True Cost of AML Compliance

Malaysia "Snapshot"

2019

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Background & Objectives

LexisNexis® Risk Solutions has conducted a global survey of its True Cost of AML Compliance study. The following report presents findings from the Malaysian market along with regional APAC insights. Specific objectives included to:

- Identify the drivers and influencers impacting AML compliance (and change);
- Understand spending trends for AML compliance, including:
  - How spending is divided by cost of compliance area (e.g., sanctions, transaction monitoring, technology, KYC due diligence, etc…);
  - The human resources component of these costs, particularly numbers of FTEs for compliance and sanctions screening; and
  - The processing time component (e.g., length of time to complete customer due diligence by type of client/entity);
- Determine the business impact of the AML compliance environment, particularly with regard to new regulations and provisions;
- Identify the challenges and opportunities associated with AML compliance, including with non-bank payment providers; and
- Understand the role of technology with the above.

Methodology & Definitions

LexisNexis® Risk Solutions retained KS&R, a global market research firm, to conduct this research study.

- Data was collected by phone during March - April 2019 with a total of 233 completions across 4 APAC markets. **The following report details the Malaysia results.**

Total	Singapore	Indonesia	Malaysia	Philippines
233 completions	70 completions	63 completions	50 completions	50 completions

- Respondents included decision makers within the financial crime function who oversee KYC remediation, sanctions monitoring and/or AML transaction monitoring. Organizations represented banks, investment firms, asset management firms, and insurance firms.
- LexisNexis® Risk Solutions was **not** identified as the sponsor of the research in order to lessen potential for brand bias.

In this report, firms are referred to in terms of their asset size. For this study, these are defined as: Small asset size – having <US$10B total assets, Mid/large asset size – having US$10B+ total assets

Key Findings

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Key Findings

- The true cost of AML compliance across all Malaysian financial services firms is estimated to be US$0.89B. Though this spend is largely attributed to larger asset-sized firms (US$10B+), it is smaller firms (<US$10B in assets) that spend somewhat more as a percentage of assets -- the cost of AML compliance is higher among smaller firms (an average of .14%) than larger firms (an average of .07%).
- The distribution of compliance costs is similar by size of organization, though costs are distributed somewhat more toward labour than technology. And given that larger firms employ nearly twice as many FTEs as smaller firms on average, this contributes to exponentially higher compliance costs. Labour includes not only salaries, but also benefits, taxes, and overhead.
  - Average compliance costs are spread similarly across labour-consuming activities, with over a quarter involving KYC, which consumes labour hours through information collection, list screening, and risk assessment.
    - Remaining costs involve transaction monitoring, investigations, and overall compliance management.
  - Use of newer technologies/services is similarly limited across smaller and larger firms, outside of cloud-based KYC utilities .
    - Larger firms are more likely than smaller ones to use shared interbank compliance databases, artificial intelligence, and unstructured audio analysis.
    - A majority are able to monitor online transactions in real-time for criminal behavior (78%) and sanctions breaches (68%). While fewer (63%) currently monitor digital identities, most of the firms that don't expect to within the next 1-3 years.

Key Findings (cont.)

- Though business de-risking is among key drivers for Malaysian financial firms, it ranks lower than others. Malaysia's exposure to domestic and transnational criminal activity, including fraud, corruption, drug trafficking, wildlife trafficking, smuggling, tax crimes, and terrorism finance increases its vulnerability to money laundering. This adds additional risk to financial firms and makes de-risking even more important.
  - There is a group that perceives AML compliance to negatively impact productivity (21%) and customer acquisition (35%). And these impacts are not insignificant, with average annual hours of lost productivity estimated to be 22 per FTE and annual opportunity costs of refused accounts/customer walkouts and delayed account opening amounting to between 2% - 3% of new account applications.
  - These things individually, but especially combined, can lead to higher long-term costs.
- The above will likely be compounded by an expected increase in alert volumes and cost increases over the course of the year.
  - A majority, especially banks (90%), expect alert volumes to increase, by an average of 12%.
  - AML compliance and sanctions costs are expected to grow by an average of 9% and 8% respectively.

Key Findings (cont.)

- Additionally, non-bank payment providers are creating challenges for compliance organizations.
  - Non-bank transactions have grown exponentially, from total of 31.3 million mobile payment transactions in 2018, compared with just 1 million transactions in 2017.
  - And over the past year, over 1 in 3 suspicious activity reports have involved non-bank payment providers, resulting in increased stress on compliance teams and an increase in alert volumes and resource costs.
  - In response to the impact from these providers, a number of financial firms have migrated to dynamic monitoring, created a team to evaluate emerging payment technologies, or implemented more rigorous training.
- Regional findings show that firms which use a mix of compliance technologies have a lower cost per FTE and are able to conduct due diligence and clear alerts faster.

Detailed Findings

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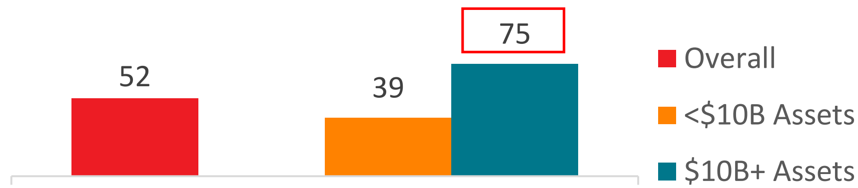
Malaysian financial firms with $10B or more in assets employ a higher number of FTE staff who screen more names per day, as compared to smaller firms.

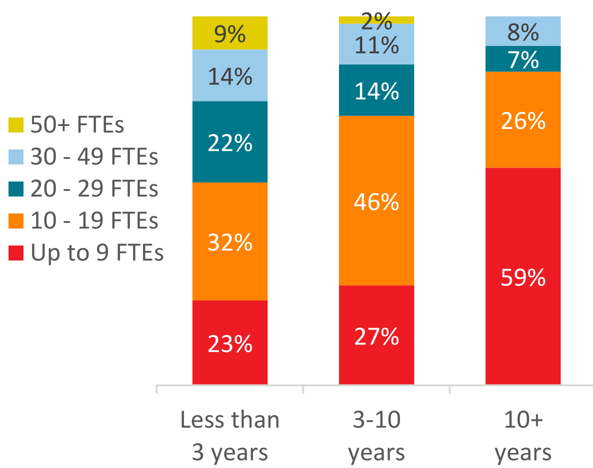
A majority of FTEs have been employed for under 10 years and are likely to earn under US$40,000 a year.

Average FTE Staff Employed in AML Compliance Operations

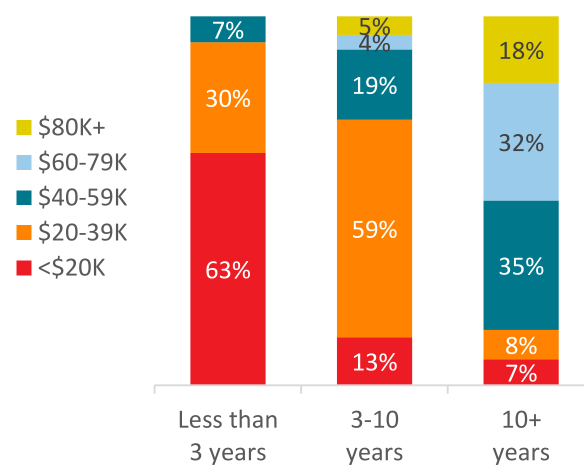


	Overall	<$10B Assets	$10B+ Assets
Mean # of Names for Compliance screening (per day)	294	266	348
Mean # of Names for Sanctions screening (per day)	227	201	277

Number of FTE Staff by Tenure



Average FTE Salary by Tenure



	Overall	<$10B Assets	$10B+ Assets
Average FTE Salary	USD$40,782	USD$39,066	USD$44,143

Q2c: Please indicate your best estimate of the number of FTE staff employed in the AML compliance operations departments.

Q3/Q4. On average, how many names are screened per day across all of the FTE analysts in your compliance/sanctions screening operations?

Q7: Please estimate the average annual salary of your firm's compliance personnel.

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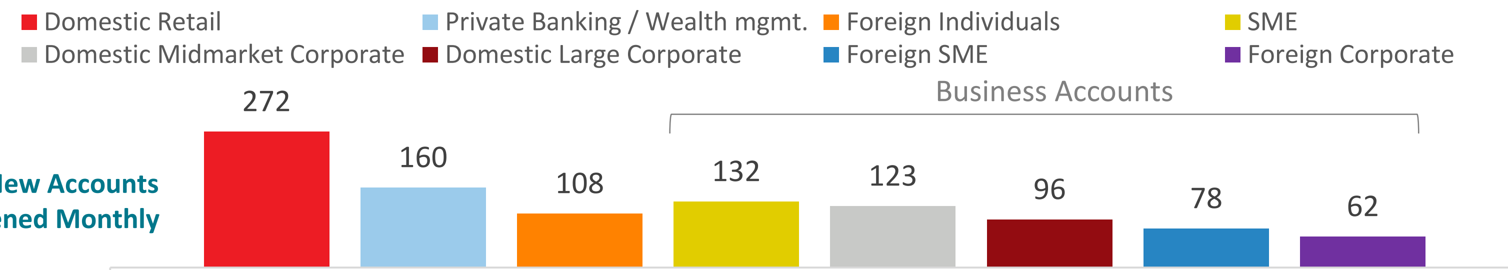
Business accounts require more time to complete due diligence.

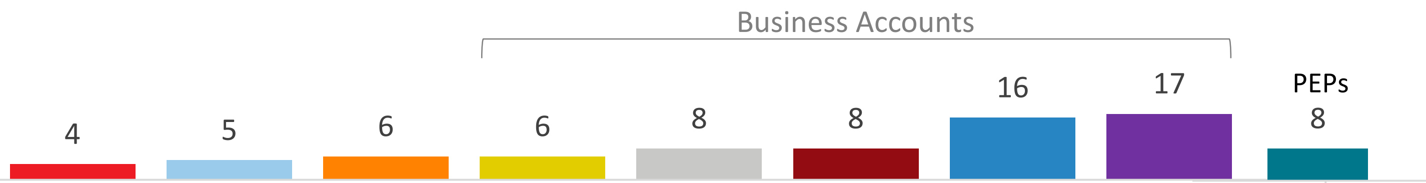
Regionally, those that invest in more compliance technology / services are able to complete due diligence more quickly than others (*see Regional Findings section*).

