True Cost of AML Compliance

Philippines "Snapshot"

2019

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Background & Objectives

Following on from the first wave of its True Cost of AML Compliance study in 2016, LexisNexis® Risk Solutions has conducted another survey of the APAC financial services market. 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 2019 with a total of 233 completions across 4 APAC markets. **The following report details the Philippines 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 Philippine financial services firms is estimated to be US$0.48B. 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 .10%) than larger firms (an average of .05%).
- Larger firms spend somewhat more on technology than do smaller firms. But given that larger firms employ twice as many FTEs as smaller firms on average, this contributes to exponentially higher compliance costs for them. Labor 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.
    - However, while a majority are currently are able to monitor online transactions in real-time for criminal behavior (73%), fewer monitor digital identities (59%) or are able to monitor for sanctions breaches (57%). This leaves firms open to added risk.

Key Findings (cont.)

- Though business de-risking is among key drivers for Philippine financial firms, it is under two-thirds (61%) who rank it in the top 3. The Philippines' physical location within international trafficking routes, high volume of remittances from Filipinos living abroad, the presence of terrorist organizations, and regulatory vulnerabilities that were exploited by hackers in 2016 creates an environment susceptible to money laundering. This adds additional risk to financial firms and makes de-risking even more important.
    - There is a sizeable group that perceives AML compliance to negatively impact productivity (36%) and customer acquisition (35%). These impacts are not insignificant, with average annual hours of lost productivity estimated to be 23 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 firms with $10B+ in assets (100%), expect alert volumes to increase, by an average of 9%.
    - AML compliance and sanctions costs are expected to grow by an average of 7% and 9% respectively.

Key Findings (cont.)

- Additionally, non-bank payment providers are creating challenges for compliance organizations.
  - Over the past year, over 1 in 5 suspicious activity reports have involved non-bank payment providers, resulting in an increase in alert volumes and increased resource costs, stress on compliance teams, and risk of conducting correspondent banking.
  - Given that FinTech transactions are expected to grow at $16.4% per year, their impacts will likely continue.
  - In response to the impact from these providers, a number of financial firms have migrated to dynamic monitoring, expanded screening hours, 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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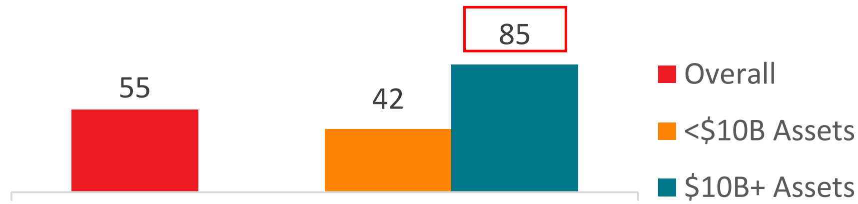
Philippine financial firms with $10B or more in assets screen more names per day, and as such, employ more FTE staff than smaller firms.

Fewer FTE staff have been employed for more than 10 years, but those who have are likely to earn up to US$80,000 a year.

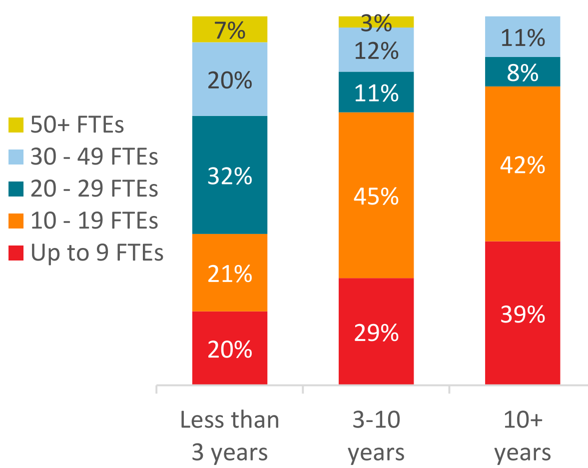
FTEs employed by larger ($10B+) firms earn a higher salary, on average, than those in smaller firms.

Average FTE Staff Employed in AML Compliance Operations

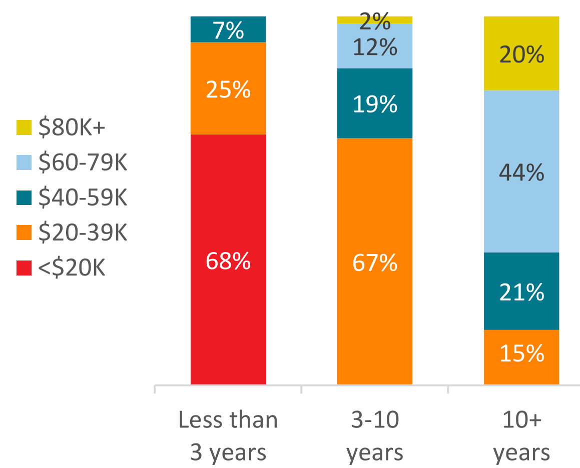


	Overall	<$10B Assets	$10B+ Assets
Mean # of Names for Compliance screening (per day)	284	245	373
Mean # of Names for Sanctions screening (per day)	260	223	343

Number of FTE Staff by Tenure



Average FTE Salary by Tenure



	Overall	<$10B Assets	$10B+ Assets
Average FTE Salary	USD$44,366	USD$39,933	USD$54,459

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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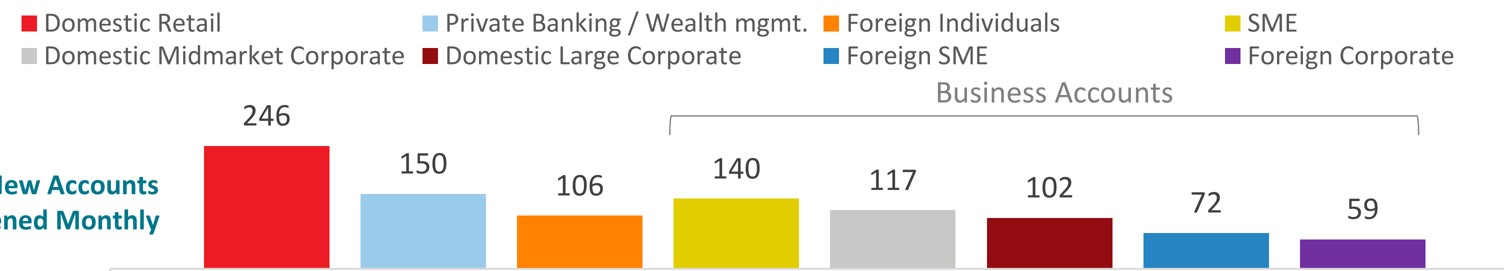
Business accounts require more time for due diligence processing.

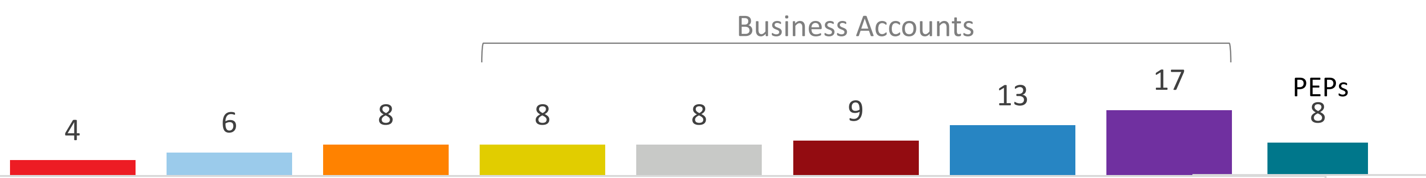
The time required is similar regardless of firm size or type. Regionally, those that invest in more compliance technology / services are able to complete due diligence more quickly than others (*see Regional Findings section*).

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	402	236	170	238	166	131	98	81
Sm (<$10B) Assets	177	112	78	97	95	88	56	45
Banks	258	146	90	135	112	92	62	49
Investment Firms	267	233	129	198	184	136	93	89

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	5	6	10	8	9	10	16	20	12
Sm (<$10B) Assets	4	6	7	8	7	8	11	16	6
Banks	5	6	8	9	8	9	12	18	8
Investment Firms	4	6	10	5	6	9	9	14	9

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?

