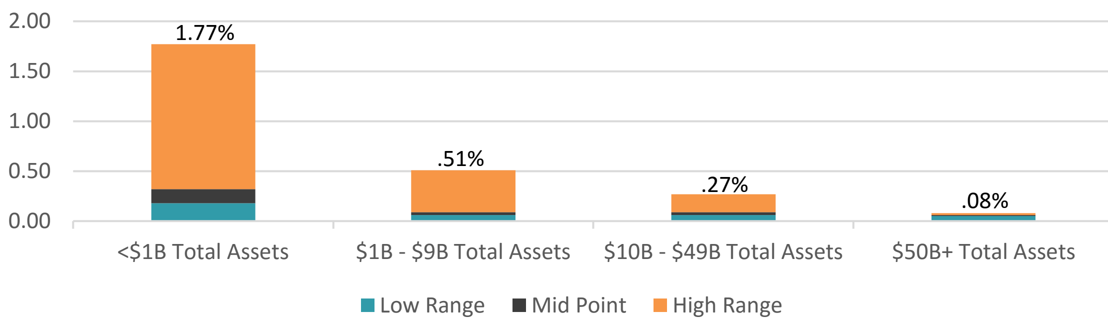
Figure 9: Average Firm Compliance Size / Distribution of Firms by Total Asset Size by Country



Distribution of Firms by Total Assets within Country	Total Asset Size	
	% Smaller (<US$10B)	% Larger (US$10B+)
France	46%	54%
Germany	35%	65%
Italy	32%	68%
Switzerland	85%	15%
The Netherlands	64%	36%

Given the impact of firm size on AML compliance spend, it is informative to look at spend as a function of firms' total assets. Whilst smaller firms have lower total dollar outlays, the impact to them is harder on the bottom line. As shown in Figure 10, average AML compliance costs as a percentage of total assets can range up to approximately 1.77% for smaller firms (less than US$1 billion in total assets) compared to .08% for larger firms (US$50 billion or more in assets). The higher spend as a per cent of total assets among smaller firms is likely driven in part by the basic overhead investment required to support compliance operations regardless of scale.

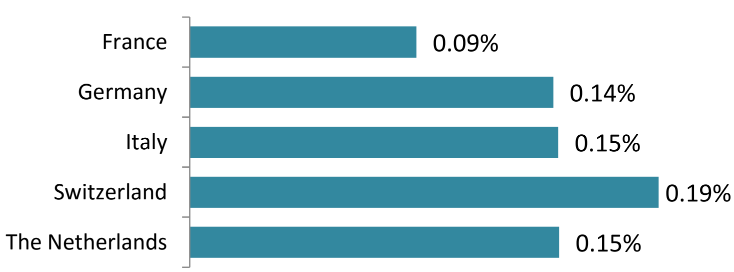
Figure 10: Approximate Annual AML Compliance Costs as a Per Cent of Firm Assets by Firm Size



Note: Assets = AUM for banks and investment firms and direct written premiums for insurance firms. Results were estimated using the mid points of asset ranges selected by respondents.

If we control for firm size, as shown in Figure 11, we see that firms in Switzerland get hit hardest in terms of AML compliance cost as a per cent of total assets. Again, this is driven by the higher share of smaller total asset-based firms in Switzerland. Swiss firms are also more likely than those in other countries to have separate teams for compliance and sanctions screening, rather than using the same resources for both. As we've seen that Labour accounts for a majority of compliance spend, having separate teams naturally leads to higher costs.

Figure 11: Midpoint Average Annual AML Compliance Costs as Per Cent of Firm Assets by Country



"Complex procedures and approval by various authorities is not only a time consuming task, but it also costs our firm a fortune to comply with the AML process." *(Swiss survey respondent / <$10B Total Asset-sized bank)*

Note: Assets = AUM for banks and investment firms and direct written premiums for insurance firms. Results were estimated using the mid points of asset ranges selected by respondents.

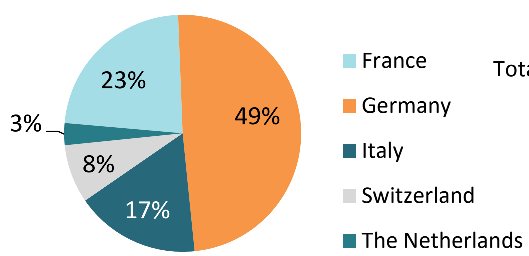
So, what’s the total cost of AML compliance across study markets?

US$83.5 billion

When taking into account the significant share of labour on AML compliance costs, the different sizes of firms and number of firms per study market, we can extrapolate the true cost of AML compliance across all financial firms in these European markets at a sizeable US$83.5 billion annually.

When divided by country, there are differences based on the number of financial institutions overall (more firms = higher total costs) and the size of these firms (small firms spend less; larger firms spend more). Germany has the highest true cost of AML compliance based on having significantly more monetary financial institutions that other countries. Of all firms in these markets, 49% are in Germany, followed by nearly one-quarter (23%) in France and just under one-fifth (17%) in Italy. And, as shown in Figure 12, larger firms with higher spend are a majority in these three markets. On the other hand, the Netherlands and Switzerland have fewer and significantly smaller financial institutions.

Figure 12: Distribution of Monetary Financial Institutions across Study Markets



Distribution of Firms by Total Assets within Country	Total Asset Size	
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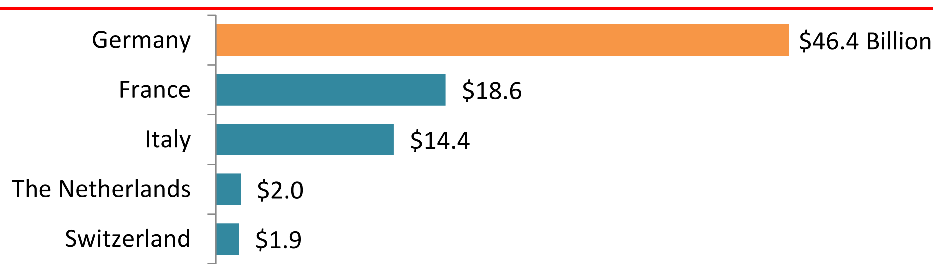
France	46%	54%
Germany	35%	65%
Italy	32%	68%
Switzerland	85%	15%
The Netherlands	64%	36%

Sources: European Central Bank and European Commission Eurostat database

As a result, the total cost of compliance across all German financial institutions represents a sizeable portion of the total across countries (US$46.4 billion), followed by France and Italy. The Netherlands and Switzerland represent a smaller piece of the US$83.5B total cost.