Average New Accounts Opened Monthly



	Domestic Retail	Private Banking / Wealth mgmt.	Foreign Individuals	SME	Domestic Midmarket Corporate	Domestic Large Corporate	Foreign SME	Foreign Corporate
Mid/large ($10B+) Assets	363	200	115	208	168	138	89	71
Sm (<$10B) Assets	225	140	101	93	99	74	61	48
Banks	338	201	122	157	152	122	91	71
Investment Firms	165	82	58	109	79	65	35	19

Average Hours Required for Completing Customer Due Diligence



	Domestic Retail	Private Banking / Wealth mgmt.	Foreign Individuals	SME	Domestic Midmarket Corporate	Domestic Large Corporate	Foreign SME	Foreign Corporate	PEPs
Mid/large ($10B+) Assets	3	4	6	7	9	8	15	15	10
Sm (<$10B) Assets	4	5	6	6	8	8	17	21	7
Banks	3	4	6	6	8	7	14	15	8
Investment Firms	4	6	7	9	12	11	21	29	10

Significantly or directionally much higher than others within type of account

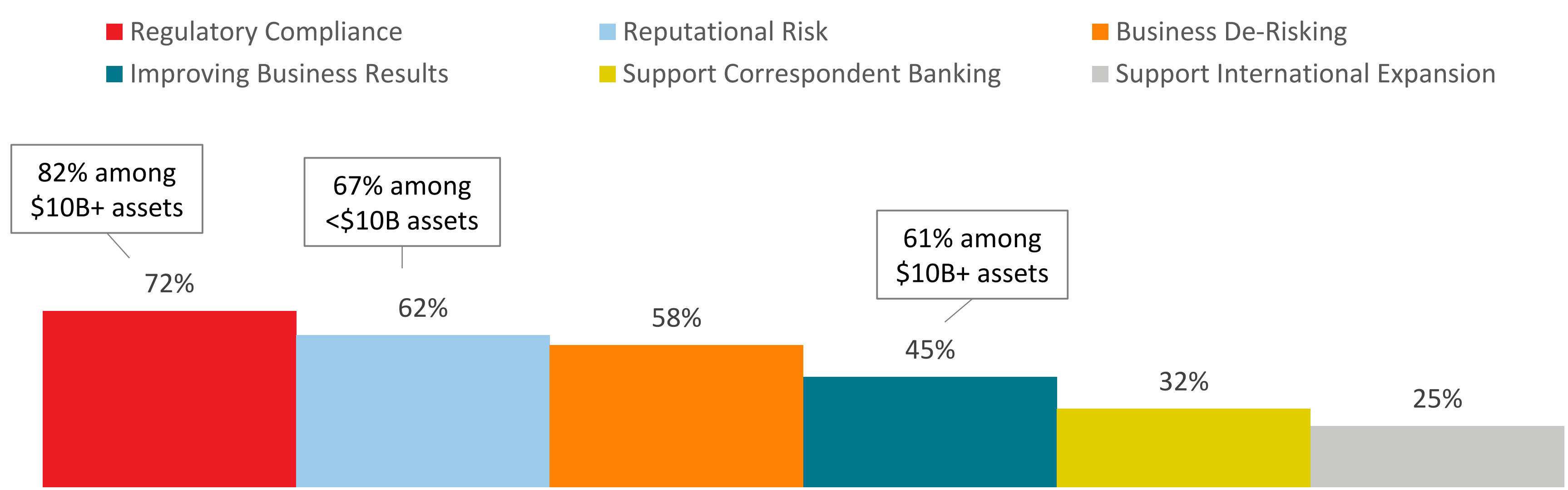
Q1: For each of the following customer types that apply to your institution, please give your best estimate of the number of new accounts opened monthly.
Q17a: What would you say is the average time required for completing customer due diligence on the following?

Key AML initiatives vary somewhat by firm size.

Those with $10B+ in assets are more concerned with regulatory compliance and improving business results, while those with <$10B in assets are more concerned with reputational risk.

While business de-risking is a top driver among significantly more Malaysian financial institutions (58%) than US firms (28%), it is ranked as a top driver by just over half. This is somewhat surprising, given its exposure to a range of money laundering threats. The country's porous land and sea borders, visa-free entry policy for nationals from over 160 countries, strategic geographic position, and well-developed financial system increase its vulnerability to domestic and transnational criminal activity, including fraud, corruption, drug trafficking, wildlife trafficking, smuggling, tax crimes, and terrorism finance.[1]

Drivers of AML Initiatives in Respondents' Organizations (Ranked Among Top 3)



[1] https://www.knowyourcountry.com/malaysia1111

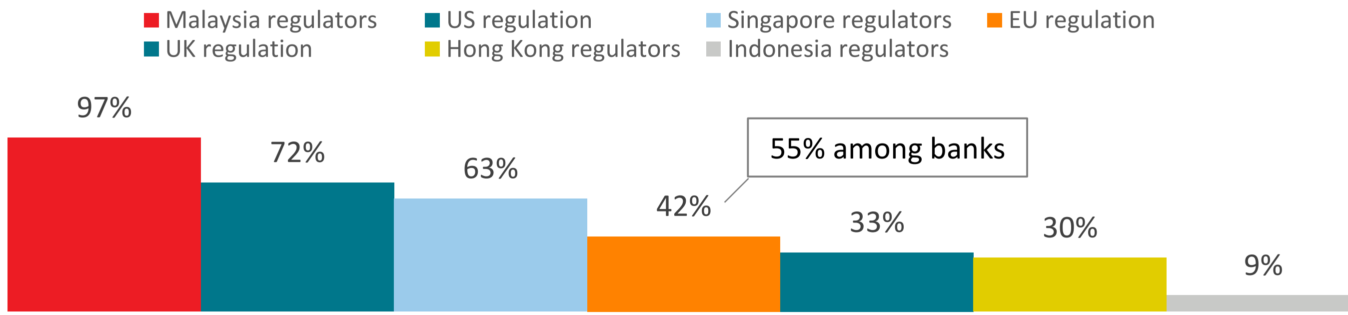
Q8: What would you say are the top drivers for AML initiatives at your firm, and their relative importance?

Not surprisingly, Malaysian regulators have the most impact on financial firms. However, US and Singapore regulation is also influential.

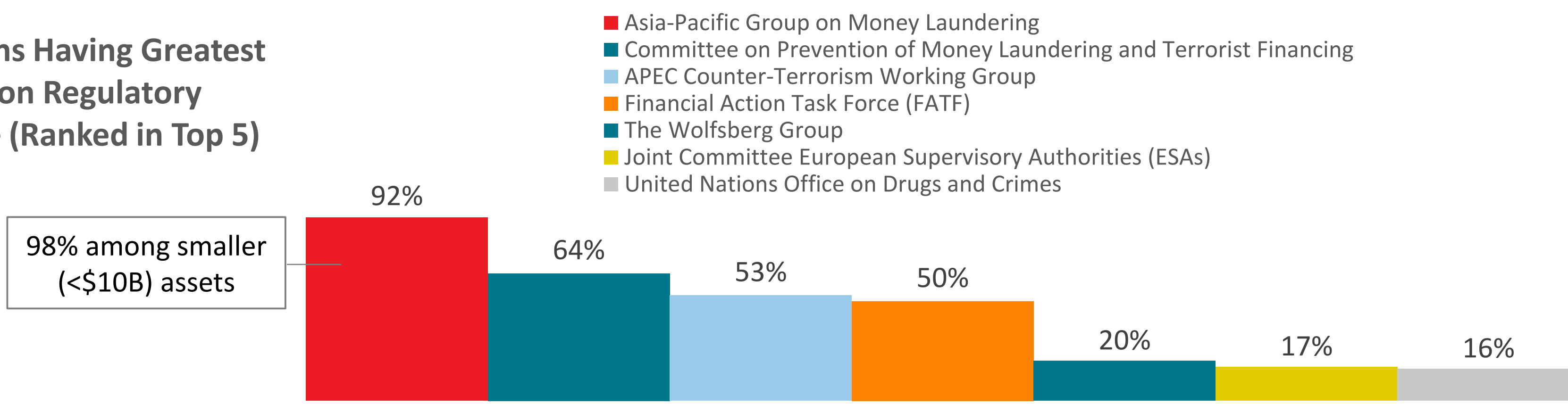
Asia-Pacific Group on Money Laundering leads among organizations with the greatest impact on regulatory compliance, followed by Committee on Prevention of Money Laundering/Terrorist Financing, APEC Counter-Terrorism Working Group, and FAFT.

Malaysia is reported to have largely up-to-date AML legislation, well-developed policies, institutional frameworks, and implementation mechanisms. The country shows continuing progress in efforts to improve AML enforcement by investigating, prosecuting, and securing more convictions of money laundering. One key area for development is the prosecution of foreign sourced crimes.[2]

Regulators Having Greatest Impact on Regulatory Compliance (Ranked in Top 5)



Organizations Having Greatest Impact on Regulatory Compliance (Ranked in Top 5)



[2] Ibid.

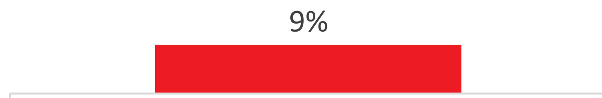
Q9: Which regulator do you see as having the greatest impact (including indirect influence) on regulatory compliance change in your country/region?

Q10: Which organizations do you see as having the greatest impact (including indirect influence) on regulatory compliance change in your country/region?

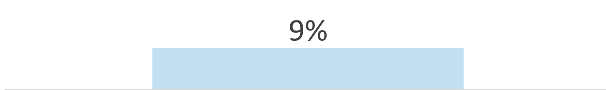
Malaysian AML compliance costs have reportedly increased by an average of 9% during the past 24 months.

Across firm size, there are expectations that AML compliance and sanctions costs will rise similarly during the coming year. However, a number of firms expect to increase compliance staff in order to address challenges and risks posed by non-bank payment providers. Added labor should theoretically add much more costs to compliance operations; alternatively, investments in compliance technology can reduce the longer-term expenses, especially where there are concerns for ever-increasing alert volumes and false positives.

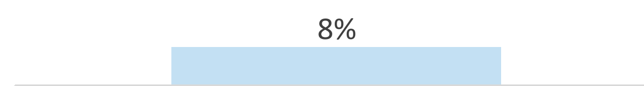
Avg. AML Cost Increase During Past 24 Months



Avg. Expected AML Compliance Cost Increase



Avg. Expected AML Sanctions Cost Increase



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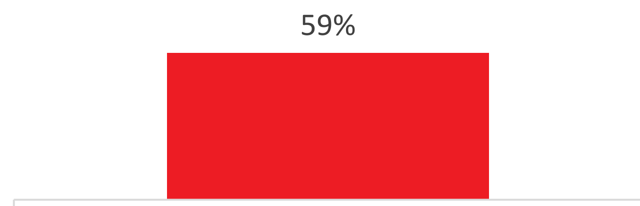
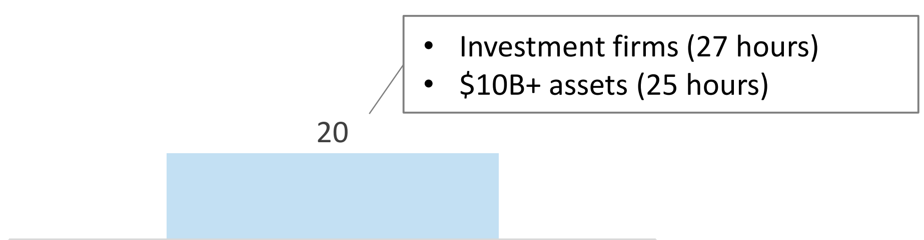
Q11: Over the past 24 months, have your firm's AML compliance costs increased or decreased, and by how much? Please provide your best estimate? Q12: In 2019, do you expect your firm’s overall AML compliance costs will increase or decrease, and by how much? Q13: In 2019, do you expect your firm’s sanctions compliance costs will increase or decrease, and by how much?

Over half are concerned with the job satisfaction of their compliance staff.