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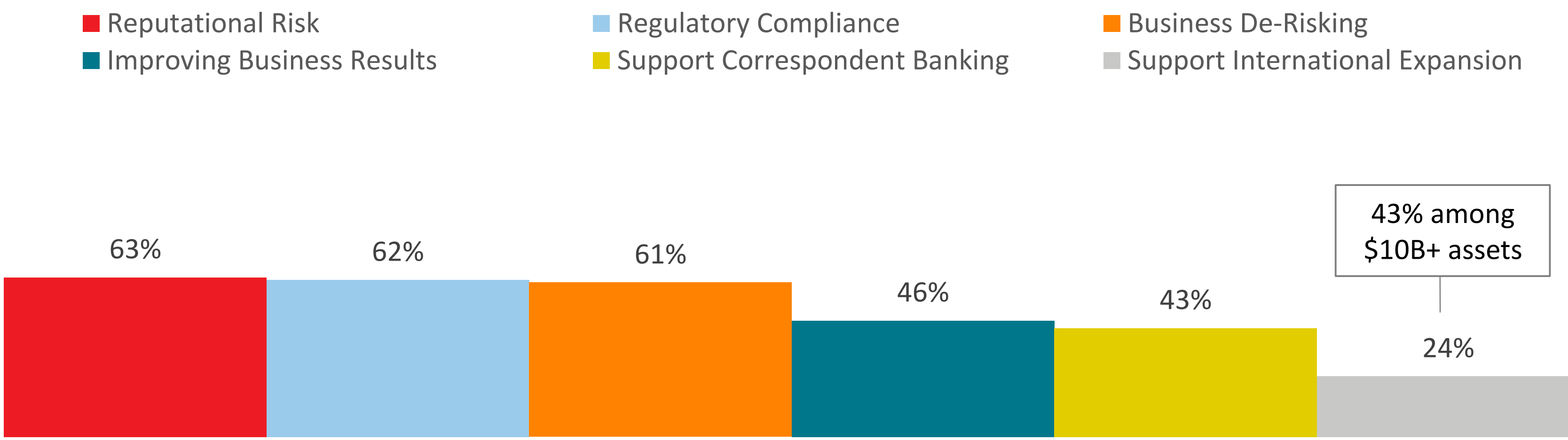
Key drivers of AML initiatives include reputational risk, regulatory compliance, and business de-risking.

Firms with $10B+ in assets are driven by the need to support international expansion more so than smaller firms.

While business de-risking is a top driver among significantly more Philippine financial institutions (61%) than US firms (28%), it is ranked within the top 3 by under two-thirds. Given the country's high risk associated with money laundering, one might expect it to rank higher. The Philippines faces elevated AML risk due to its physical location within international trafficking routes, the high volume of remittances from Filipinos living abroad, the presence of terrorist organizations, and its regulatory vulnerabilities that were exploited by hackers in the 2016 Bangladesh Bank Heist.[1]

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



[1] https://www.knowyourcountry.com/philippines1111

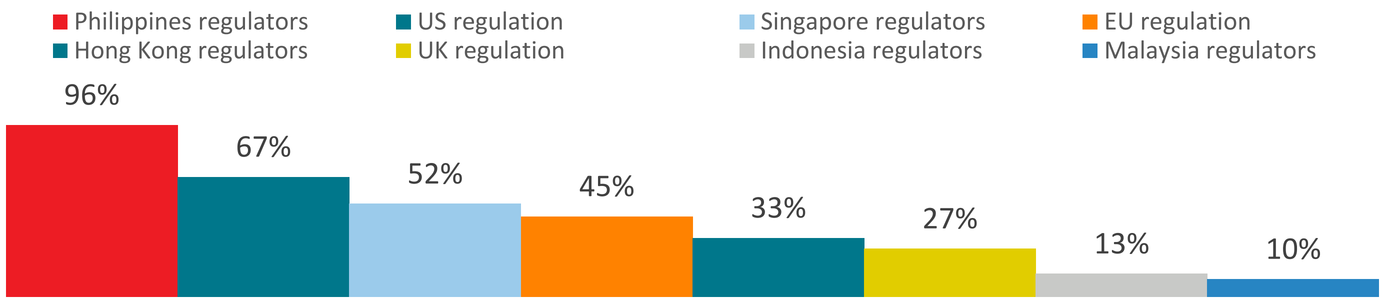
Q8: What would you say are the top drivers for AML initiatives at your firm, and their relative importance?

Not surprisingly, Philippine regulation has the most impact on financial firms. However, US and Singapore regulators are also influential.

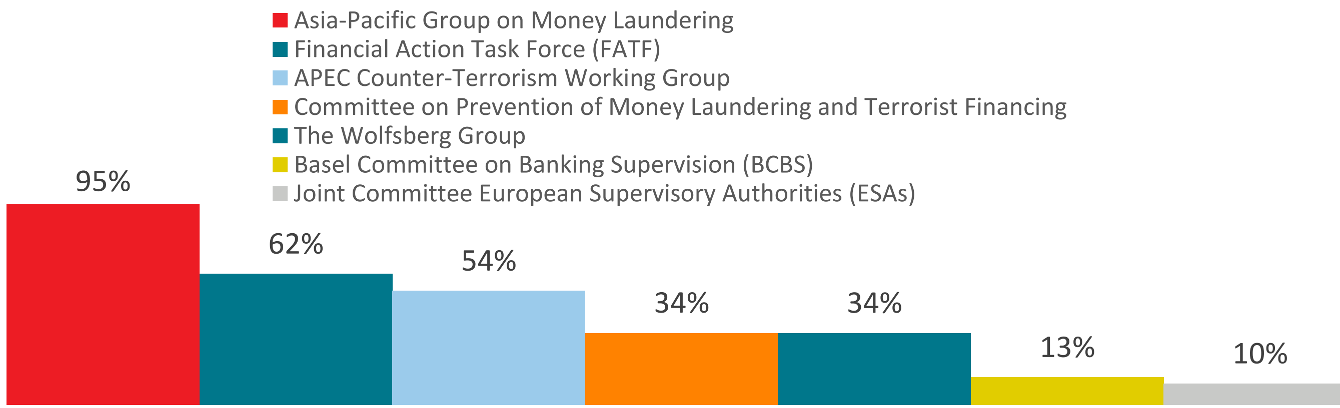
Among organizations with the greatest impact on regulatory compliance, Asia-Pacific Group on Money Laundering leads, followed by FAFT and APEC Counter-Terrorism Working Group.

It is reported that the Philippine Anti-Money Laundering Council (AMLC) has led a government-wide effort to bring Philippine laws and regulations up to international AML/CFT standards. The government continues work to minimize risks in key areas (including the gaming sector and DNFBPs) and to build the capacity of law enforcement, prosecutors, and the courts in order to successfully prosecute financial crime cases.[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.

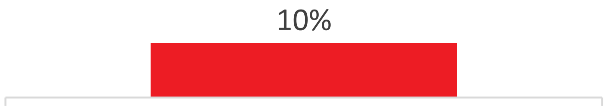
Q9: Which regulator do you see as having the greatest impact (including indirect influence) on regulatory compliance change in your country/region?

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

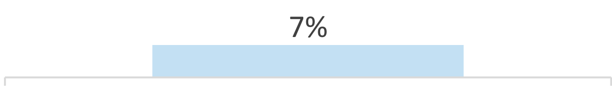
Philippine AML compliance costs have reportedly increased by 10% during the past 24 months.

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.