Figure 13: True Cost of Compliance per Study Country (US$ in Billions)



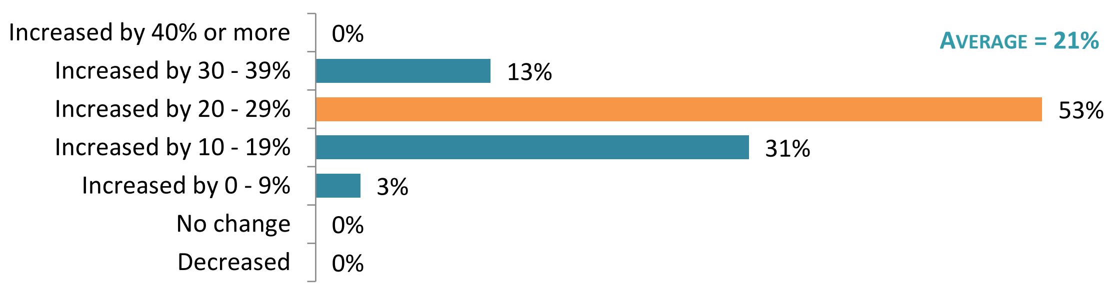
Note: Costs are extrapolated towards all monetary financial institutions within each country, small to large.

When comparing these findings to the [Asian True Cost of AML Compliance study](), we find that such costs for firms in Europe are roughly four times higher than those reported by Asian firms of comparable size. The average size of European AML compliance teams is also larger (average of 43 FTEs in Asian AML compliance departments compared to 82 FTEs in European ones). Additionally, the higher average cost of labour in Europe is likely a key factor, as is a more stringent regulatory environment that requires more complex AML compliance operations and larger compliance teams.

If labour continues to be a significant component of AML compliance, then overall costs will continue to increase.

All firms in this study reported at least some increase in AML compliance costs during the past two years as shown in Figure 14. More than half experienced cost increases between 20% and 29%, with an estimated average increase of 21%.

Figure 14: Change in AML Compliance Cost in the Past 24 Months



Looking at compliance spend in 2017, some 90% of firms indicated they expect costs to increase further for compliance (Figure 15) and sanctions screening (Figure 16). Average cost increases of 19% for AML compliance and 17% for sanctions screening were projected.

Figure 15: Expected Change in AML Compliance Costs in 2017

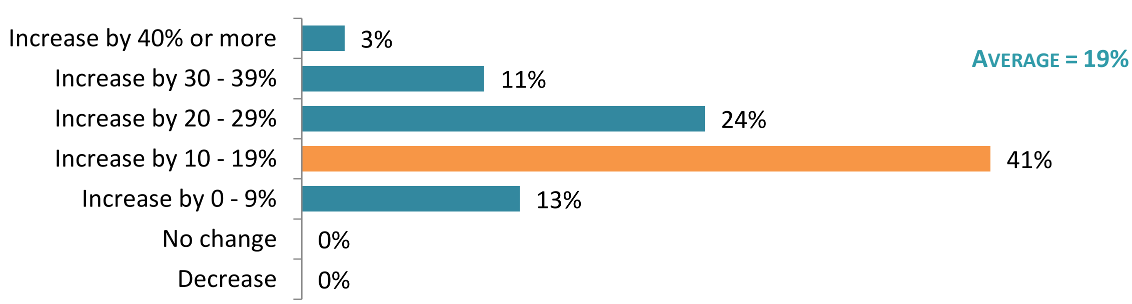
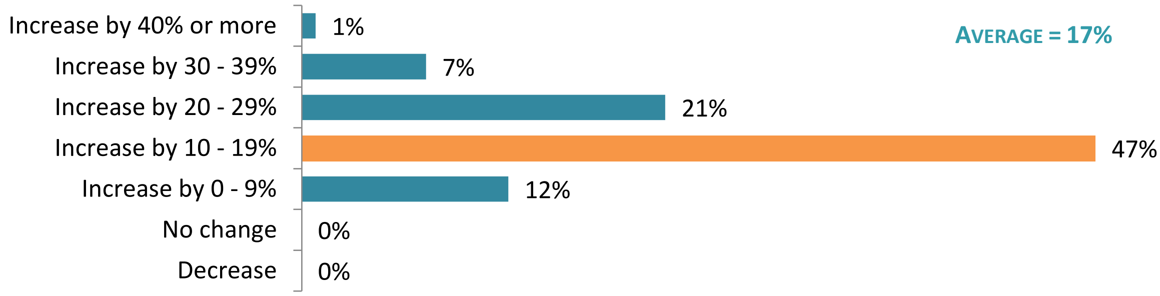


Figure 16: Expected Change in Sanction Compliance Costs in 2017



Past and expected per cent changes in compliance spend are largely consistent across countries, though do differ by size of firm. Larger firms with more assets and compliance staff (larger than 50 FTE) expect a greater per cent increase in costs for 2017.

In comparison to firms in Asia, those in Europe have seen and expect to see greater increases in AML compliance costs; that is likely driven in part by incoming regulations and high visibility of AML compliance (and associated violations) in Europe. In Asia, 85% of firms reported an average increase of 15% versus 21% in Europe during the previous two years. The expected cost increases in the coming year are similarly lower in Asia.

AML Compliance Processing Times

European financial institutions experience long customer due diligence processing times. This increases labour cost as well as customer friction.

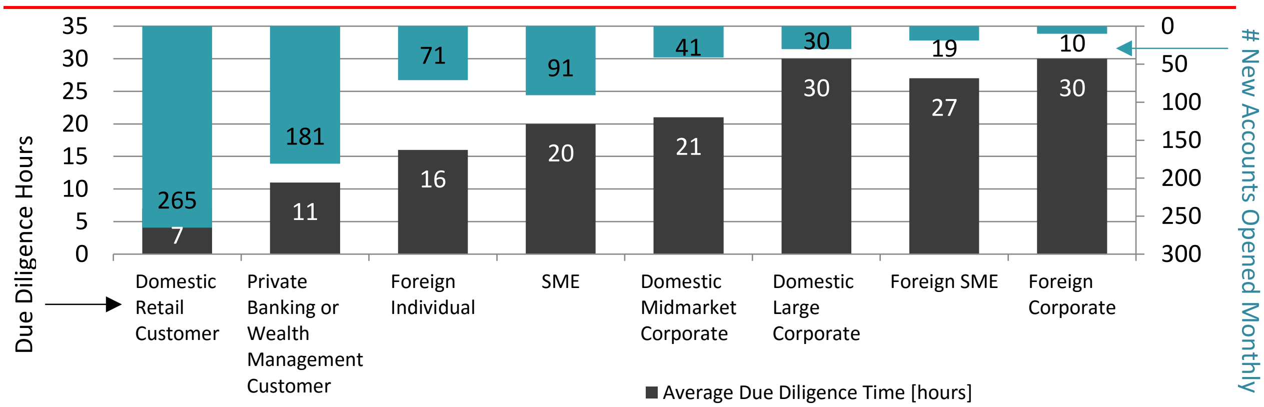
Key Findings:

- **Financial institutions spend disproportionally more due diligence** time on corporate than individual account openings.
- While corporate accounts are more profitable, **sizeable labour time spent on their due diligence can slow on-boarding**, increase customer friction and erode profits.
- **These challenges will likely increase** with more regulations, alerts and reliance on manual resources.