% Somewhat to Very Concerned About Job Satisfaction of Compliance Staff



Average Annual Hours of Lost Productivity Due to Job Dissatisfaction



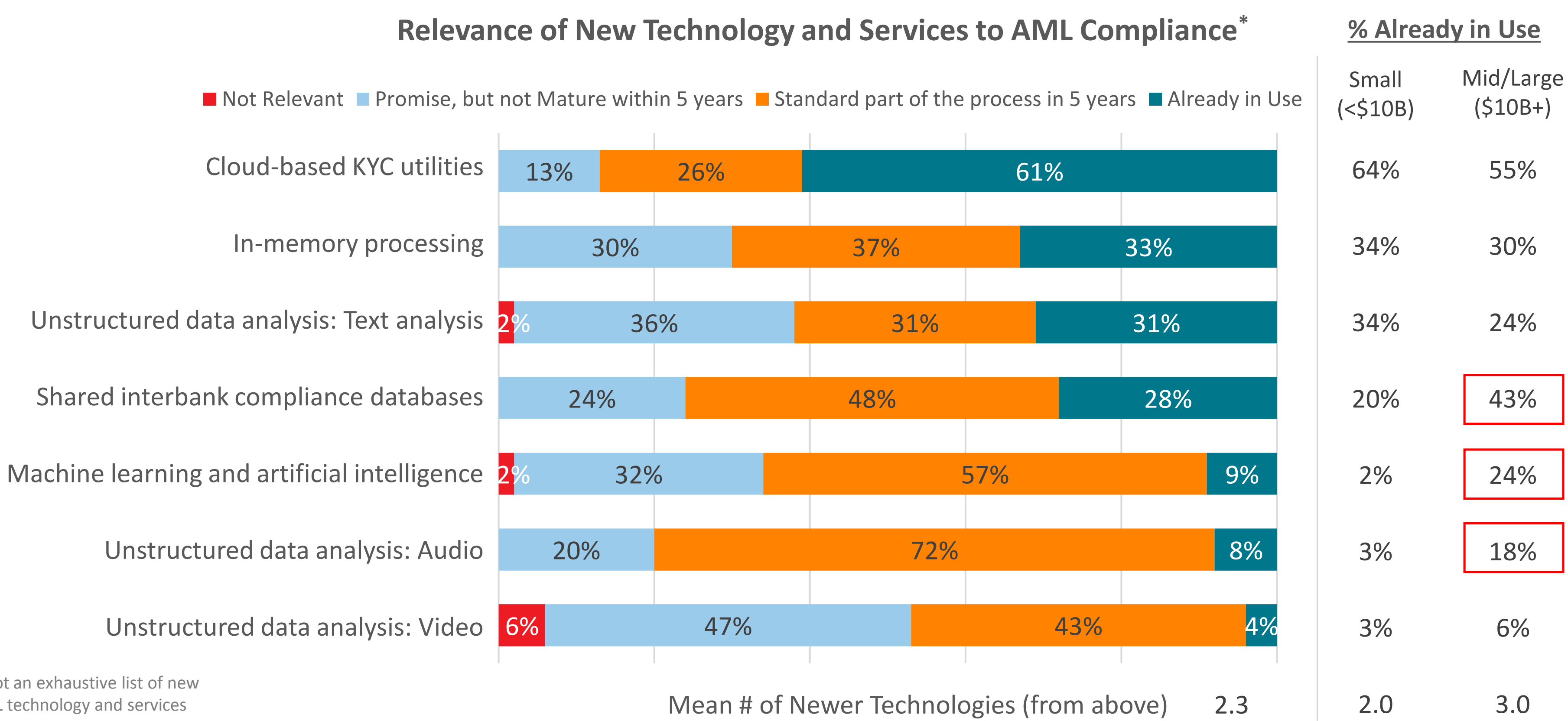
Q14: How concerned are you with job satisfaction in your compliance department?

Q15: What would you say is the annual loss in AML compliance productivity due to job satisfaction issues, expressed in average hours of lost productivity per FTE analyst?

Cloud-based KYC utilities are currently most used for AML compliance activities.

Current use of other technologies/services is limited, except for shared interbank compliance databases among larger firms. Regionally, findings show that large firms, which have more AML compliance staff and higher total assets, use more of these technologies / services than others (4 or more) (*see Regional Findings section*).

But unstructured audio analysis, shared interbank compliance databases, and in-memory processing are expected to become a standard part of the process in 5 years.



* Not an exhaustive list of new AML technology and services

Significantly or directionally much higher than other segments within technology

Q16: Over the next 5 years, to what degree do you think each of the following new technologies and services will be relevant to AML compliance?

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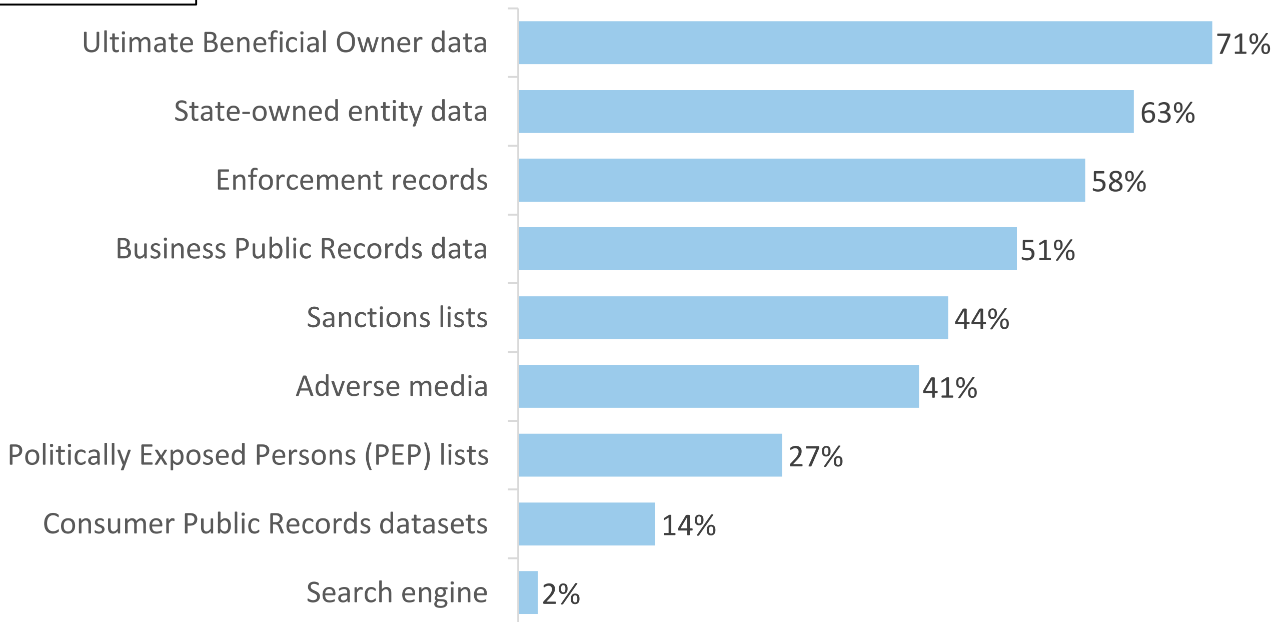
Ultimate beneficial owner data (especially among banks) and state-owned entity data are most used for due diligence screening.

Banks are more likely to use sanctions lists than investment firms.

Given Malaysia's exposure to money laundering threats, along with concerns with business reputation and de-risking, the use of sanctions lists, adverse media, and PEP lists for due diligence screening is somewhat limited. This leaves firms open to additional risks.

100% indicate that takes a similar amount of time to screen these sources

Sources Used to Screen Against Customer Due Diligence



	Banks	Investment Firms
Ultimate Beneficial Owner data	73%	43%
State-owned entity data	69%	67%
Enforcement records	63%	57%
Business Public Records data	41%	48%
Sanctions lists	49%	14%
Adverse media	41%	43%
Politically Exposed Persons (PEP) lists	28%	19%
Consumer Public Records datasets	10%	14%
Search engine	3%	0%

Significantly or directionally much higher than other segments within technology

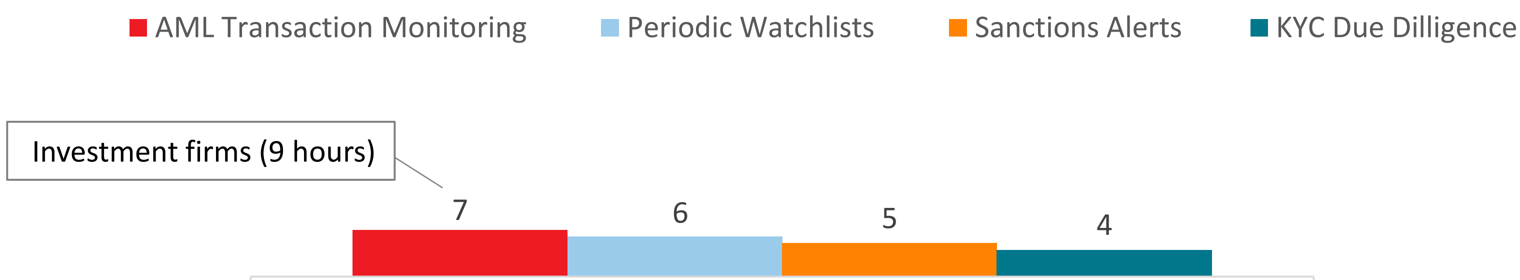
Q17b. Which sources are you using to screen against for customer due diligence?
Q17c: Which source(s) take the longest time to screen against?

The average time required to clear various alerts is between 4 – 7 hours.

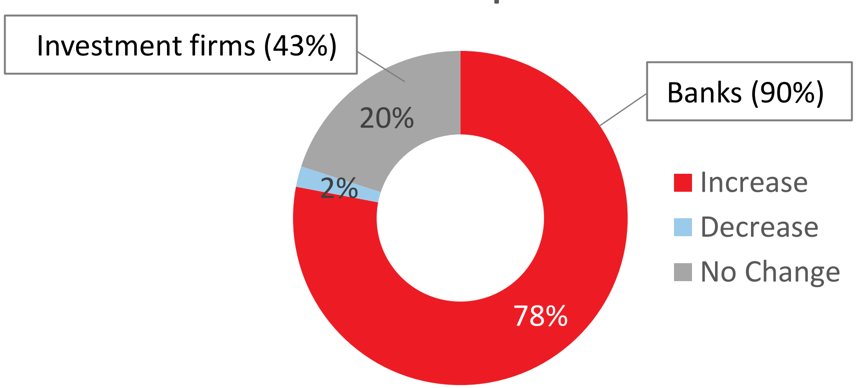
Most banks (90%) expect an increase in alert volume in 2019, compared to nearly half of investment firms expecting no change.

Regionally, those that use more compliance technology/services are able to clear alerts much faster than others (see *Regional Findings section*).

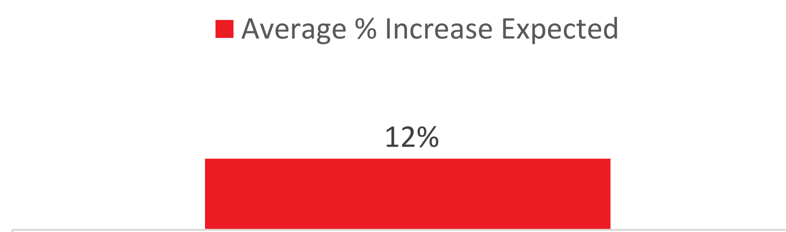
Average Hours to Clear the Following Types of Alerts



Alert Volume Expectations



Average Expected Increase to Alert Volumes



Q18: What is the average time required for an analyst to clear each of the following alert types?
Q19a: Do you expect alert volumes to increase or decrease in 2018?
Q19b. Percent you expect alert volumes to increase in 2018?

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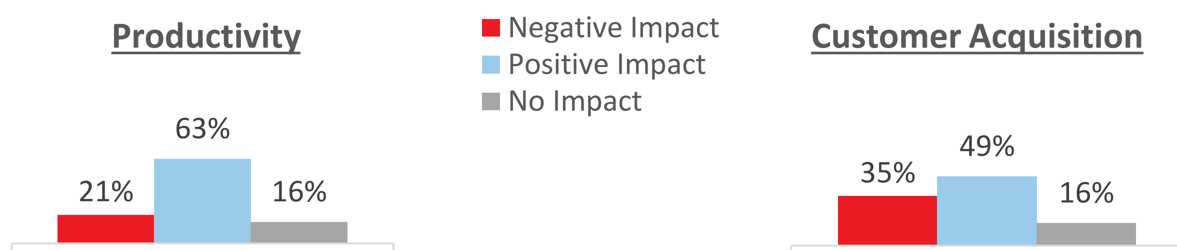
Less than one-quarter of Malaysian firms report that AML compliance processes have a negative impact on productivity; somewhat more believe it negatively impacts customer acquisition efforts.