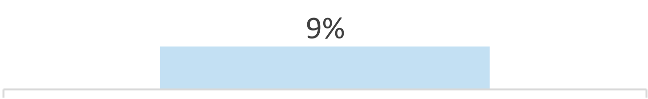
Avg. AML Cost Increase During Past 24 Months



Avg. Expected AML Compliance Cost Increase

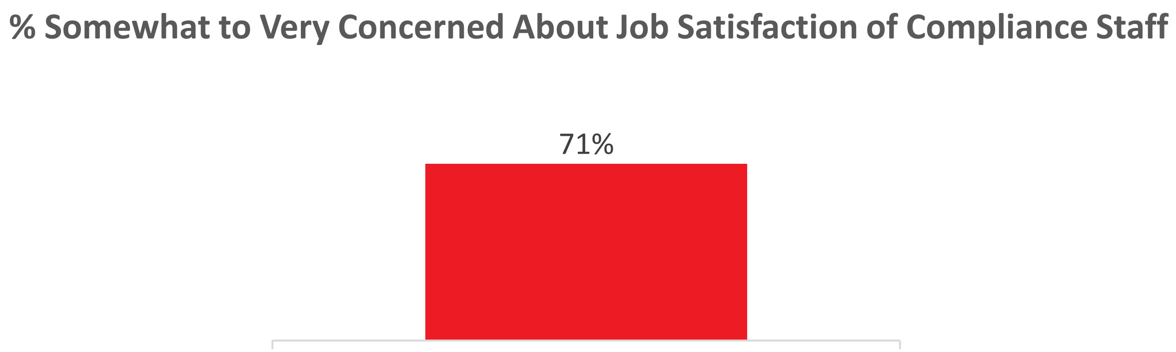


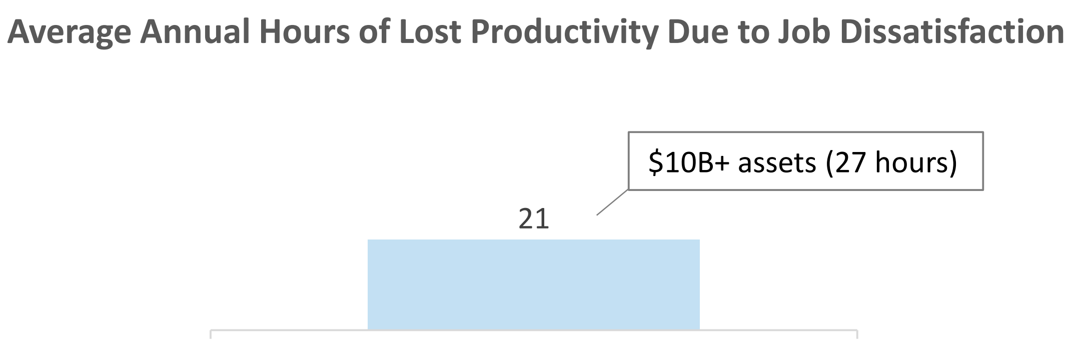
Avg. Expected AML Sanctions Cost Increase



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?

A majority are concerned about the job satisfaction of their compliance staff.





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

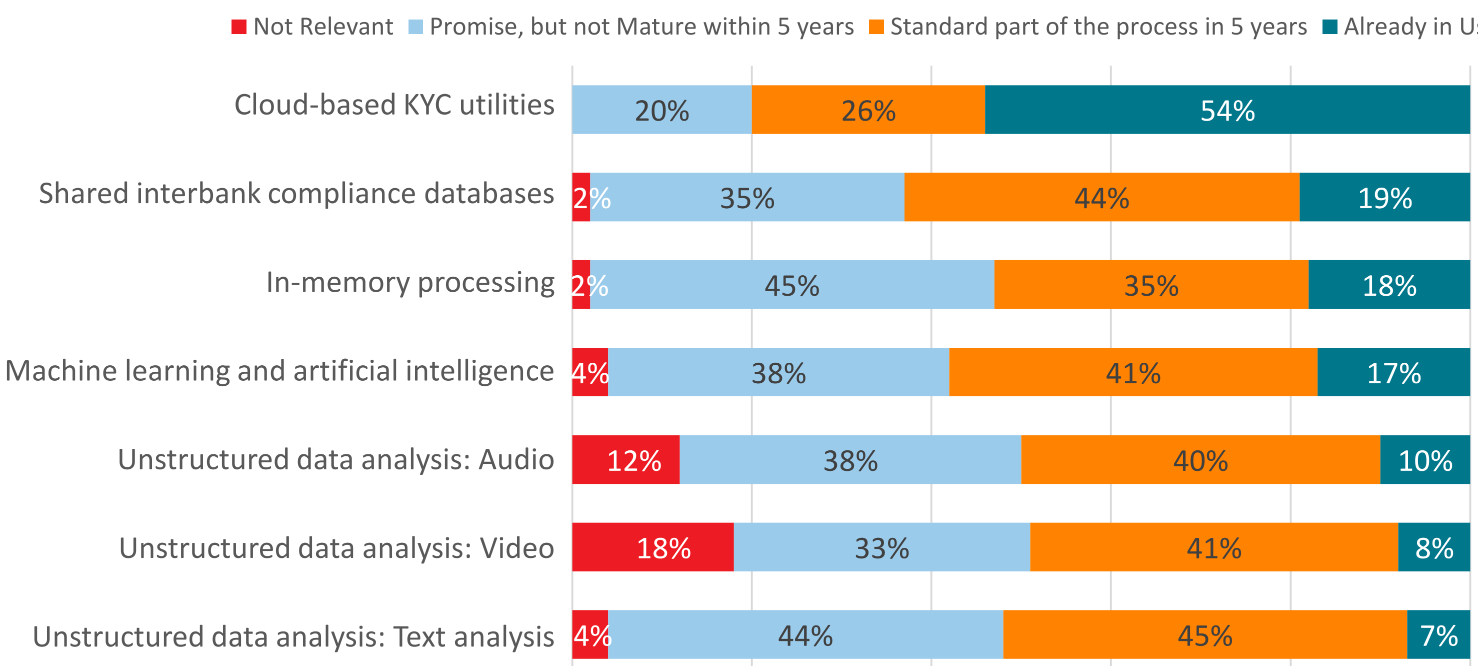
Q15: What would you say is the annual loss in AML compliance productivity due to job satisfaction issues, expressed in average hours of lost productivity per FTE analyst?

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

Current use of other technology is limited, except for $10B+ asset firms using shared interbank compliance databases. 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*).

Many expect shared interbank compliance databases and artificial intelligence to become a standard part of the process in 5 years.

Relevance of New Technology and Services to AML Compliance*



Mean # of Newer Technologies (from above) 1.6

% Already in Use

	Small (<$10B)	Mid/Large ($10B+)
Cloud-based KYC utilities	48%	68%
Shared interbank compliance databases	6%	49%
In-memory processing	17%	19%
Machine learning and artificial intelligence	16%	21%
Unstructured data analysis: Audio	7%	15%
Unstructured data analysis: Video	10%	4%
Unstructured data analysis: Text analysis	7%	7%
Mean # of Newer Technologies (from above)	1.5	1.8