Not surprisingly, the time required to perform customer due diligence has a significant impact on overall AML compliance costs, and firms in Europe reported long processing times across customer types. Even for domestic retail customers, who should face the simplest requirements, no firms reported being able to complete due diligence in less than one hour. A majority spend three to eight hours on domestic retail customers, with an average time of about seven hours.

Of interest is that financial firms spend more due diligence time on those which represent a smaller portion of new monthly accounts – namely, corporate customers. This resembles the "80 / 20" rule whereby most cost is consumed for a minority of customers (see Figure 17). There's also a "catch-22". Corporate accounts are profitable but are also more complex than retail customers. With more complicated ownership structures, subsidiaries and oversees relationships, manual efforts can take substantially longer, increase labour costs, heighten customer friction and actually erode profitability.

Figure 17: Monthly New Accounts and Average Due Diligence Time by Customer Type



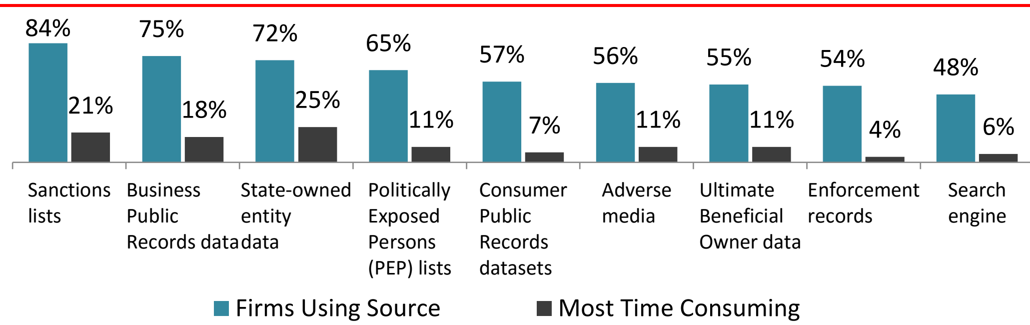
The above is similar across study countries, except for firms in France which have longer average due diligence times for domestic large corporate accounts (40 hours vs. 21 – 24 hours in other countries).

And these issues can become strained depending on the compliance team structure. When comparing processing times between those which use separate teams versus the same team for compliance and sanctions screening, there appears to be an efficiency advantage to having separate teams. Firms with separate teams reported shorter or at least average processing times for most customer types. The advantage is greatest when it comes to due diligence for large domestic corporations – firms with separate teams reported average processing times of 27 hours compared to 35 hours for firms using the same resources. This contributes to longer average due diligence time among French teams when clearing domestic large corporate accounts; those using the same team take an average of 47 hours.

A variety of sources are used to screen for customer due diligence, but not always the most efficient ones. This adds to costs and customer friction.

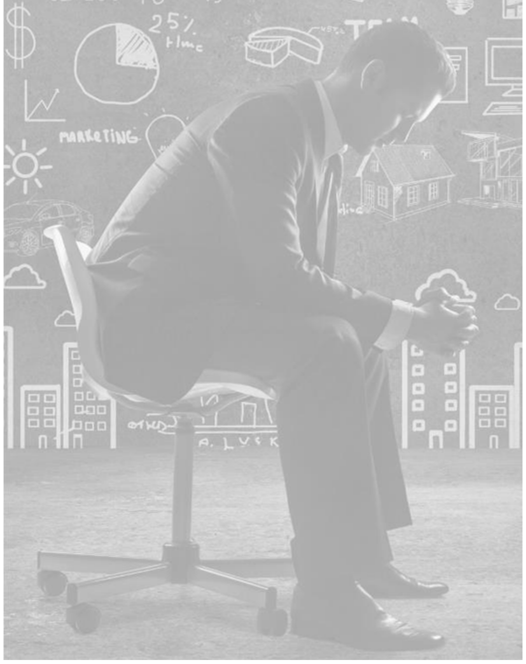
Almost three-quarters of European respondents reported that their firm uses five or more screening sources from the list of options shown in Figure 18. The need to access various sources adds processing time and, therefore, AML compliance costs. But so too can the quality of sources. Sanctions lists, business public records data, and state-owned entity data are all used by more than two-thirds of firms. However, these are reported as time consuming ones which could particularly contribute to longer processing times for corporate accounts.

Figure 18: Sources Used to Screen Against for Customer Due Diligence



“The lack of a unique view of the customer forces our office to import data from different sources and channels and store them in multiple systems, so the process is frantic, tedious, and costly. This hampers our productivity.”

(Italian survey respondent / <$10B Asset-sized bank)



Alert processing times are significant and expected to get worse, contributing to increased costs and friction.

Most participating firms reported that alerts of any type take 3 or more hours to clear, with average times ranging from 8 hours for KYC/due diligence alerts to 21 hours (over 2 business days) for AML transaction monitoring alerts as shown in Figure 19.

Across countries, the greatest variation was reported for KYC/customer due diligence alerts. Firms in Italy were more likely to clear these alerts quickly (with an average time of 5 hours), whilst firms in the Netherlands were more likely to take a longer time (average of almost 10 hours).