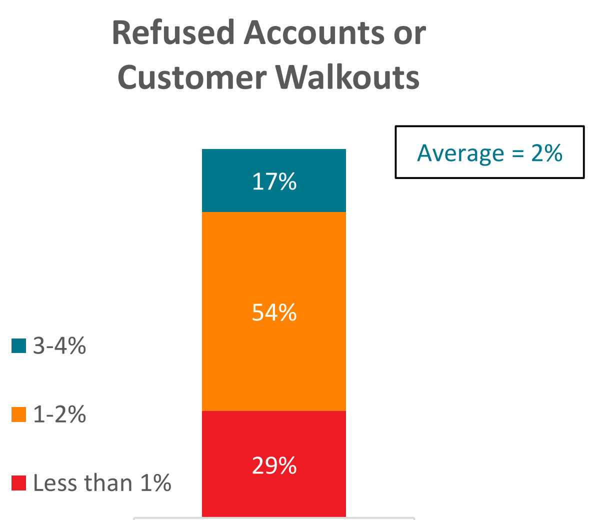
But there is an impact, with average annual hours of lost productivity per FTE analyst equivalent to nearly 3 days (based on 8-hour work day). And an average of 2% of accounts are lost per year, while another 3% of new account openings are delayed.

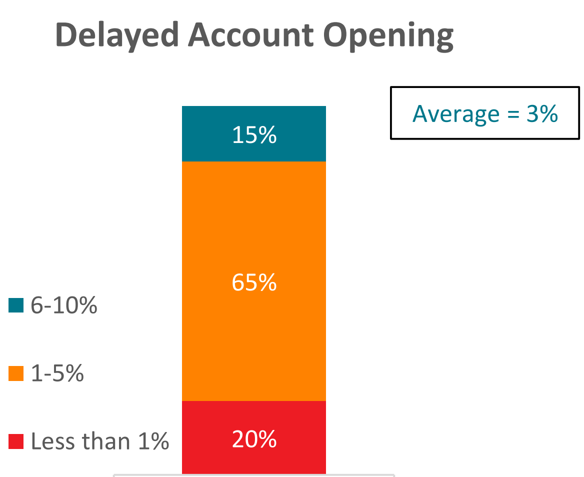
AML Compliance Impact on . . .



Annual average hours of lost productivity per FTE = 22.4

Estimated Annual Opportunity Cost of...





Q20a/22: What kind of impact does the AML compliance process have on LoB productivity/ customer acquisition? Q21: What is your best estimate of the annual loss in LoB productivity due to AML compliance at your firm? Q24a/23a: What do you estimate is the annual opportunity cost of refused accounts or customer walkouts/delayed account opening due to AML compliance, as a percentage of new account applications?

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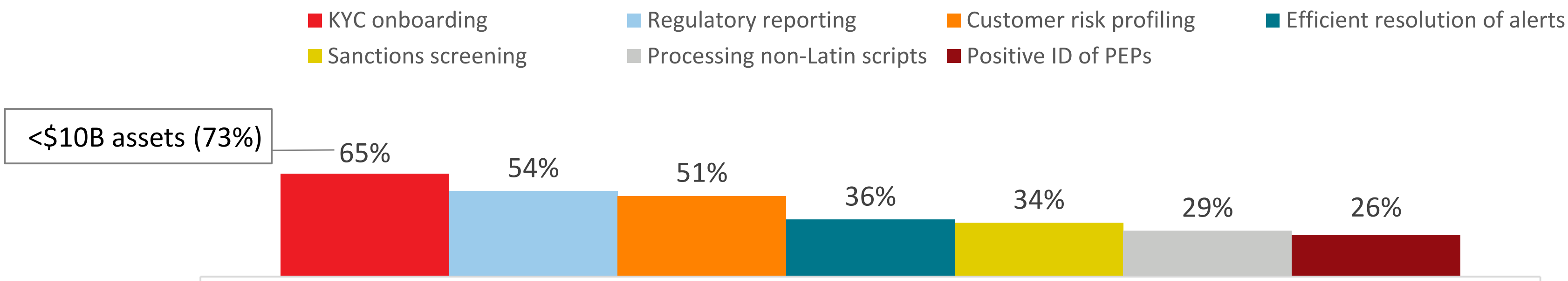
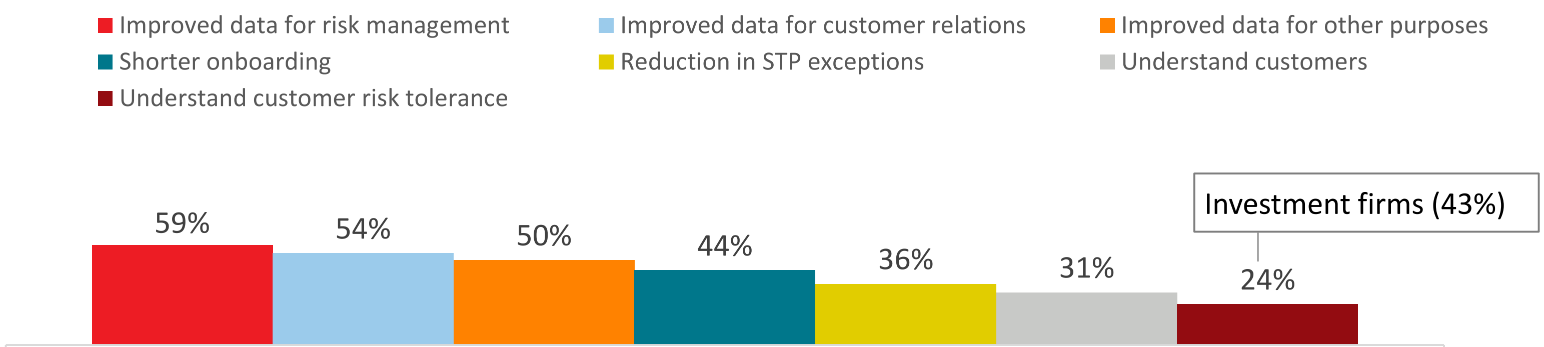
Key challenges for compliance screening are led by KYC onboarding (especially among <$10B asset firms), regulatory reporting, and customer risk profiling.

However, there are benefits to AML compliance, including improved data for risk management/customer relations/other purposes and shorter onboarding.

Key Challenges for Compliance Screening Operations (% Ranked Among Top 3)



Benefits from AML Compliance (% Ranked Among Top 3)



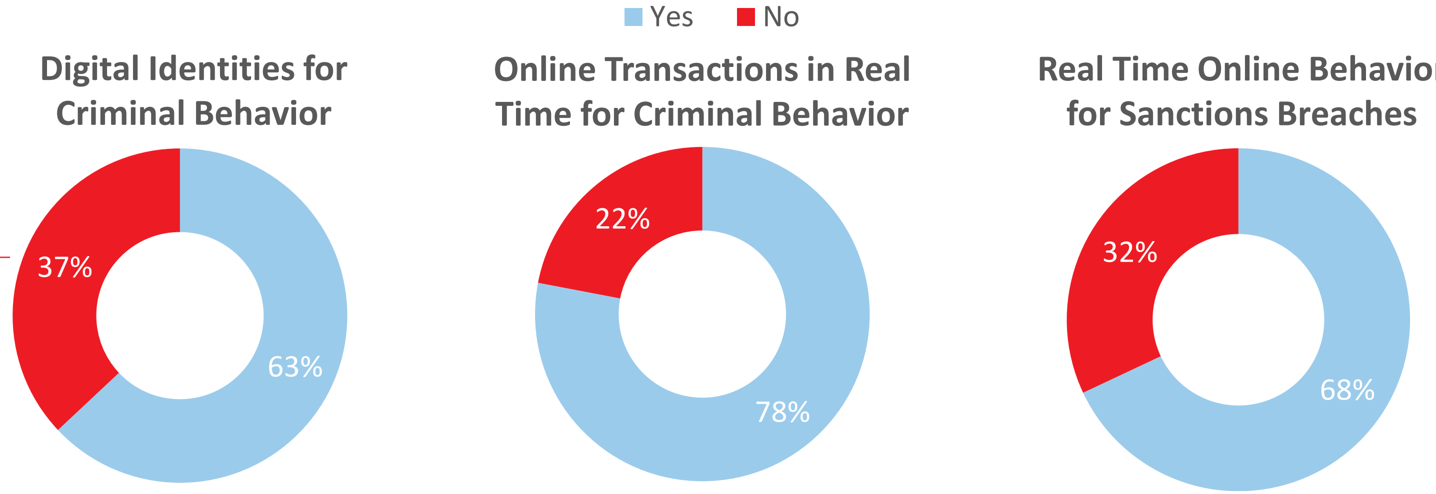
Q25: What areas in your compliance screening operations face the largest challenges under compliance change?

Q26: Which of the following do you see as benefits to the business brought by AML compliance change?

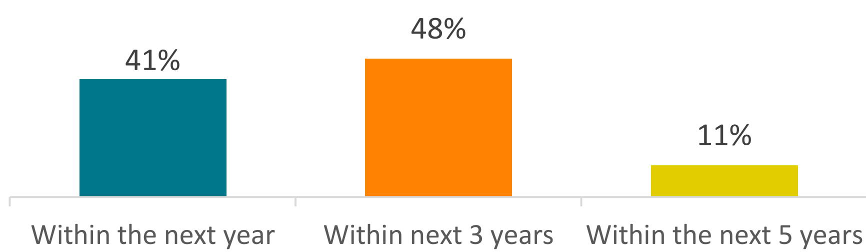
Nearly two-thirds of Malaysian financial firms are currently monitoring digital identities for criminal behavior; even more are able to monitor online transactions in real-time and behavior for sanctions breaches.

A majority of those who don't currently monitor digital identities for criminal behavior plan to so wo within the next 1-3 years.