* 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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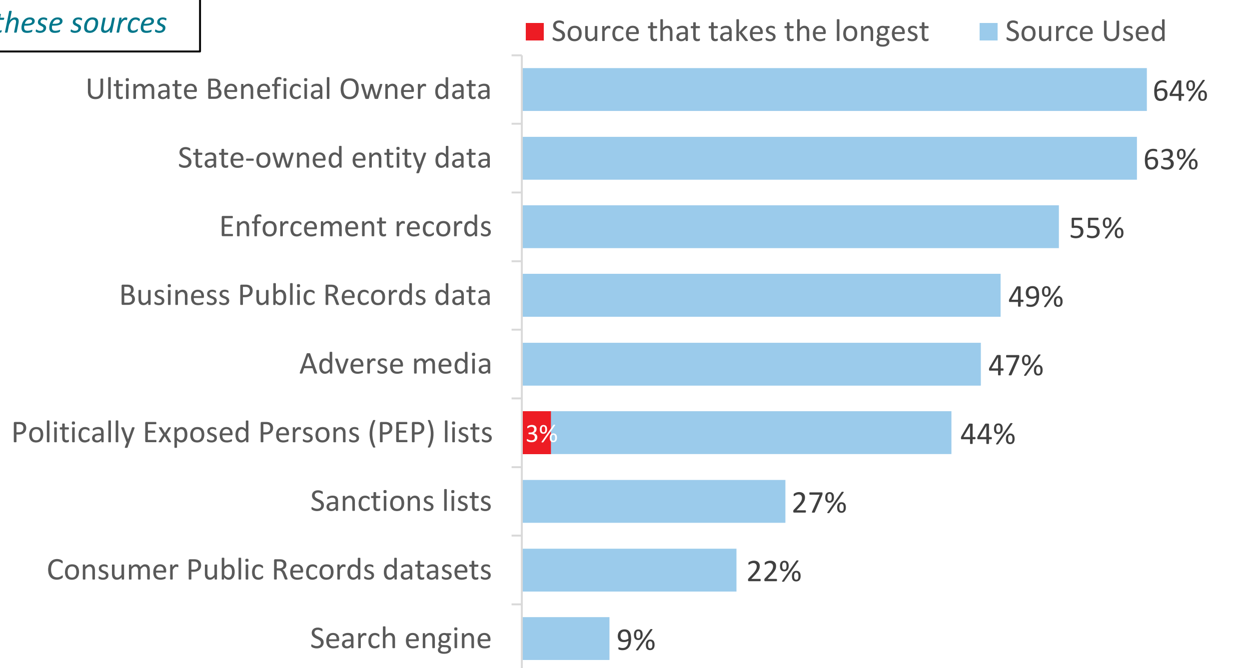
Ultimate beneficial owner data, state-owned entity data, and enforcement records are among the most commonly used sources for due diligence screening.

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

97% indicate that takes a similar amount of time to screen these sources

Sources Used to Screen Against Customer Due Diligence



	Small (<$10B)	Mid/Large ($10B+)
Ultimate Beneficial Owner data	69%	53%
State-owned entity data	67%	54%
Enforcement records	56%	51%
Business Public Records data	47%	55%
Adverse media	43%	58%
Politically Exposed Persons (PEP) lists	48%	36%
Sanctions lists	24%	34%
Consumer Public Records datasets	21%	24%
Search engine	7%	15%

Significantly or directionally much higher than other segments within technology

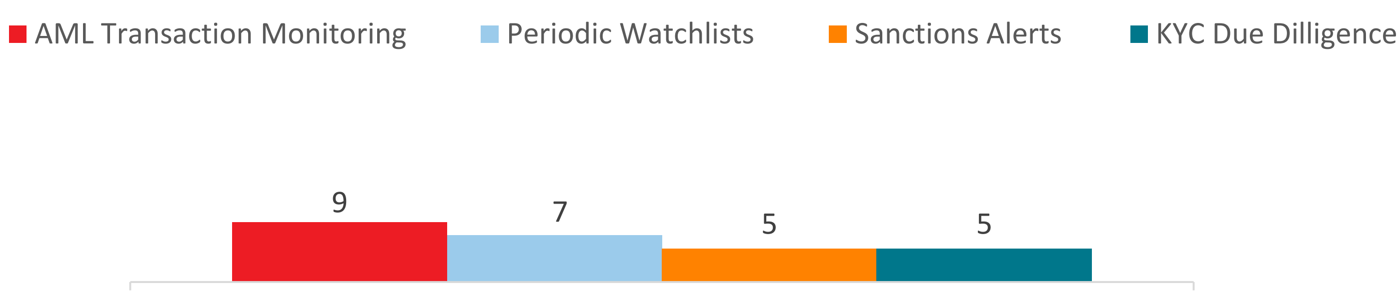
Q17b. Which sources are you using to screen against for customer due diligence?
Q17c: Which source(s) take the longest time to screen against?

The average time required to clear various alerts is between 5 – 9 hours.

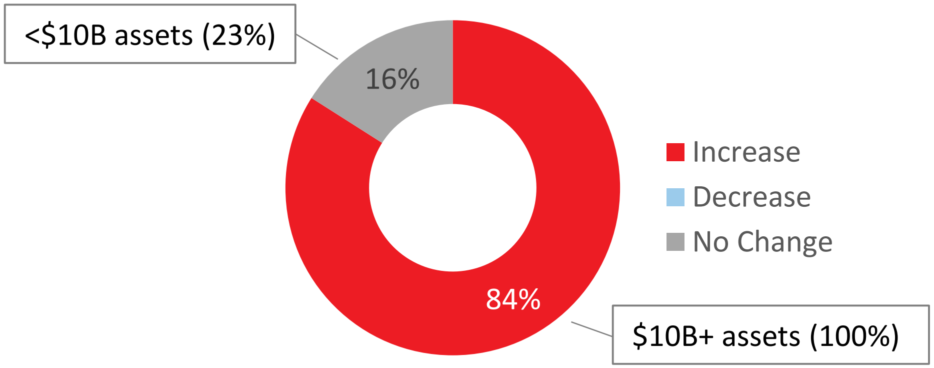
A majority of Philippine firms expect an increase in alert volume in 2019, especially among those with $10B in assets.

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

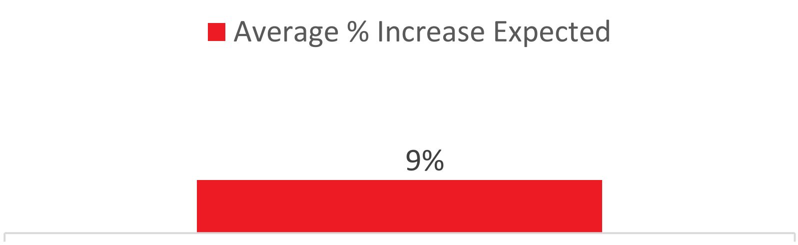
Average Hours to Clear the Following Types of Alerts



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?

Just over a third of Philippine firms report that AML compliance processes have a negative impact on productivity and customer acquisition efforts.

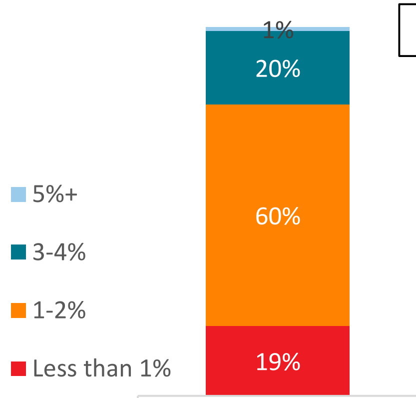
The impact of this is not insignificant, with average annual hours of lost productivity per FTE analyst are equivalent to nearly 3 days (based on 8-hour work day). And an average of 2% of accounts are lost per year, while another 3% of new account openings are delayed.

AML Compliance Impact on . . .

Annual average hours of lost productivity per FTE = 23.2

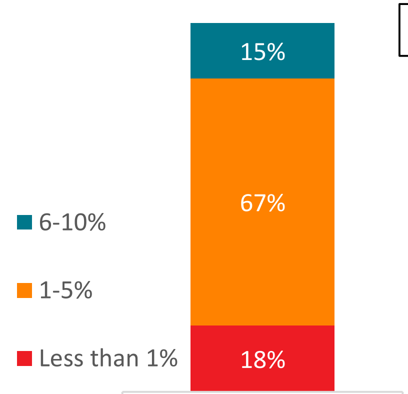
Estimated Annual Opportunity Cost of...