Figure 19: Average Time Required to Clear an Alert by Alert Type

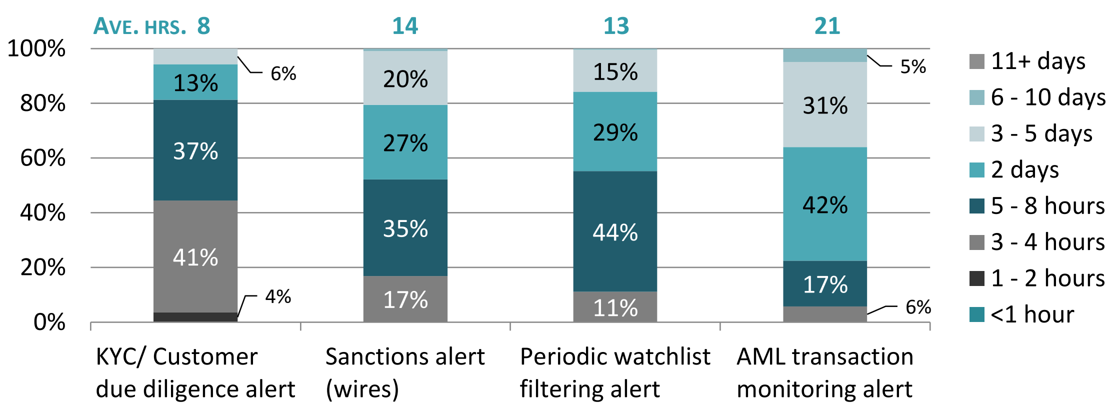
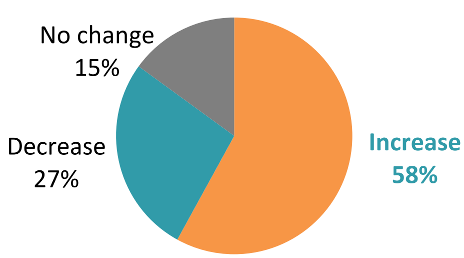


Figure 20: Expected Change in Alert Volumes in 2017



The challenge of clearing alerts is likely to get worse. More than half of firms (58%) expect alert volumes to increase in 2017 by an average of 12%. Significantly more Swiss financial institutions (78%) were likely to indicate expected increases.

Business Impact of AML Compliance

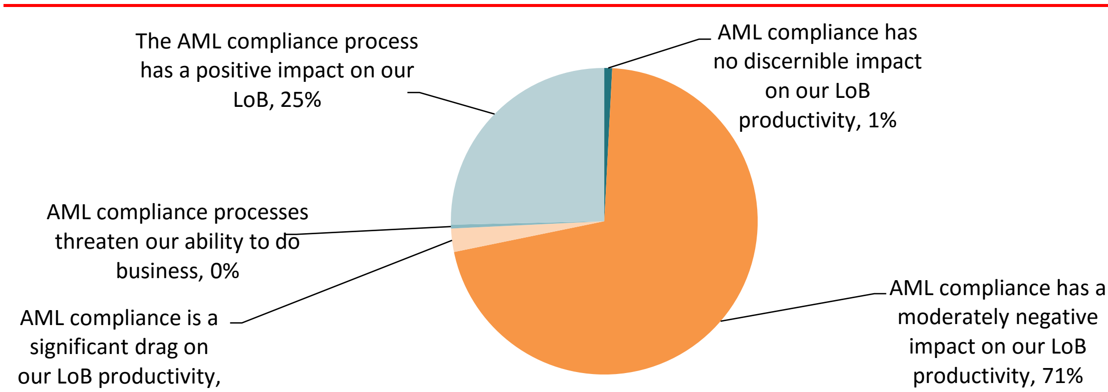
Therefore, many firms see AML compliance as hindering productivity.

Key Findings:

- **Job dissatisfaction and lost productivity within the business are significant issues** impacting new customer acquisition.
- **Stretching resources thinly** to cover both compliance and sanctions screening is less efficient and can delay on-boarding.
- Nearly three-quarters say that they **lose up to 4% of prospective customers** because of customer friction during on-boarding.

Respondents in Europe had a strong perspective on whether AML compliance generates a net positive or negative impact on their line of business (LoB) productivity. A majority of firms (74%) perceive the impact as being negative, particularly in France and Germany where respondents were slightly more pessimistic (79% and 76% respectively).

Figure 21: Impact of AML Compliance on Line of Business Productivity

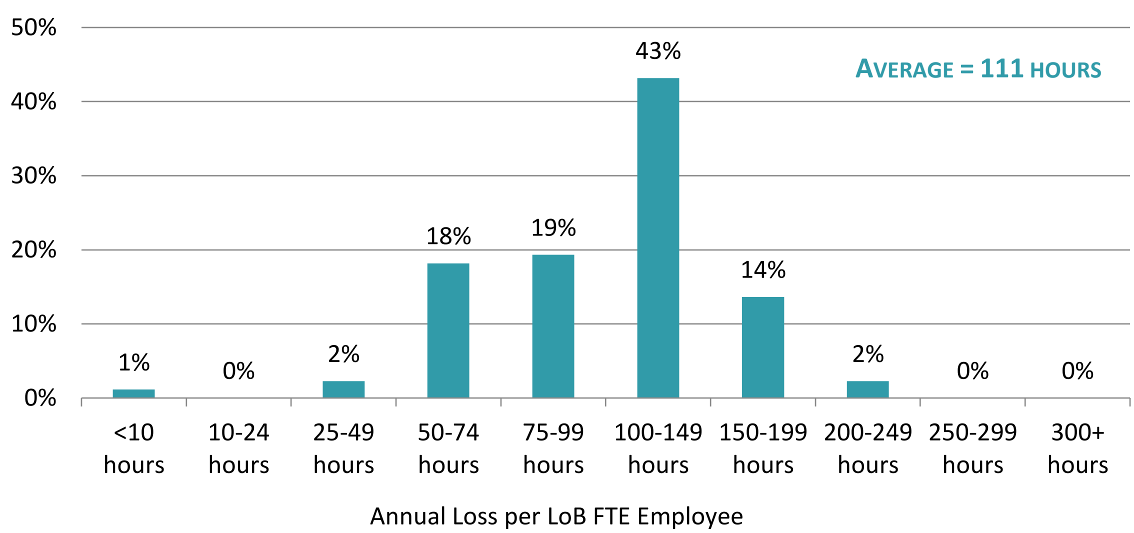


"Banking is all about money movement. The side effect of the compliance process is that it caused a drop in this movement."
(German survey respondent / $10B-49B Asset-sized bank)

Among those indicating a negative impact, there was common concern about reduced revenue due to slow and intrusive on-boarding procedures, both of which ultimately lead to customer abandonment and overall reduced transaction volume.

For firms that experienced a loss in LoB productivity due to AML compliance, estimates of the loss ranged from less than 10 hours annually per LoB FTE to upwards of 250 hours. Almost half of firms reported the loss to be between 100 and 149 hours annually per LoB FTE, with an average of 111 hours across all firms.