% Currently Monitoring/Able to Monitor…



Timeframe For Beginning to Monitor Digital Identities



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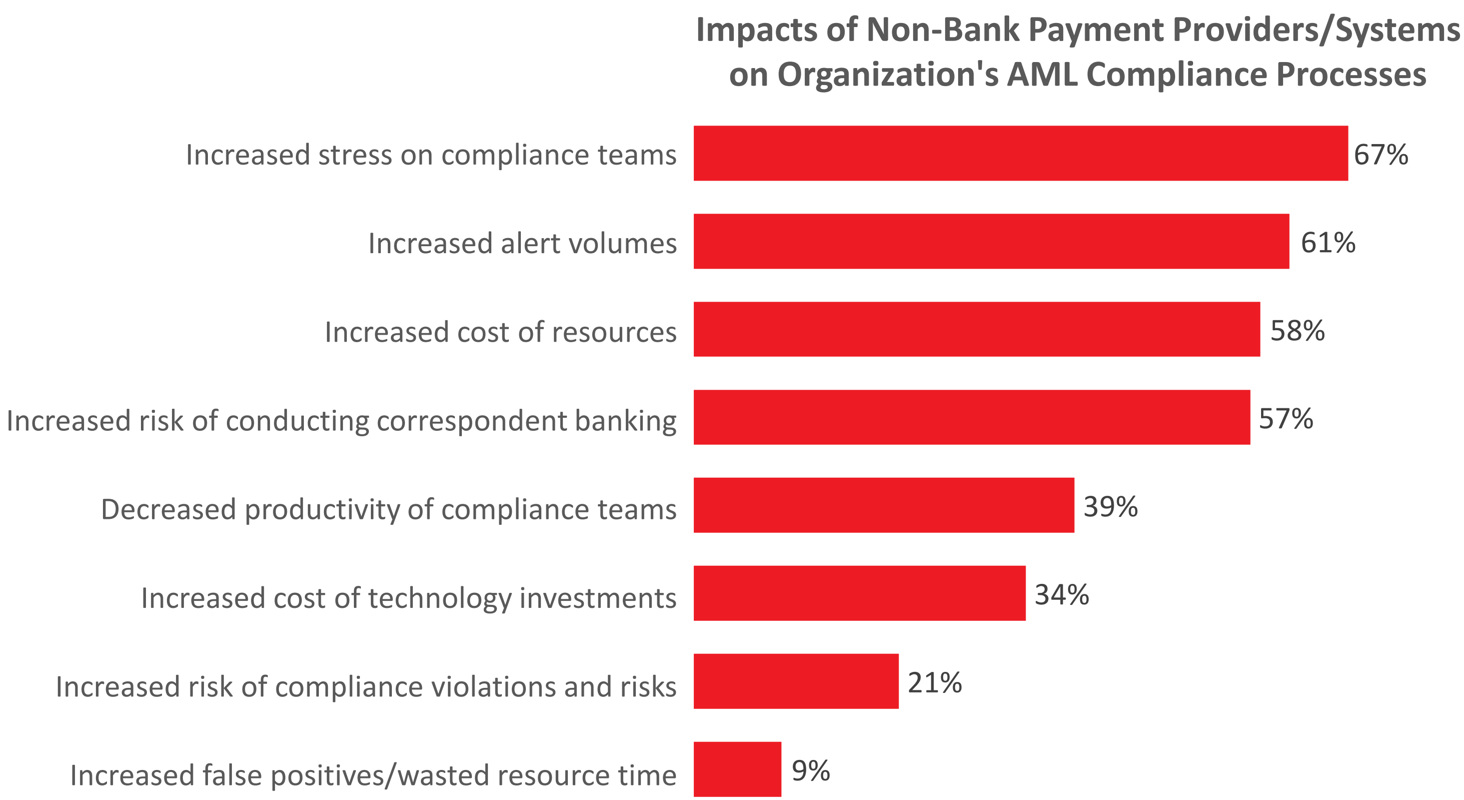
Q32a: Are you currently monitoring/able to monitor…

Q32b: Which of the following timeframes best describes when you will start to monitor digital identities for criminal behavior?

Common impacts of non-bank providers on AML processes include increased stress on compliance teams, alert volumes, cost of resources, and risk of conducting correspondent banking.

Stress on compliance teams is especially impactful on firms with $10B+ assets, which already handle a higher volume of screening.



	Small (<$10B)	Mid/Large ($10B+)
Increased stress on compliance teams	57%	$\boxed{88\%}$
Increased alert volumes	66%	51%
Increased cost of resources	58%	58%
Increased risk of conducting correspondent banking	62%	45%
Decreased productivity of compliance teams	35%	48%
Increased cost of technology investments	36%	30%
Increased risk of compliance violations and risks	15%	33%
Increased false positives/wasted resource time	11%	6%

☐ Significantly or directionally much higher than other segments within technology

Q37. Which of the following, if any, have been the impacts of non-bank payment service providers and systems on your organization’s AML compliance processes?

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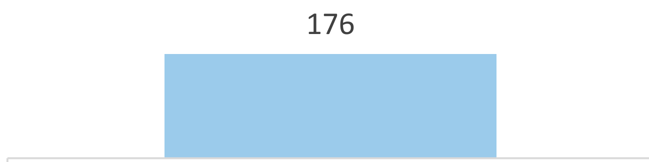
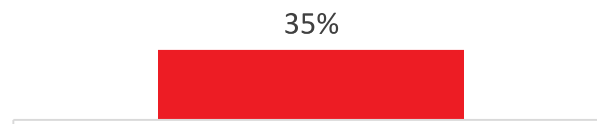
Just over 1 in 3 of the SARs reported annually involve non-bank payment providers.

This is not surprising, since non-banks processed a total of 31.3 million mobile payment transactions in 2018, compared with just 1 million transactions in 2017.[3]

Average Submitted SARs Reports Annually



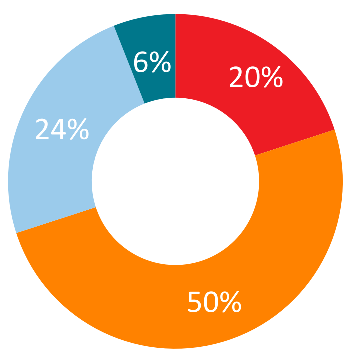
% Suspicious Activity Reports (SARs) That Involve Non-Bank Payment Provider Transactions

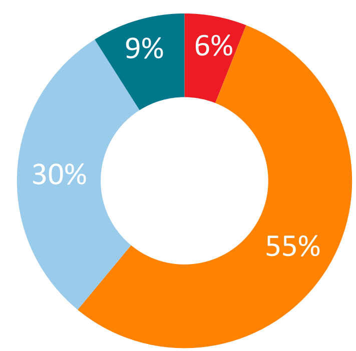


Degree That Non-Bank Payment Providers/Systems Created Challenges for AML Compliance Over Past Year

Degree That Rise in Transactions Through Non-Bank Payment Providers Caused AML Compliance Organization to Change its Screening Operations in Past Year

Not at all | Some degree | Moderate degree | Large degree



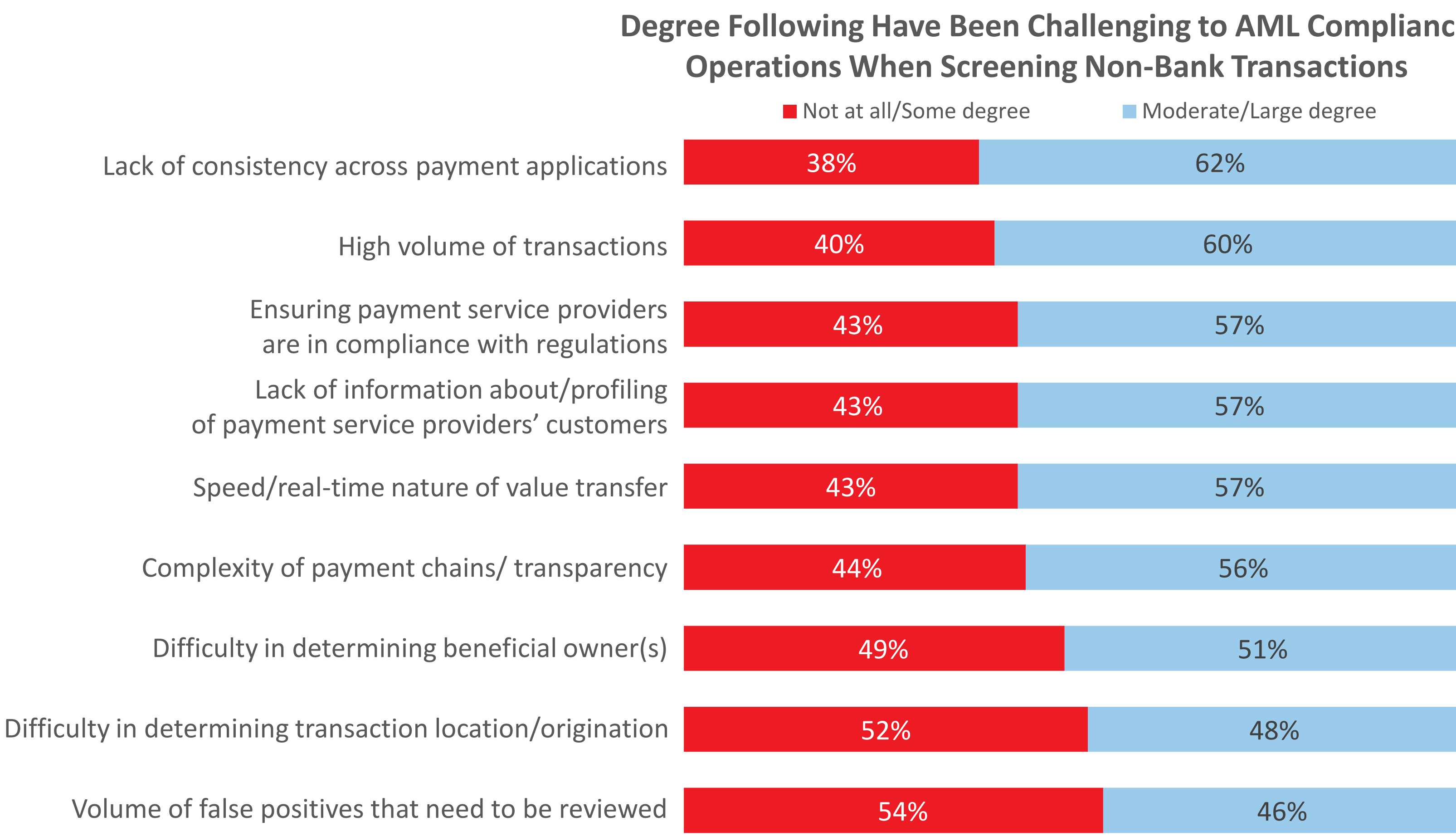


[3]http://www.xinhuanet.com/english/2019-03/27/c_137927771.htm

Q5n. In the past year, what is the approximate # of SARs that have been submitted by your AML Compliance operation? Q34: Approximately what % of the SARs submitted involved transactions made through non-bank payment providers? Q35: To what degree have non-bank payment service providers created challenges to your AML compliance processes **during the past year**? Q36: To what degree has the rise in the # of transactions made through non-bank payment providers caused your AML compliance organization to change its screening processes **over the past year**?

Various challenges emerge as the result of screening non-bank transactions.

Larger firms find determining beneficial owners to be more challenging than others.



% Moderate/ Large Degree

	Small (<$10B)	Mid/Large ($10B+)
Lack of consistency across payment applications	64%	58%
High volume of transactions	65%	48%
Ensuring payment service providers are in compliance with regulations	54%	64%
Lack of information about/profiling of payment service providers' customers	56%	58%
Speed/real-time nature of value transfer	50%	70%
Complexity of payment chains/ transparency	55%	57%
Difficulty in determining beneficial owner(s)	39%	$\boxed{76\%}$
Difficulty in determining transaction location/origination	51%	42%
Volume of false positives that need to be reviewed	45%	48%

Significantly or directionally much higher than other segments within technology

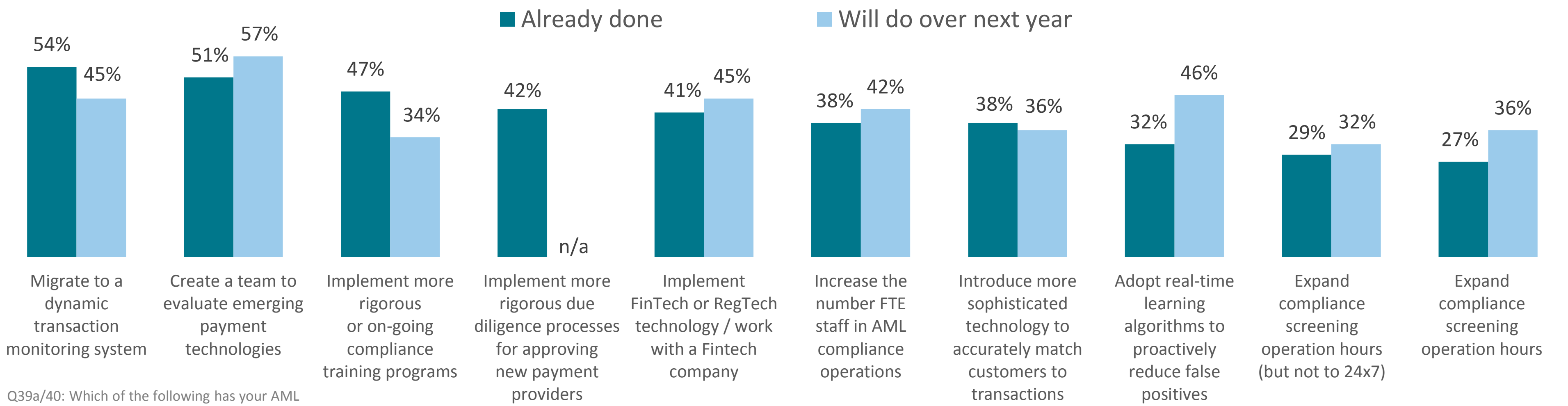
Q38: Over the past year, to what degree have the following been challenging to your AML compliance operations when screening transactions made through non-bank payment service providers and systems?