Refused Accounts or Customer Walkouts



Average = 2%

Delayed Account Opening



Average = 3%

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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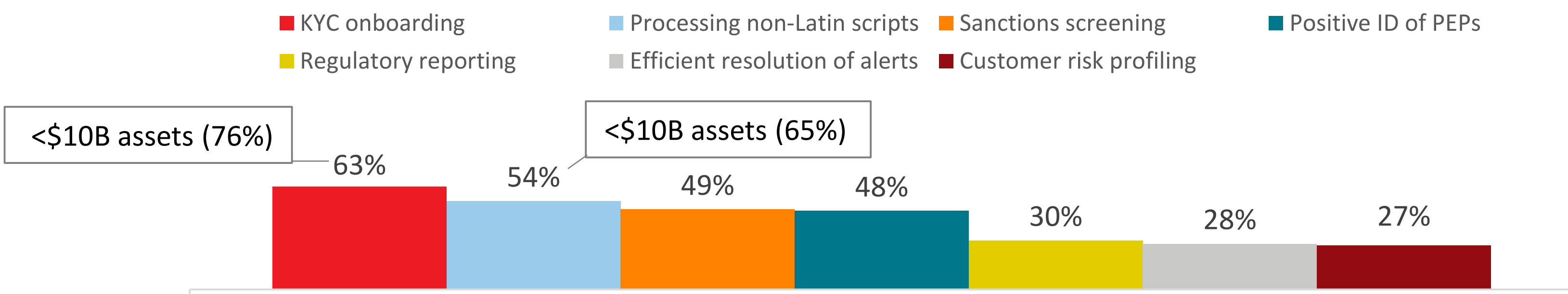
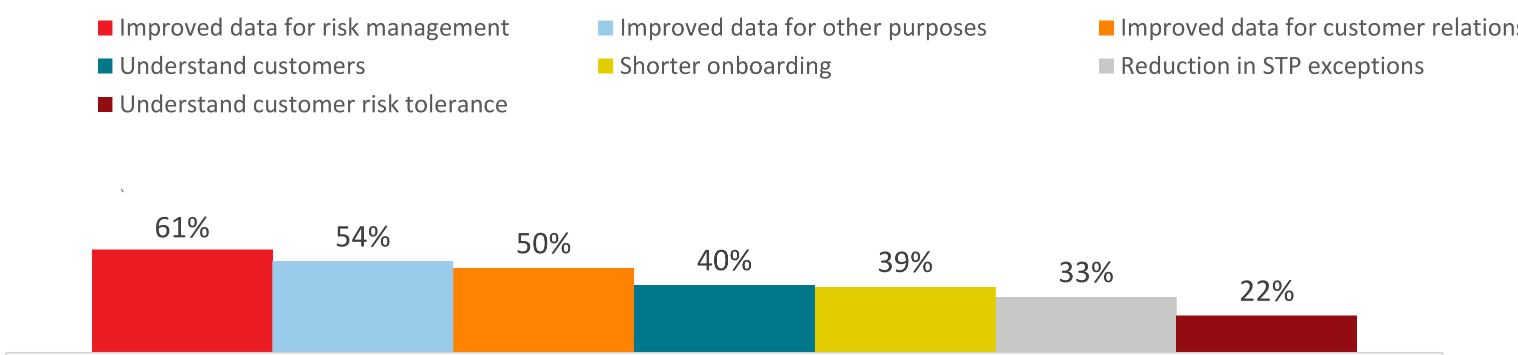
Key challenges for compliance screening operations include KYC onboarding and processing non-Latin scripts (especially for smaller firms), followed by sanctions screening and positive identification of PEPs.

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

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



Benefits from AML Compliance (% Ranked Among Top 3)



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

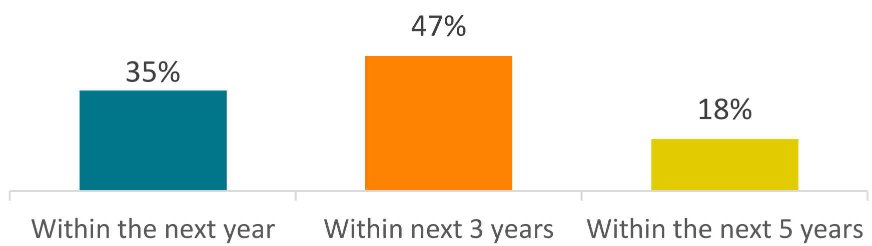
Q26: Which of the following do you see as benefits to the business brought by AML compliance change?

Over half of Philippine financial firms are currently monitoring digital identities for criminal behavior. A majority are able to monitor online transactions in real-time; fewer are able to monitor 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

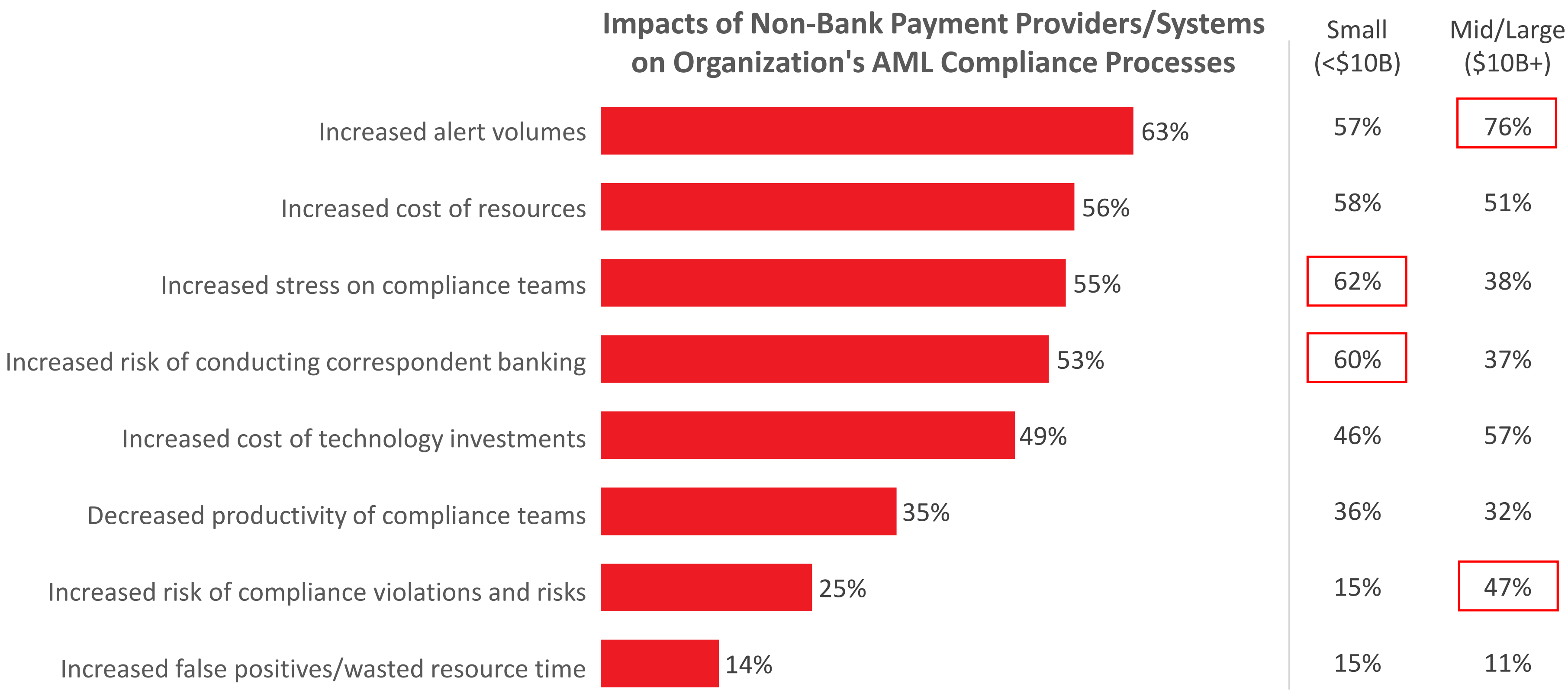


Q32a: Are you currently monitoring/able to monitor…

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

The impacts of non-bank payment providers on compliance operations vary somewhat by firm size, but increased costs are realized regardless of size.

Firms with assets of $10B or more are more likely to face increased alert volume and increased risk of compliance violations than others. Smaller firms (<$10B assets) are more likely to experience increased stress on compliance teams and increased risk of conducting correspondent banking.



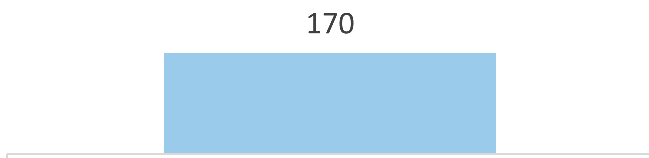
Significantly or directionally much higher than other segments within technology

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?