Figure 22: Annual Loss in LoB productivity due to AML compliance

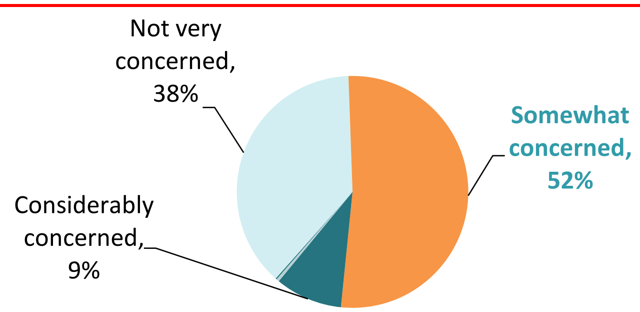


A majority are also concerned about job satisfaction and productivity within their compliance teams.

The pressure of increasing compliance requirements and high profile violations has potential to negatively impact morale among compliance teams. Indeed, more than half (61%) of firms in Europe expressed concern about job satisfaction in their compliance department. Firms in Switzerland are more pessimistic, with 70% expressing concern about job satisfaction. This shows that financial institutions recognise the burden of compliance on employees and the limits to which labour resources can carry this in the face of increasing compliance requirements.

With the EU's 4th AML Directive coming into force, financial institutions will need to know even more about a larger scope of customers; whilst the Directive can help to curb money laundering, it will likely require even more resource attention. **At some level of adding more resources, there comes a point of diminishing returns without the aid of technology solutions.**

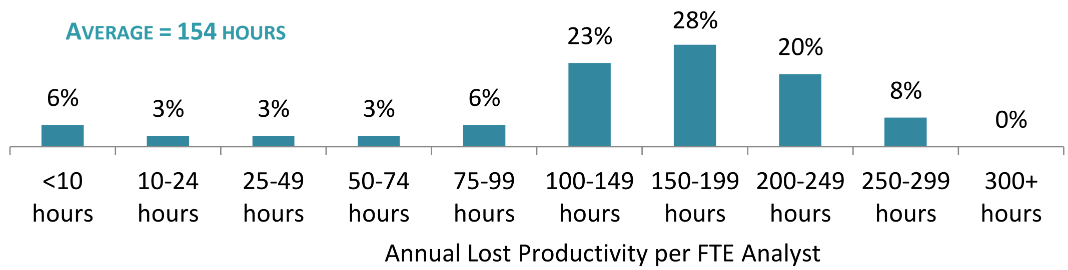
Figure 23: Job Satisfaction Concerns in Compliance Departments



"The employees of the AML Compliance department are very frightened and have a low level of work satisfaction as it is a complex process to manually monitor all transactions and review all organizations and individuals." *(Swiss survey respondent/ <$10B Asset-sized firm)*

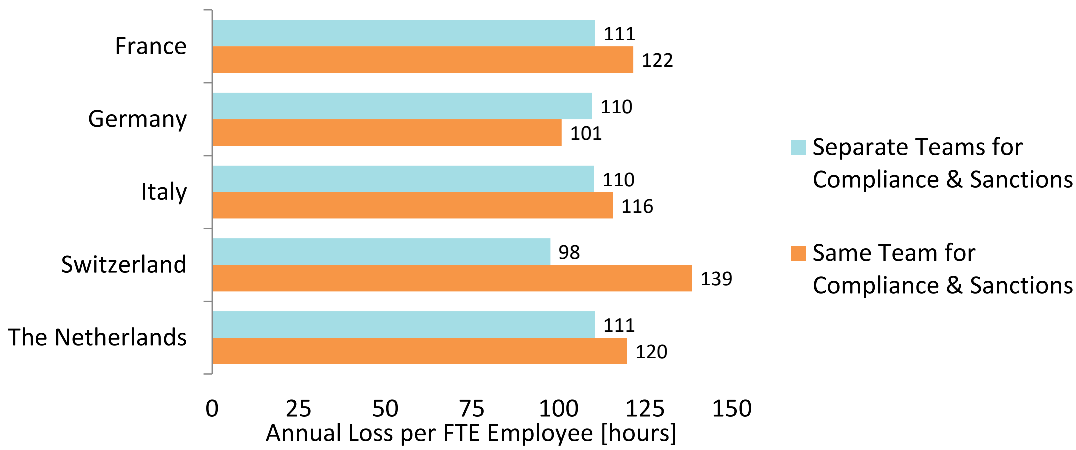
Dissatisfaction is reported to result in the loss of job productivity, estimated to be significant as shown in Figure 24. Over two-thirds (71%) of firms indicated between 100 and 250 hours of lost compliance productivity annually, with an average loss of 154 or nearly 4 weeks (assuming a 40 hr. week).

Figure 24: Annual Loss in AML Compliance Productivity Due to Job Satisfaction Issues



Firms using the same labour resources for both compliance and sanctions screening were more likely on average to report a higher loss in productivity due to AML compliance compared to firms with separate teams. This gap was particularly large in Switzerland, France, and the Netherlands.

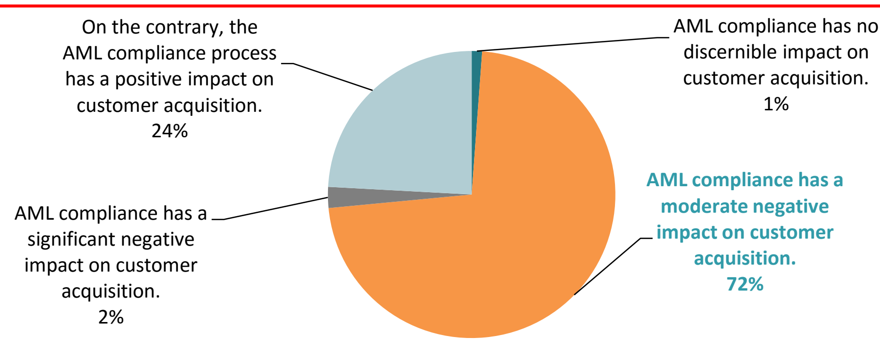
Figure 25: Annual Loss in productivity due to AML compliance by Country



The combination of increasing due diligence requirements, lower productivity and continued reliance on manual resources means that AML compliance has a meaningful negative impact on customer acquisition.

There is a strong correlation between respondents' ratings of AML compliance impact on customer acquisition and on overall productivity. This impact was cited as moderately negative by 72% of firms, as shown in Figure 26. Similar to LoB productivity, firms in France and Germany are slightly more pessimistic about the impact on customer acquisition than firms in other countries (76% and 78% respectively); banks are more pessimistic than investment firms, likely due to the faster pace and volume of transactions on the banking side.