A sizeable number have migrated to a dynamic monitoring system, created a team to evaluate technologies, or implemented more rigorous training in response to non-bank transaction challenges.

Those citing increased alert volumes as a non-bank payment provider impact have been likely to create a team to evaluate emerging payment technologies (56%) and add more rigorous training (53%). But fewer (36%) have implemented technology to address false positives, which increase as alert volumes rise.

And, those who have migrated to dynamic monitoring are also likely to add FinTech/RegTech technology (56%), but are as likely as others to also plan on increasing compliance staff (40%), even though compliance technologies could lessen that need and the cost associated with human resources.

Actions AML Compliance Organization Has Already Taken/Will Take to Address Challenges With Non-Bank Transactions



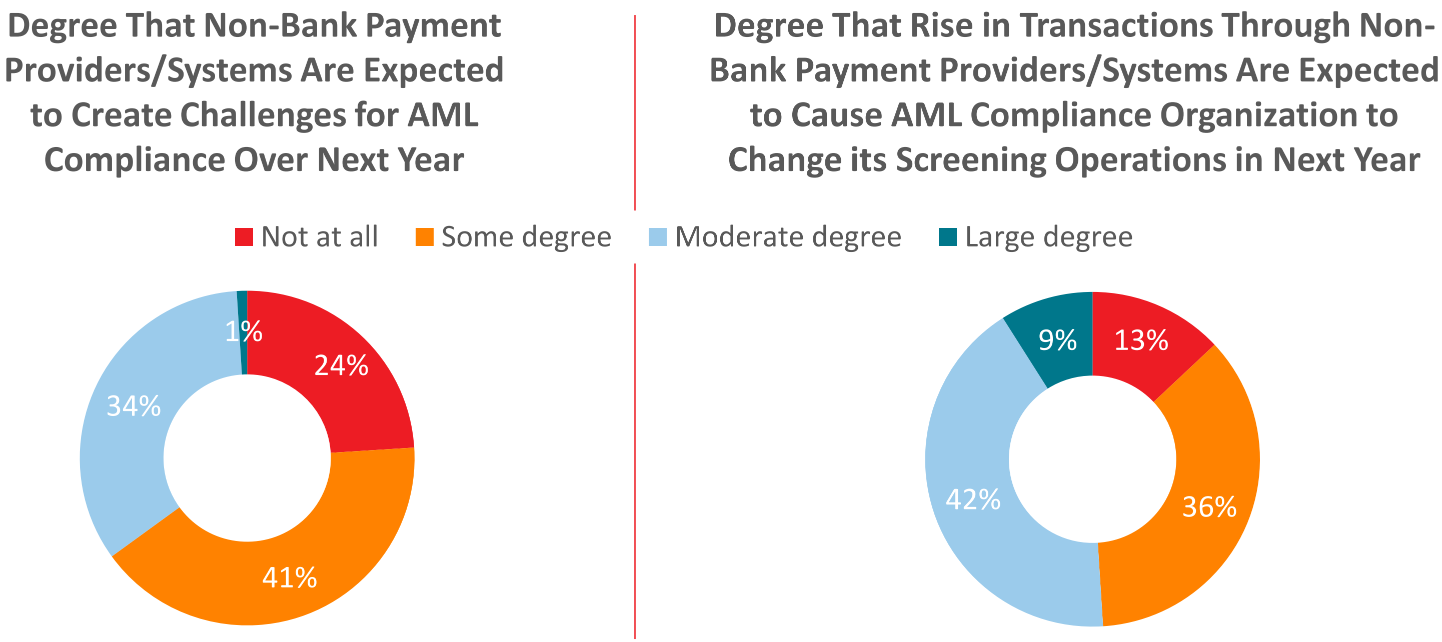
Steps Taken

73%	*Governance procedures & documentation to confirm PSP compliance*
55%	*Require more transparency about PSP transactions*
53%	*Require more PSP customer profiling information*
44%	*Require more transparency of PSP products/services offered*

Q39a/40: Which of the following has your AML compliance organization already done/will do over next year to address challenges with transactions from non-bank payment providers?

Q39b: What steps has your AML compliance org taken to implement more rigorous due diligence processes for approving new payment providers?

Non-bank payment providers are expected to continue creating challenges for AML compliance, resulting in changes being made to screening operations over the next year.



Q41: To what degree have non-bank payment service providers and systems created/create challenges to your organization's AML compliance processes/operations **over the next year**?

Q42: To what degree has the rise in the number of transactions made through non-bank payment service providers and systems caused/will cause your AML compliance organization to change its screening operations/processes **over the next year**?

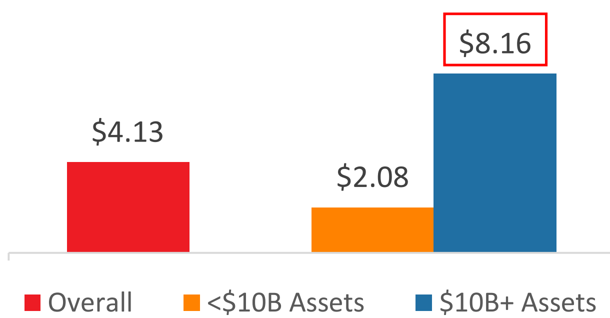
The average annual spend for AML compliance among Malaysian financial firms is US$4.13M; it is even higher for firms with $10B+ in assets (US$8.16M).

This spend is distributed somewhat more toward labour than technology.

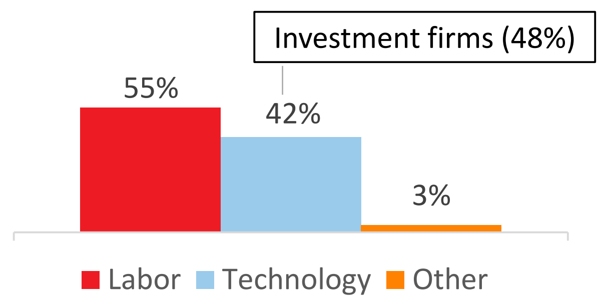
KYC makes up a good share of costs, involving collection of information, screening, analytics and risk assessment, but so do transaction monitoring, investigations, and compliance management.

Regional findings show that the cost per FTE is lower among firms using more compliance technology / services (*see Regional Findings section*).

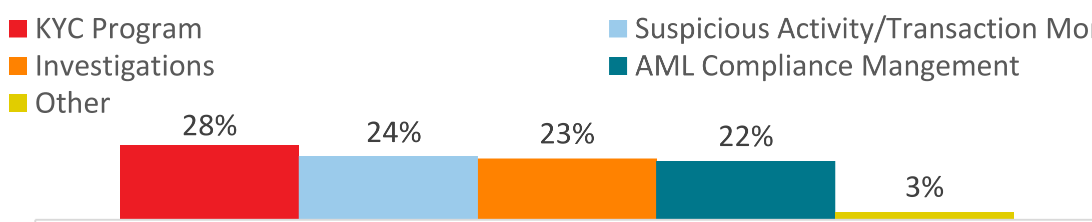
Average of AML Compliance Operations* (Annual Cost USD in Millions)



Distribution of AML Compliance Costs



Distribution of AML Compliance Costs by Compliance Activity



Q5: Please give your best estimate of the total annual cost of your AML compliance operations in USD.

Q5b: Roughly, what % of this would you say is related to labor/resources, technology/solutions/systems?

Q6: Please give your best estimate of the % that is spent on each of the following areas…

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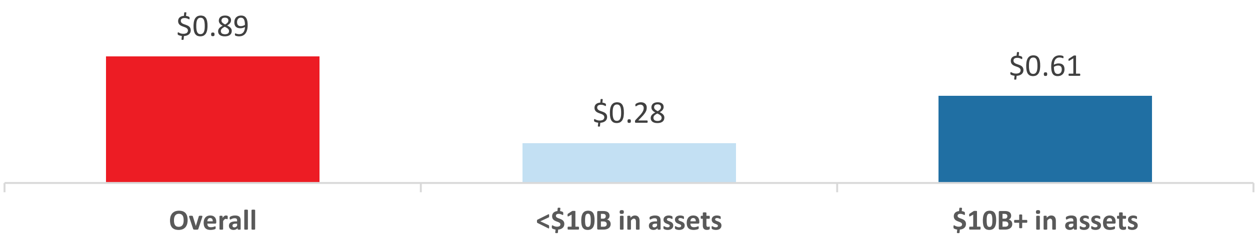
* Compliance technology, data and services can be shared across different operational and business units, making it difficult for a decision maker to know the full cost of compliance across the organization. Reported spend by survey respondents is based on a very detailed description involving labor, technology and other activities, though theses are estimates which could involve some level of variance.

The true cost of compliance across all Malaysian financial firms is US$890M*; those with more total assets represent a significantly larger share of spend. However, smaller firms get hit somewhat harder.

But while any one/individual $10B+ asset firm spends more per year on AML compliance, there are certain basic overhead investments required for compliance operations regardless of scale. As a result, the actual cost of compliance represents a larger portion of smaller firms' assets (an average of .15% of total assets compared to an average of .07% from larger firms).

True Cost of Compliance Across Malaysia Financial Firms
(USD in Billions)



AML Costs as a % of Total Assets	0.12%	0.14%	0.07%

Q5: Please give your best estimate of the total annual cost of your AML compliance operations in USD. This includes resources/labour, systems/solutions/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, training, etc… Q5aa: Roughly, what percentage would you say this spend is of your institution's total assets under management?

* Total annual cost of compliance across firms within the market is extrapolated by multiplying the total number of financial services firms for an asset tier by the average reported AML compliance spend for that tier; the total is the sum of total spend across each asset tier. Since different asset tiers report different AML compliance spend levels, using this "bottoms-up" approach provides a more accurate estimate in order to account for these differences, compared to a more simpler approach of multiplying the overall average by the overall number of firms.