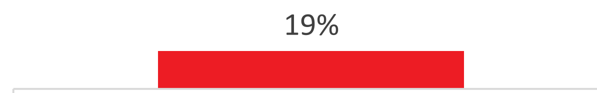
Nearly 1 in 5 of the SARs reported annually involve non-bank payment providers.

But with projections that FinTech transactions in the Philippines are set to increase at a 16.4% annual growth rate[3], non-bank transactions will likely account for more SARs in the future.

Average Submitted SARs Reports Annually



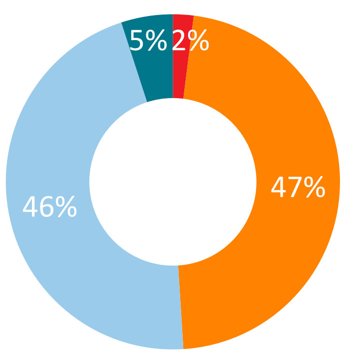
% Suspicious Activity Reports (SARs) That Involve Non-Bank Payment Provider Transactions

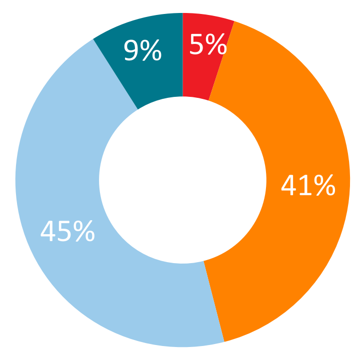


Degree That Non-Bank Payment Providers/Systems Created Challenges for AML Compliance Over Past Year

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

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





[3]http://fintechnews.sg/25203/philippines/philippines-fintech-report-2018/.

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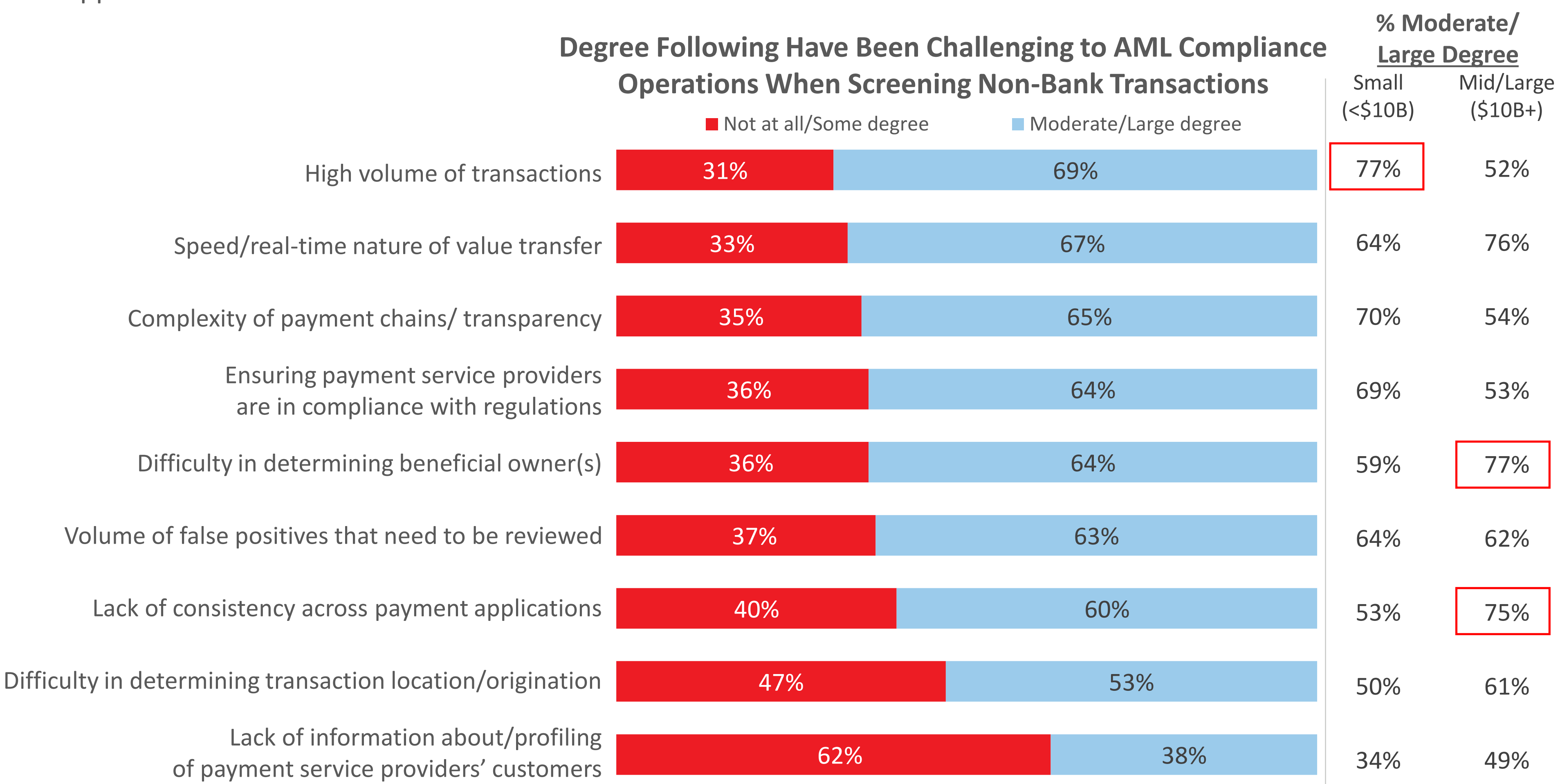
Q5n. In the past year, what is the approximate # of SARs that have been submitted by your AML Compliance operation? Q34: Approximately what % of the SARs submitted involved transactions made through non-bank payment providers? Q35: To what degree have non-bank payment service providers created challenges 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.

Smaller firms, that employ fewer FTEs, are more likely to be challenged by the high volume of transactions, while larger firms experience difficulties in determining beneficial owners and a lack of consistency across payment applications.



Significantly or directionally much higher than other segments within technology

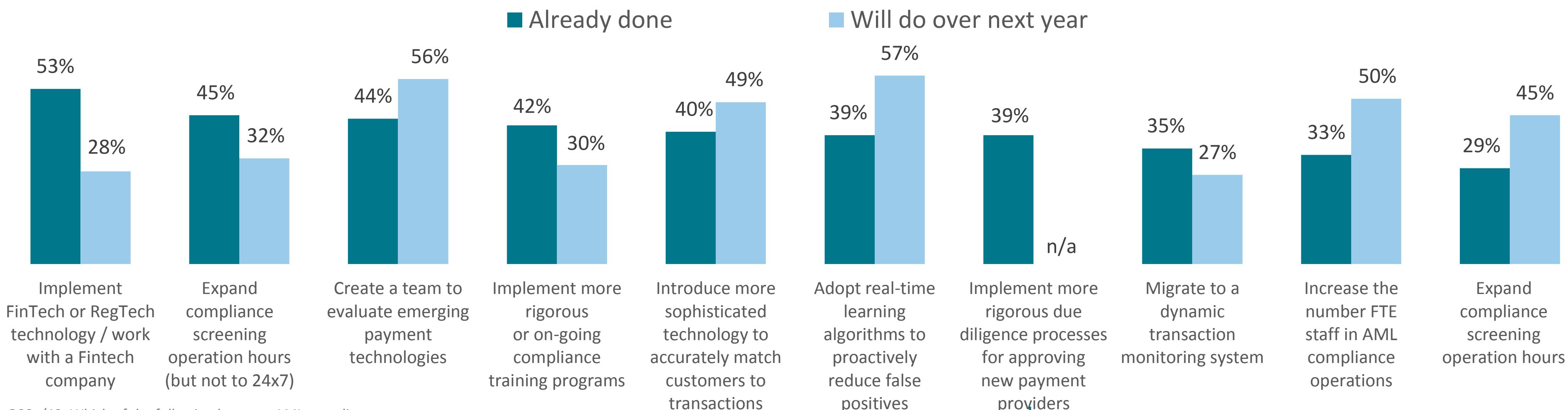
Q38: Over the past year, to what degree have the following been challenging to your AML compliance operations when screening transactions made through non-bank payment service providers and systems?