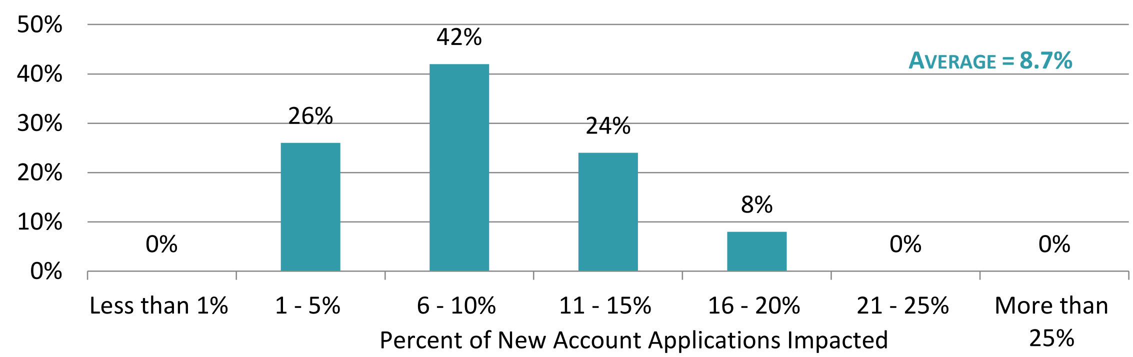
Figure 26: Impact of AML Compliance on Customer Acquisition



As we reported earlier, customer friction during the on-boarding process costs European financial institutions in terms of lost prospective customers (73% reported losing up to 4% of prospective customers). For those prospective customers which do not leave during on-boarding, delays cause more than just frustration from waiting; they can actually cost customers money based on not being able to move forward with transactions. This isn't a good way to start a new customer relationship; in fact, it likely leads to loyalty erosion much sooner compared with those who start out on a positive note.

Expressed as a percentage of new account applications, almost half (42%) of firms indicated between 6% and 10% of new accounts are delayed - similarly across countries and different types and sizes of firms. That can translate to a sizeable number of angry new customers who very quickly become high risk of churn at some point.

Figure 27: Opportunity Cost of Delayed Account Opening Due to AML Compliance



AML Compliance Challenges

Compliance changes present challenges to European financial firms.

Key Findings:

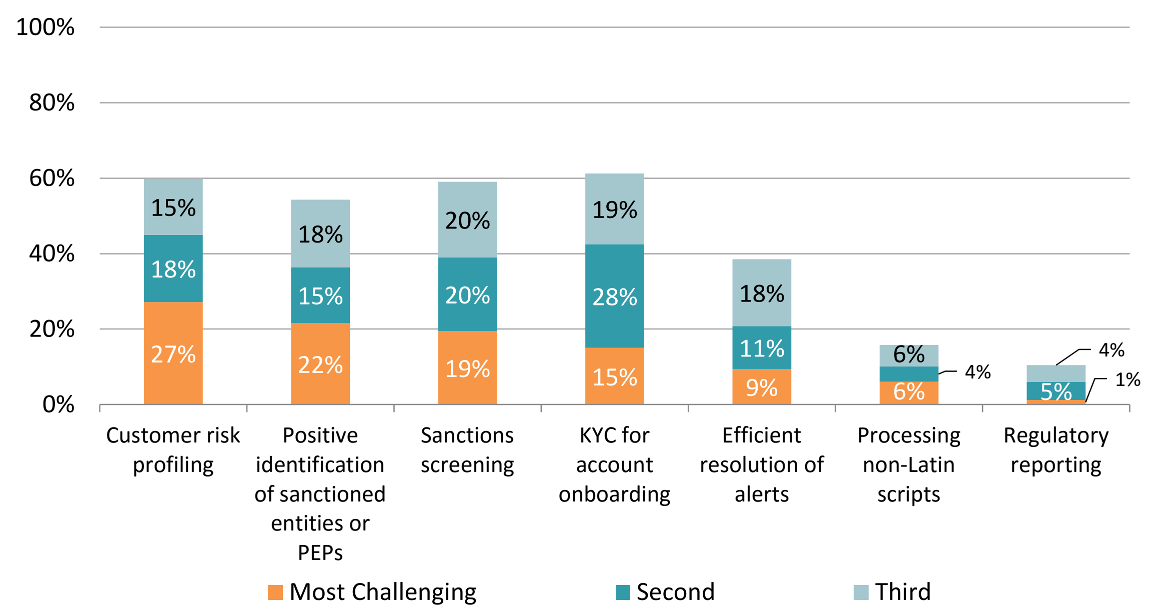
- The European Union Fourth AML Directive will put **pressure on compliance human resources**.
- **Streamlining KYC / due diligence is a top priority** in order to succeed in the ever-increasing regulatory environment.
- **Financial institutions envisage being able to leverage AML compliance** to develop better data for improved customer relationship management and risk assessment.

The EU's 4th AML Directive expands the scope of due diligence and screening whilst implementing tighter requirements of FATF. Key aspects include:

- Expanding the scope of obliged entities for due diligence to include:
  - Deeper levels of relationships in transactions (i.e., not only the direct sources, but others in and around the transaction chain); and
  - A broader accounting of PEPs, now including both domestic and foreign ones (individuals and members of governing bodies of political parties).
- The need for financial institutions to implement organisation-wide compliance systems, which applies to branches and majority-owned subsidiaries within and outside of EU borders;
- The inclusion of tax crimes within the definition of criminal activity; and
- Potential changes to the way that customer data is retained and reconciled with the EU's own data protection regulations.

The above is not an exhaustive list of changes; rather, they are ones which align with challenges identified by respondents in this study. Among the top ranked issues are customer risk profiling, positive identification of sanctioned entities or PEPs, sanctions screening, and KYC for account on-boarding (see Figure 28). This new Directive puts pressure on risk profiling and screening from both an input and output perspective. In this case, input refers to the data used for due diligence decisions; with the expansion of entities and PEPs, financial compliance teams will need to get access to updated lists and data sources. Output refers to the resources used to conduct risk profiling and screening – namely, either hiring more human resources, overworking current ones or seeking technology solutions. The challenge with more human resources comes into play with more complex due diligence decisions requiring more experienced and specialised skills, which are not unlimited and demand higher salaries.

Figure 28: Largest Challenges in Compliance Screening Under AML Compliance Change



Note: Respondents were only required to rank choices that were relevant.