Regional Findings – Technology Usage

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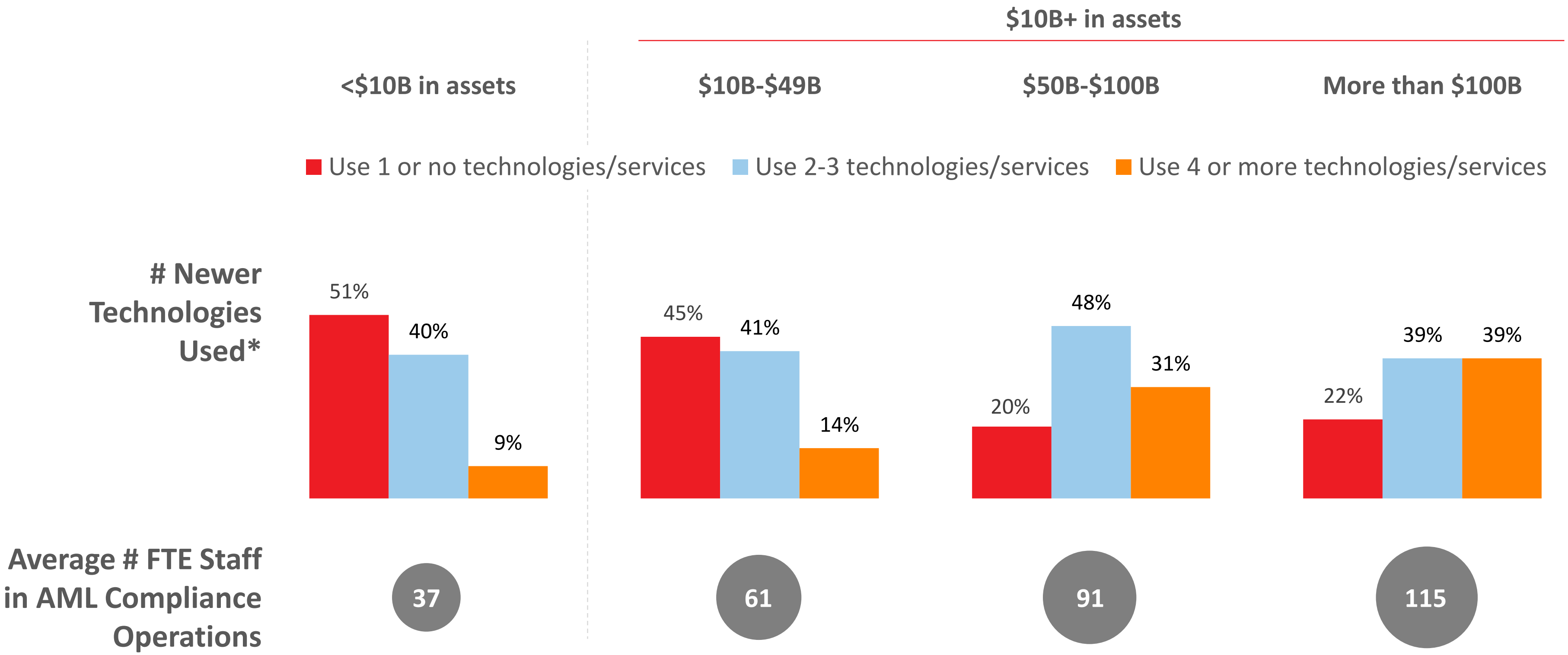
Across the APAC countries studied, there is a relationship between size of firm/number of FTEs and the number of newer compliance technologies/services used.

Firms with more assets under management have larger compliance operations teams and use more technologies/ services on average than smaller firms.

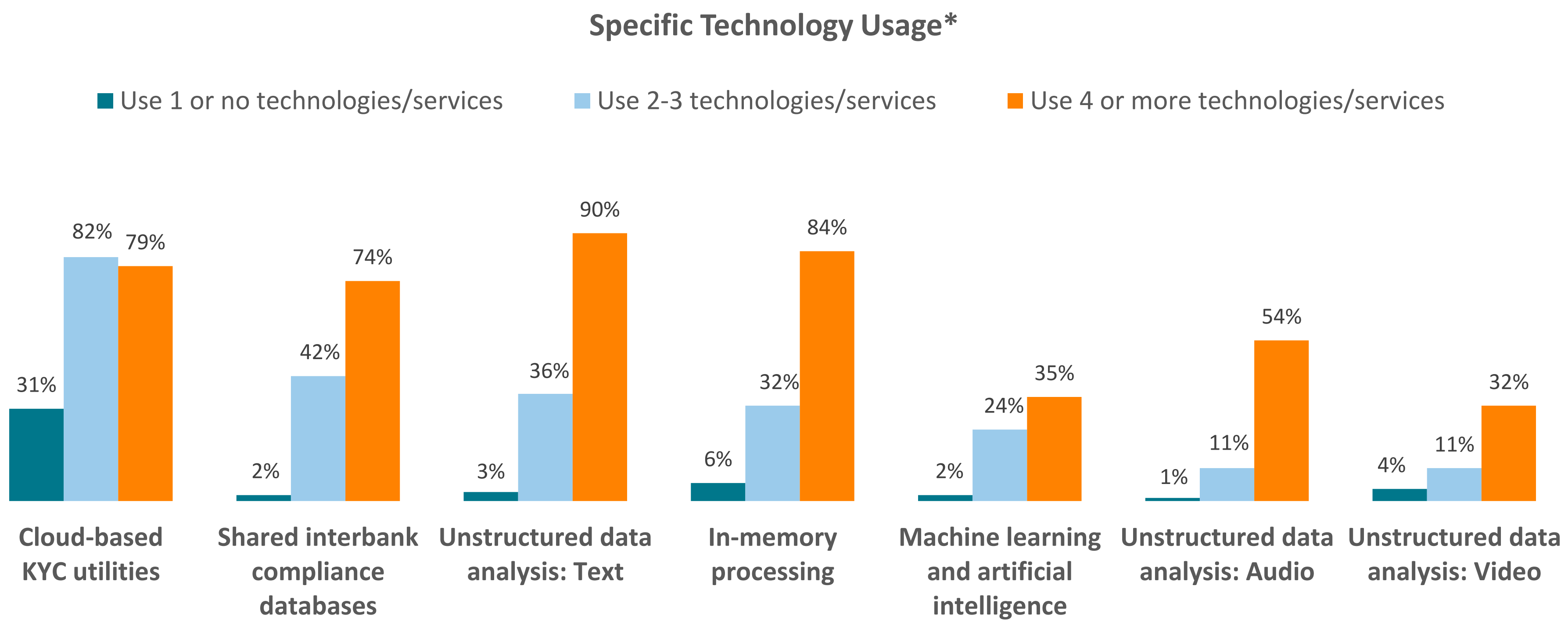


* Includes only those new technologies tested in this research

Q2c: Please indicate your best estimate of the number of FTE staff employed in the AML compliance operations departments. Q16: Over the next 5 years, to what degree do you think each of the following new technologies and services will be relevant to AML compliance?

Firms using 4 or more technologies/services tend to use various combinations, with unstructured text analysis, in-memory processing, cloud-based KYC utilities, and shared interbank compliance databases being most common.

Cloud-based KYC utilities are also commonly used among those using 2-3 technologies/services; usage of any one technology is limited among those using fewer.

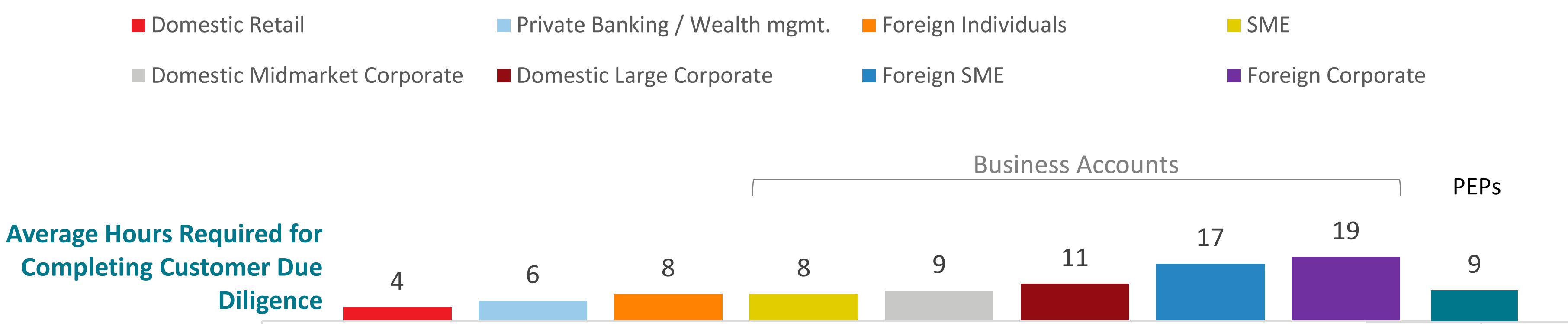


* Includes only those new technologies tested in this research

Q16: Over the next 5 years, to what degree do you think each of the following new technologies and services will be relevant to AML compliance?

Regional Findings

The use of these 4 or more technologies/services allows APAC financial services firms realize some time efficiencies when conducting due diligence for new accounts.



	Domestic Retail	Private Banking / Wealth mgmt.	Foreign Individuals	SME	Domestic Midmarket Corporate	Domestic Large Corporate	Foreign SME	Foreign Corporate	PEPs
Use 1 or no technologies/services	4	6	8	9	10	13	20	22	9
Use 2-3 technologies/services	4	5	8	7	8	9	15	18	8
Use 4 or more technologies/services	3	5	7	7	7	8	12	13	7

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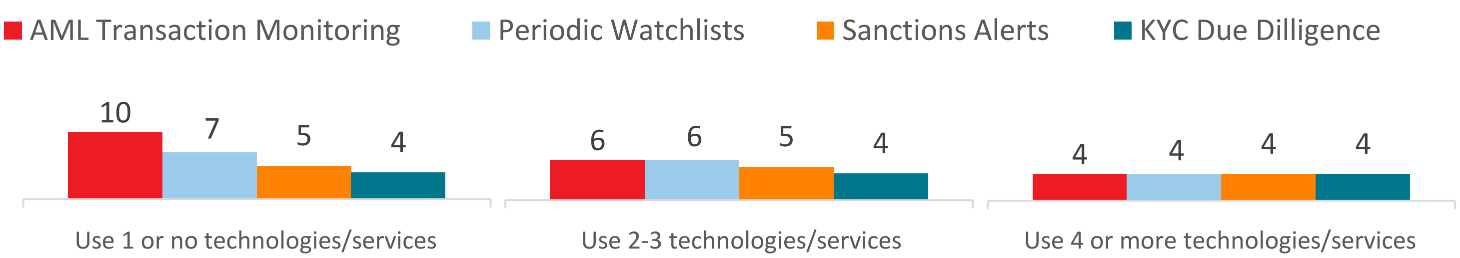
Q17a: What would you say is the average time required for completing customer due diligence on the following?

Those using more compliance technology/services are also able to clear alerts faster than others.

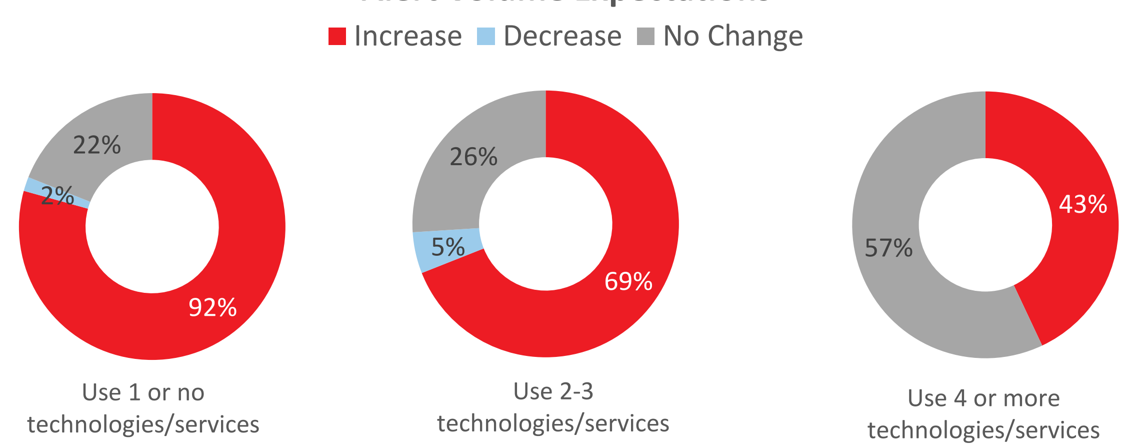
Regional Findings

Interestingly, those which use few or no technologies/services are significantly more likely to expect an increase in alert volumes in 2019, which suggests that they will be less prepared and efficient to handle this if that occurs.