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

Those citing increased alert volumes as a non-bank payment provider impact have been likely to implement FinTech/RegTech (51%), among other things. But fewer (35%) have implemented technology to specifically address false positives, which increase as alert volumes rise.

And, those who have migrated to dynamic monitoring are also likely to adopt real-time learning algorithms that proactively reduce false positives (53%), but are as likely as others to also plan on increasing compliance staff (55%), 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



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?

Steps Taken

Require more transparency about PSP transactions	*67%*
Require more transparency of PSP products/services offered	*66%*
Require more PSP customer profiling information	*65%*
Governance procedures & documentation to confirm PSP compliance	*51%*

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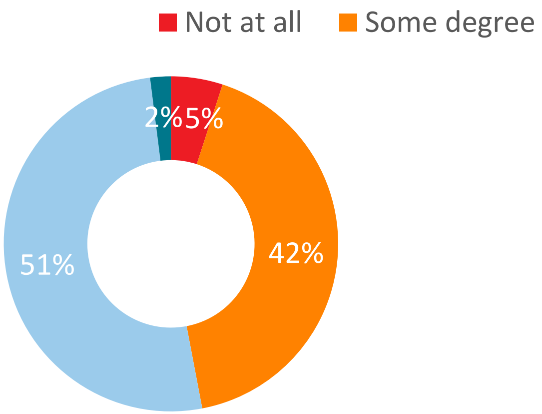
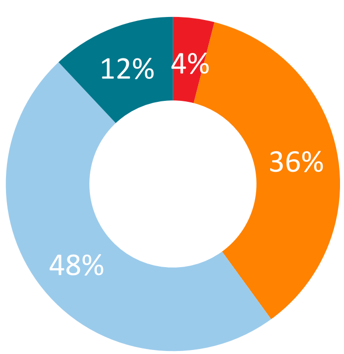
Non-bank payment providers are expected to continue creating challenges for AML compliance, which will continue to cause screening operations to adapt over the next year.

Degree That Non-Bank Payment Providers/Systems Are Expected to Create Challenges for AML Compliance Over Next Year



Degree That Rise in Transactions Through Non-Bank Payment Providers/Systems Are Expected to Cause AML Compliance Organization to Change its Screening Operations in 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**?

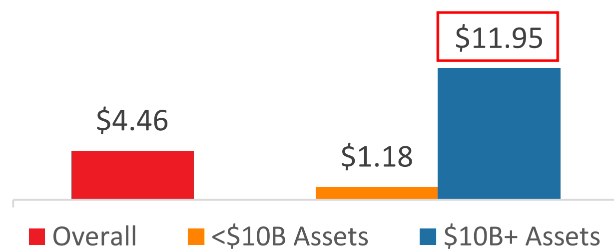
The average annual spend for AML compliance among Philippine financial firms is US$4.46M; it is even higher for firms with $10B+ in assets (US$11.95M).

Spend is distributed somewhat more toward labour than technology, especially for firms with <$10B in assets. Larger firms spend more on technology than smaller firms.

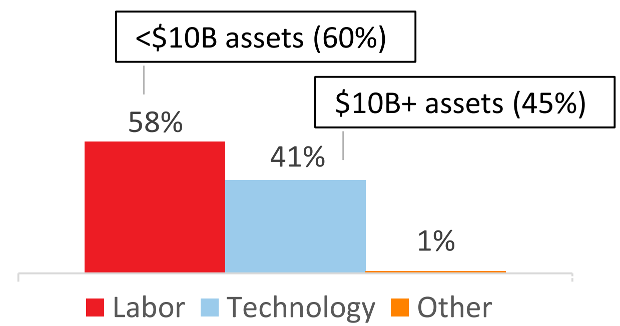
KYC makes up a good share of costs, involving collection of information, screening, analytics and risk assessment, but so do transaction monitoring, investigations, and compliance management.

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

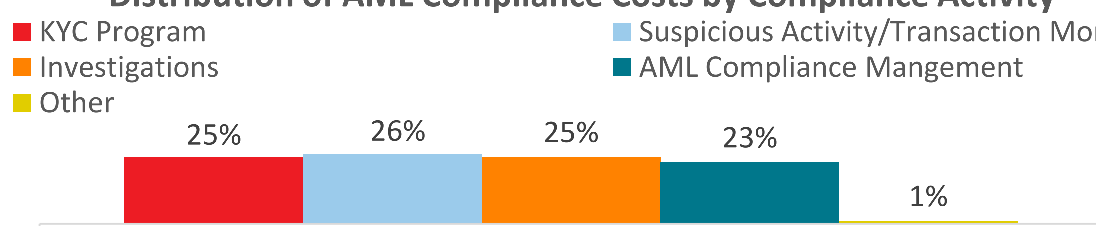
Average of AML Compliance Operations* (Annual Cost USD in Millions)



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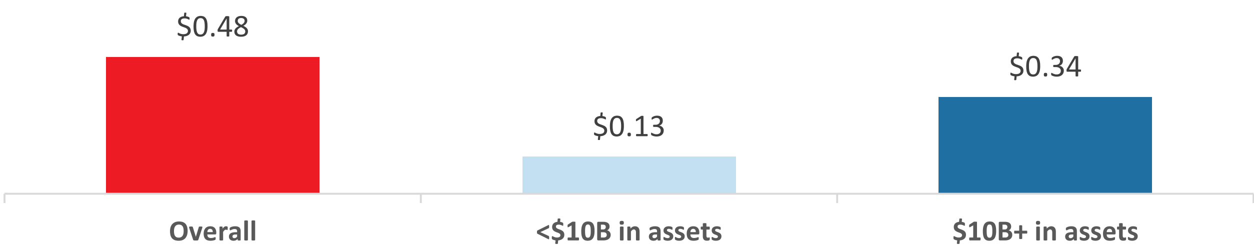
* Compliance technology, data and services can be shared across different operational and business units, making it difficult for a decision maker to know the full cost of compliance across the organization. Reported spend by survey respondents is based on a very detailed description involving labor,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

The true cost of compliance across all Philippine financial firms is US$0.48B*; 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 .10% of total assets compared to an average of .05% from larger firms).

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



AML Costs as a % of Total Assets	0.08%	0.10%	0.05%

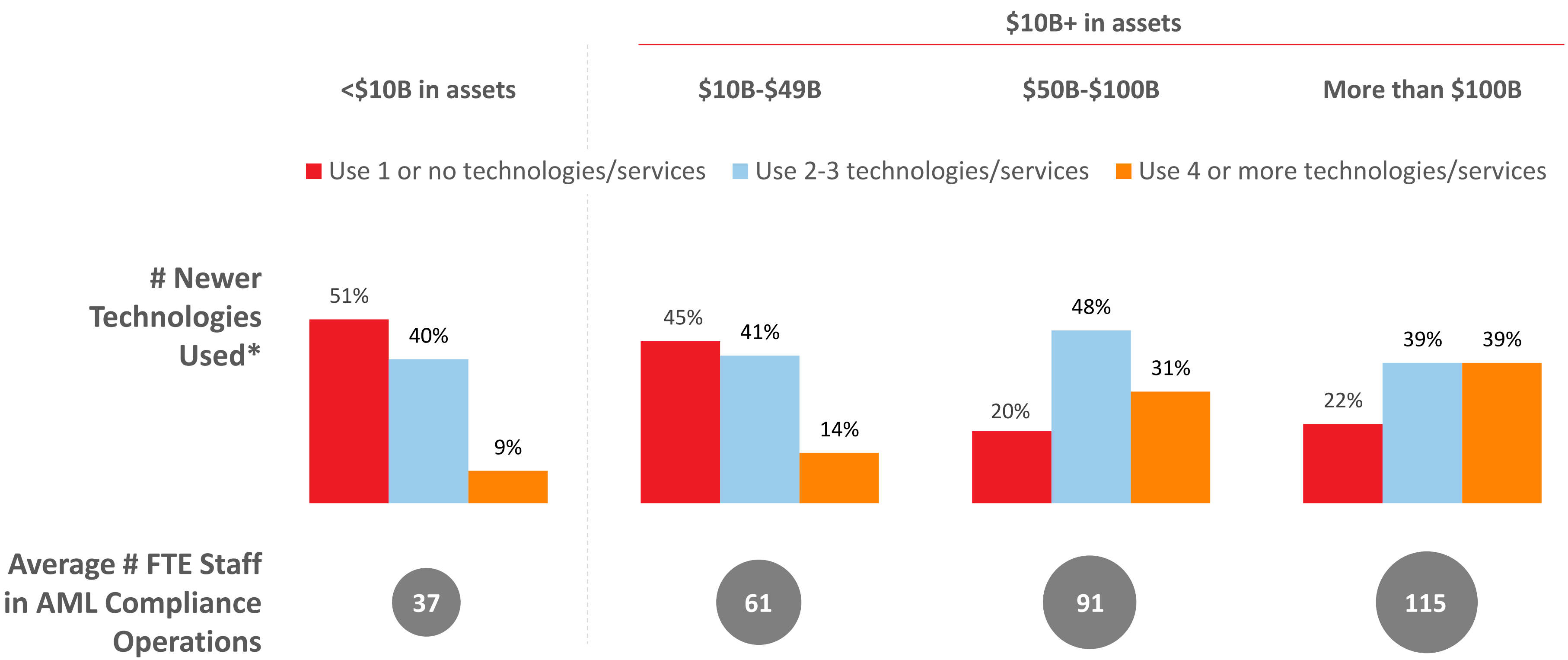
Q5: Please give your best estimate of the total annual cost of your AML compliance operations in USD. This includes resources/labour, systems/solutions/data and other governance activities for all aspects of compliance such as customer due diligence, sanctions screening, transaction monitoring, investigations, 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