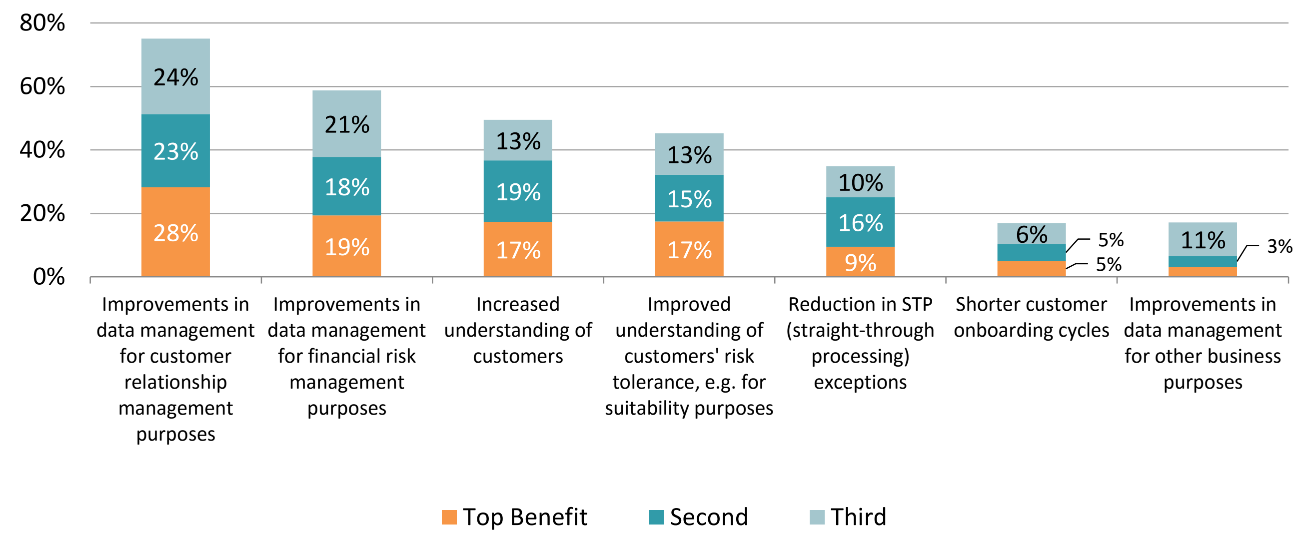
Firms in Switzerland were even more likely to rank customer risk profiling as the top challenge, possibly due to the traditionally more secretive banking processes in that country. Among firms in Germany, sanctions screening was the top-ranked challenge.

Across countries, firms that use the same team for compliance and sanctions screening were more likely to indicate sanctions screening as the greater challenge, presumably because analyst time is split between sanctions and other activities. Firms with small compliance teams (less than 50 FTEs in sanctions and/or compliance) were more likely to rank positive identification of sanctioned entities or PEPs as the most challenging area compared to firms with larger teams. Again, these are challenges are connected with scaling resources to meet increased workloads.

However, AML compliance change can bring benefits.

Despite the challenges, there are perceived benefits from AML compliance change. From a list provided to respondents, the top ranked benefits related to *improvements in data that enable better management of both customer relationships and risk*.

Figure 29: Benefits to the Business Brought By AML Compliance Change



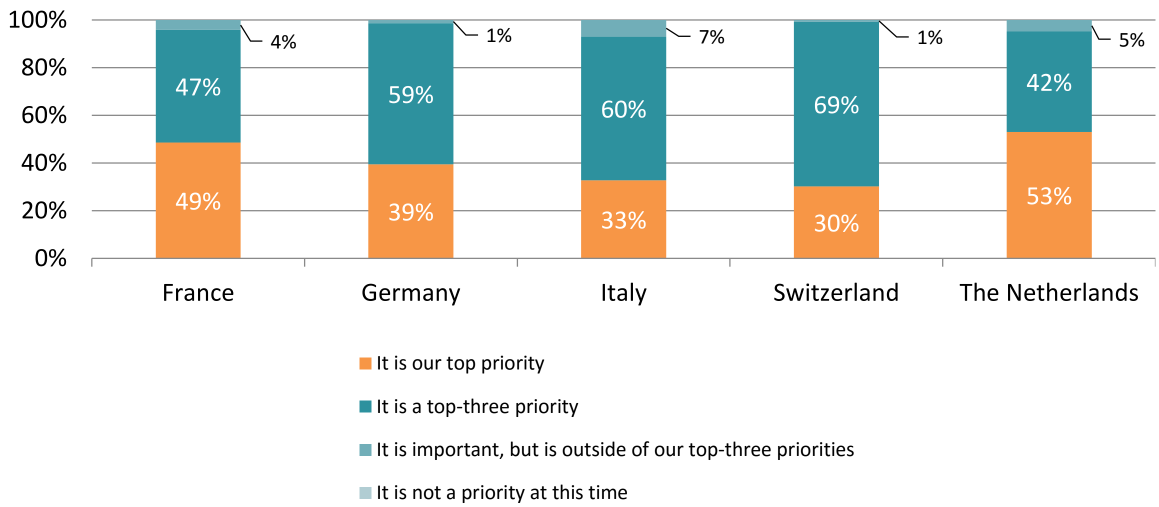
Note: Respondents were only required to rank choices that were relevant.

There are differences between firms in Europe and those in Asia in terms of the relative salience of AML compliance benefits. Most notably, *improvements in data management for customer relationship management* is relatively more important in Europe.

Streamlining KYC/customer due diligence is a top priority.

Most indicated that streamlining or improving the efficiency of the KYC/customer due diligence processes is a priority for their organization, particularly among firms in France and the Netherlands. Overall, this aligns with concerns across countries regarding lost productivity and customer friction which is costing financial firms in terms of actual expenses and lost customers. Even more importantly, rising costs and new / ever-increasing regulatory workloads will necessitate more AML compliance process efficiencies; **the role of technology can play a pivotal role here**.