Average Hours to Clear the Following Types of Alerts



Alert Volume Expectations



Q18: What is the average time required for an analyst to clear each of the following alert types?
Q19a: Do you expect alert volumes to increase or decrease in 2019?
Q19b. Percent you expect alert volumes to increase in 2019?

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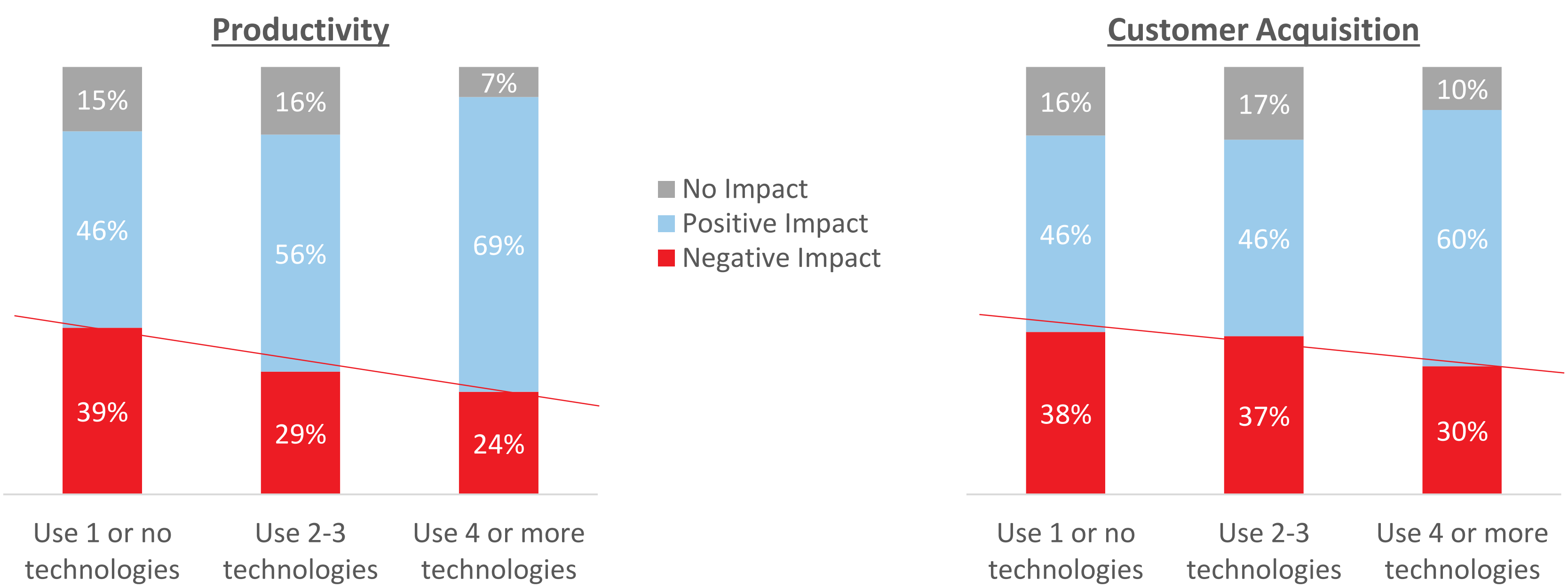
Relatedly, those firms using more technologies/services are less likely to feel negative impacts of AML compliance on productivity and customer acquisition.

Regional Findings

And even those firms experiencing lost productivity lose fewer hours than those using fewer technologies/services.

AML Compliance Impact on . . .



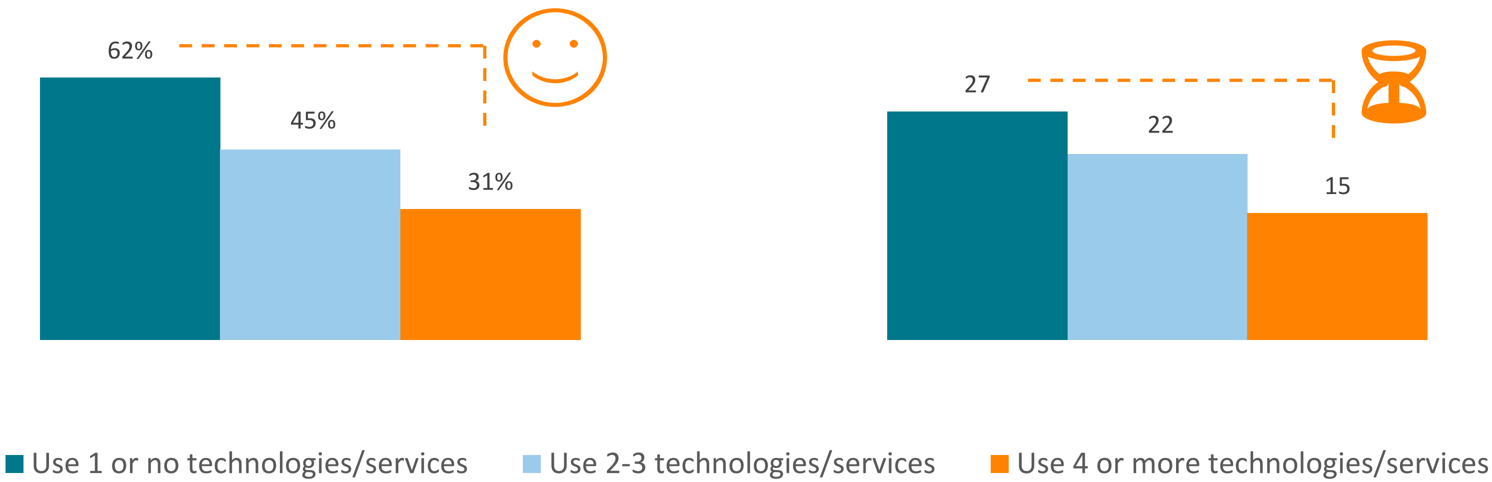
29	25	17	*Annual average hours of lost productivity per FTE*

Q20a/22: What kind of impact does the AML compliance process have on LoB productivity/customer acquisition? Q21: What is your best estimate of the annual loss in LoB productivity due to AML compliance at your firm?

Being that FTEs are working more efficiently, there is less concern about job dissatisfaction and fewer hours of lost productivity related to this in firms using 4 or more technologies/services.

% Somewhat to Very Concerned About Job Satisfaction of Compliance Staff

Average Annual Hours of Lost Productivity Due to Job Dissatisfaction



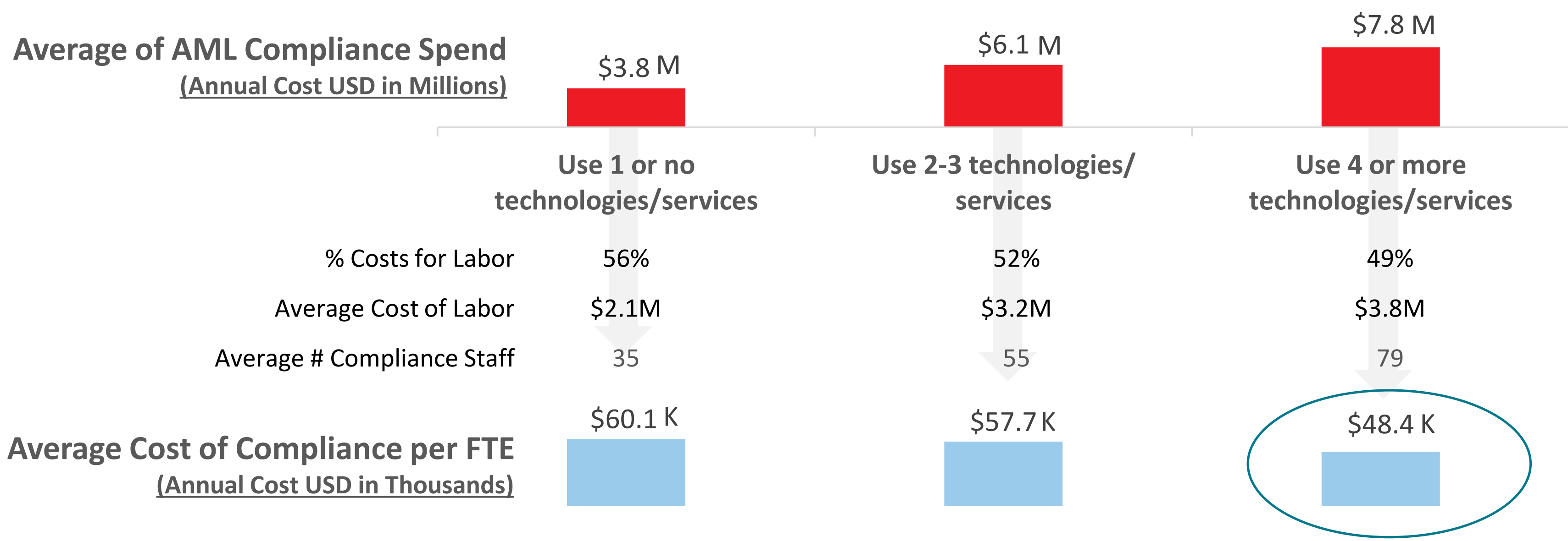
Q14: How concerned are you with job satisfaction in your compliance department?

Q15: What would you say is the annual loss in AML compliance productivity due to job satisfaction issues, expressed in average hours of lost productivity per FTE analyst?

Regional Findings

Though APAC firms that are using more compliance technologies/services have larger initial outlays related to such technology, this can be viewed as an investment to manage longer-term AML compliance costs.

By adding more technology as compliance workforces grow, financial firms are actually decreasing the labor-related cost of compliance per FTE, as well as the opportunity costs associated with onboarding friction and lost business. Keeping FTE costs lower is essential to profitability, since labor tends to account for significant increased expenses year-over-year.



Q2c: Please indicate your best estimate of the number of FTE staff employed in the AML compliance operations departments. Q5: Please give your best estimate of the total annual cost of your AML compliance operations in USD. This includes resources/labour, systems/solutions/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, training, etc… Q5b: Roughly, what % of this would you say is related to labor/resources, technology/solutions/systems?

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* Includes only those new technologies tested in this research

Implications

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Implications

- Technology plays an important role in effectively managing the impact of AML compliance on the business.
  - It's not just about managing the direct costs, but also the indirect and opportunity costs that can be harder to measure.
  - And, these opportunity costs are not just about lost prospects and future revenues associated with friction and delays at onboarding. Missing a holistic view with KYC adds the risk of letting "bad actors" in the door, thereby incurring hefty fines and reputational damage.
  - 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.

- As compliance regulations grow in complexity and translate into more alert volumes, it will become increasingly difficult for APAC financial firms to keep pace, manage false positives, and avoid non-compliance issues. A common reaction can be to add more human resources. However, this is not a profitable long-term solution.
  - The cost of human resources almost always trends upward. At some point, firms will reach a point of diminishing returns.
  - The rise in human resource costs can rise sharply where financial firms feel the need for more skilled resources to address more complex compliance decisions. More demand increases salary demands, especially if there is a limited universe of skilled resources that firms are fighting for.
  - Further, without the support of expanded data sources, bad data can lead to bad decisions regardless of the number of human resources applied to a case.

Implications (cont.)

- It is understood that financial executives, who face personal liability for non-compliance, can be wary of foregoing human input with these decisions. But technology does not need to replace human involvement; it can augment it to improve compliance processes and reduce the need for bringing on more resources (while keeping those you have) – thus "future proofing" against significant cost increases over the long term.
  - Using solutions to help compliance teams analyze existing data, have access to other external information, and make decisions from a more holistic view of the customer can reduce onboarding times, decrease remediation costs, lessen processing times, increase throughput (without hiring more people) and create a more effective means of preventing financial crime over the long term.

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