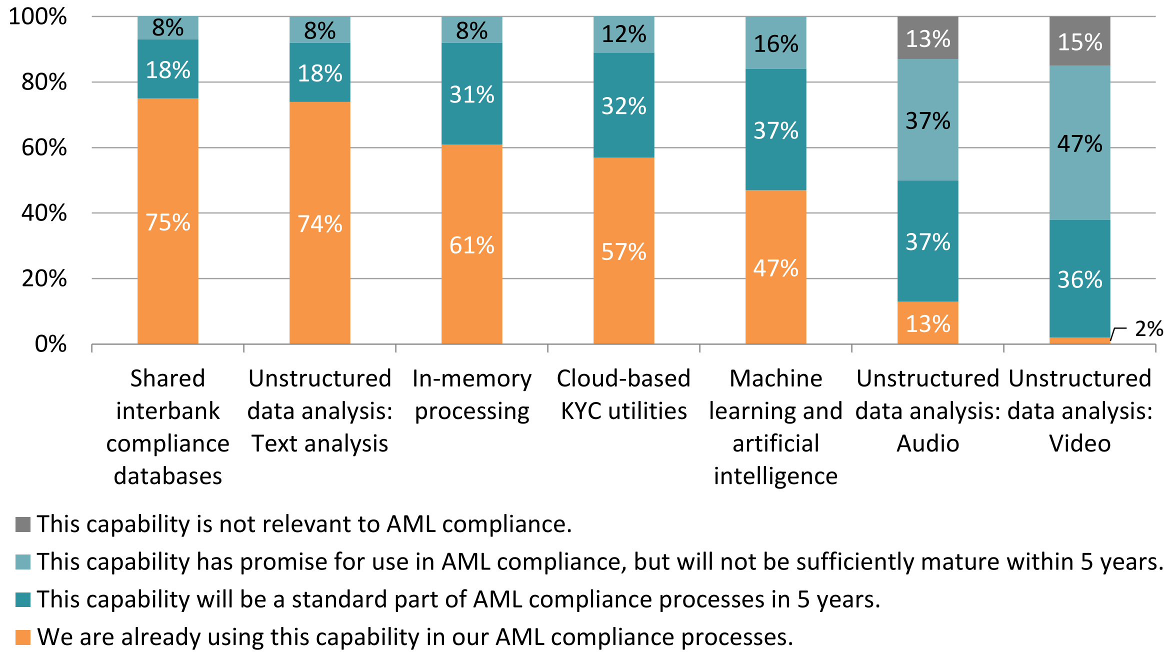
Figure 30: Priority of Streamlining KYC/Customer Due Diligence by Country



In fact, new technologies and data sources are playing a role in AML compliance.

Most firms have already adopted shared interbank compliance databases and unstructured text data analysis, in-memory processing, and cloud-based KYC utilities. Machine learning and artificial intelligence are used by fewer firms but adoption is expected to be widespread within five years. Unstructured audio and video data analysis are seen as relevant but less mature and further out for many. Not surprisingly, large firms (more than US$50 billion in assets) with their large compliance budgets are more likely than small firms to have implemented or be planning to implement these technologies.

Figure 31: Adoption of New Technologies in AML Compliance



Adoption of these appears to be significantly more advanced in Europe than in Asia. For the top five technologies shown in Figure 31, between 13% and 23% of firms in Asia reported using them compared to between 47% and 75% of firms in Europe. This is also evident in the slightly higher share of compliance spend attributed to technology in Europe than in Asia.

About LexisNexis® Risk Solutions

The cost of implementing effective AML compliance can be managed efficiently.

Risk mitigation solutions can reduce the cost and productivity burden of human resources; they can streamline processes and **increase the accuracy of due diligence that reduces costs to the organisation and friction for the customer**. Solutions which combine identity authentication, global data sources and coverage of current sanctions / enforcements on high-risk individuals and entities, will offer businesses high levels of security. By integrating such a solution into current system workflows, businesses can streamline their processes for improved productivity.

LexisNexis® Risk Solutions supports AML compliance by delivering the benefits of:

- **Shortening the on-boarding process and reducing customer friction through:**
    - Real-time international identity authentication via in-country sources such as Citizen or National Database information, Credit Header File Information, Electoral Rolls, Property Records, Utility Data and so forth;
    - Minimising false positives and exceptions which result in lost business opportunities; and
    - Reduced time accessing critical information through global sanctions and enforcement lists, extensive PEP coverage, profiled adverse media, SWIFT/BIC information and data one personal and business assets
- **Enabling more accurate and informed compliance decisions** that protect the organisation and those held personally liable from non-compliance via:
    - Comprehensive and fully cross-referenced solutions that help quickly locate and associate links between people, businesses, assets, and locations; and
    - Innovative matching algorithms to achieve a significant reduction of false-positives, freeing up resources to focus on mission-critical, revenue-generating activities.
- **Streamlining due diligence for improved productivity and reduced costs by:**
    - Automated screening and powerful batch capabilities for heavy duty on-demand, scheduled or automatically triggered file processing, including a fully detailed audit trail of who made what, how and when; and
    - Consolidated compliance processes and standardized controls for accessing identity verification, screening, due diligence and fraud prevention services through a single point of entry for a consistent user experience.

Appendix: Survey Background

The True Cost of AML Compliance Europe survey was fielded by KS&R, Inc., a leading global market research firm, on behalf of LexisNexis® Risk Solutions in five markets in Europe. Data was collected by phone from late April to mid-June 2017 with a total of 250 completions. Respondents included senior decision makers for AML compliance, financial crime and due diligence within a mix of monetary financial institutions. LexisNexis® Risk Solutions was not identified as the sponsor of the research in order to lessen potential for brand bias. The distribution of respondents by region, type and size of firm, and respondent's position are shown below. To generate the results presented in this report, the data was weighted to account for country GDP and type of firm.

Region

France	19%
Germany	20%
Italy	20%
Switzerland	20%
The Netherlands	20%

Type of Firm

Retail Bank	28%
Wholesale/Commercial Bank	16%
Investment Bank/Securities Firm	19%
Insurance Company	18%
Asset Management Firm	18%
Money Services Business (MSB)	1%

Assets

Under US$1B	22%
US$1 - $9.9B	34%
US$10 - $49.9B	26%
US$50-$100B	6%
More than US$100B	12%

Respondent Role/Responsibilities

Anti-Money Laundering	71%
Financial Crime Compliance	53%
Financial Crimes	52%
KYC/Customer Due Diligence	42%
Risk	40%
Sanctions/Payments	34%

LexisNexis® Risk Solutions and AML Cost Reduction

Institutions across Europe use LexisNexis Risk Solutions data and technology to ensure effective AML compliance and cost efficiencies. Our company strategy is focused on false positive reduction so that account and transaction screening can be executed to the highest compliance standards and at a sustainable cost. Year-on-year investment and innovation ensures that our clients are protected from new risks without overwhelming operations with unnecessary workload.

For more information
visit lexisnexis.com/emea

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LexisNexis® RISK SOLUTIONS

About LexisNexis Risk Solutions
LexisNexis Risk Solutions (www.lexisnexis.com/risk) is a leader in providing essential information that helps customers across all industries and government assess, predict, and manage risk. Combining cutting-edge technology, unique data and advanced scoring analytics, we provide products and services that address evolving client needs in the risk sector while upholding the highest standards of security and privacy. LexisNexis Risk Solutions is part of RELX Group plc, a world-leading provider of information and analytics for professional and business customers across industries.