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

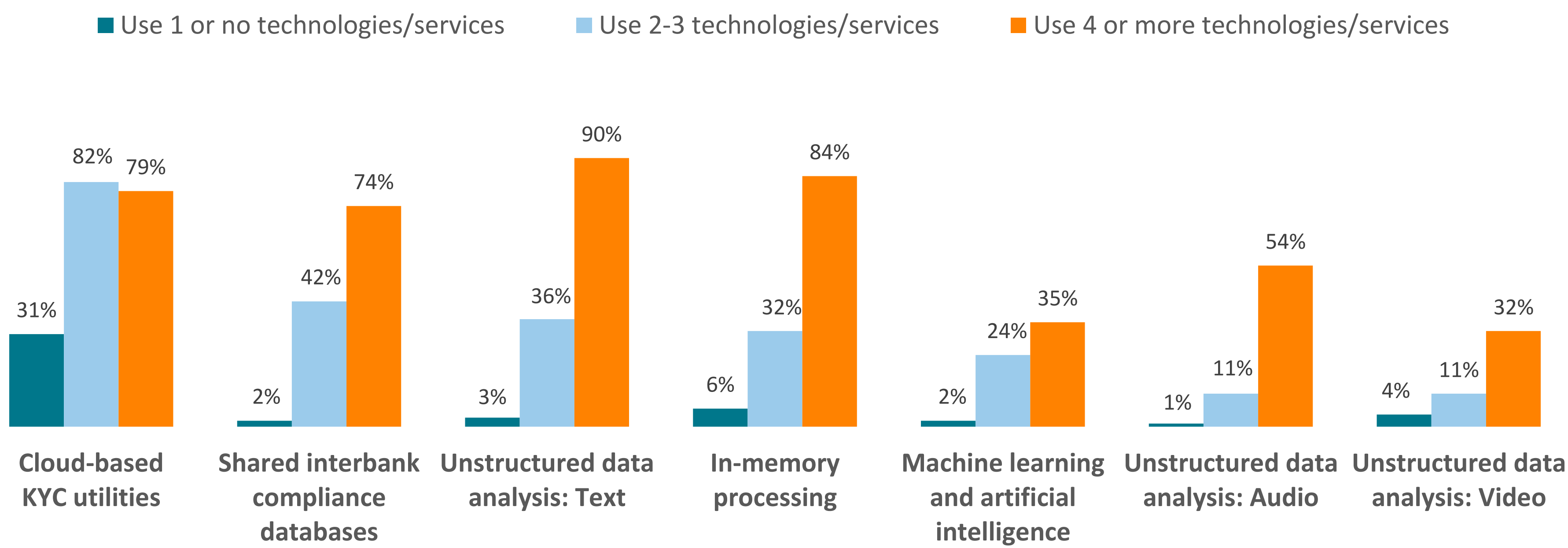
Q2c: Please indicate your best estimate of the number of FTE staff employed in the AML compliance operations departments. Q16: Over the next 5 years, to what degree do you think each of the following new technologies and services will be relevant to AML compliance?

Regional Findings

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.

Specific Technology Usage*

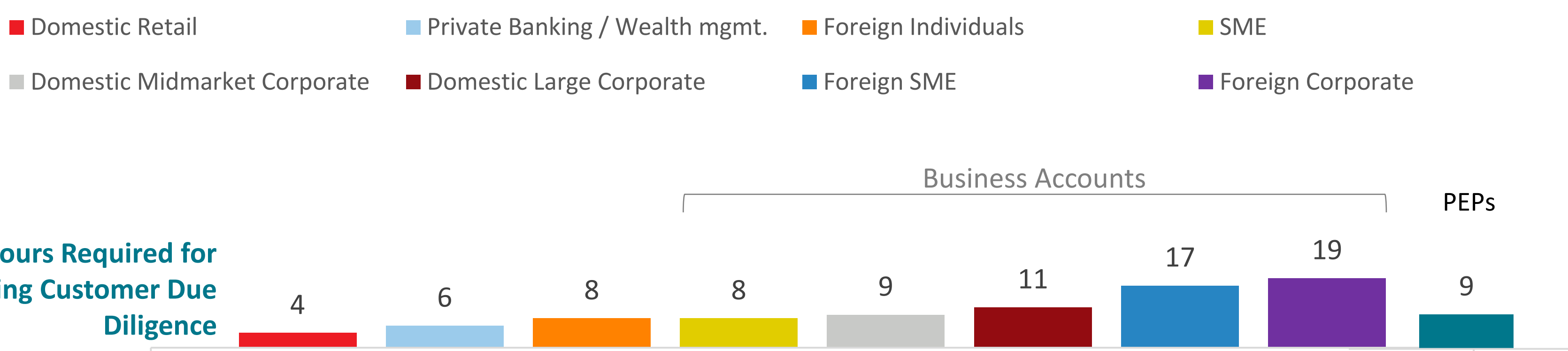


* Includes only those new technologies tested in this research

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?

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.

Regional Findings



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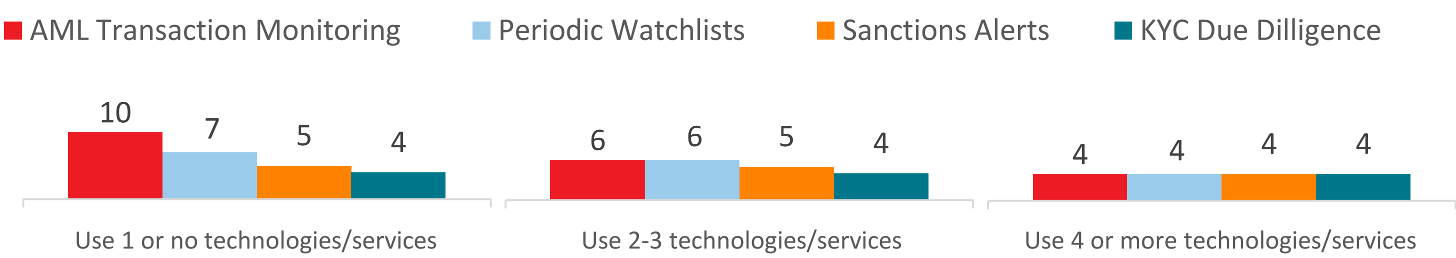
Q17a: What would you say is the average time required for completing customer due diligence on the following?

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

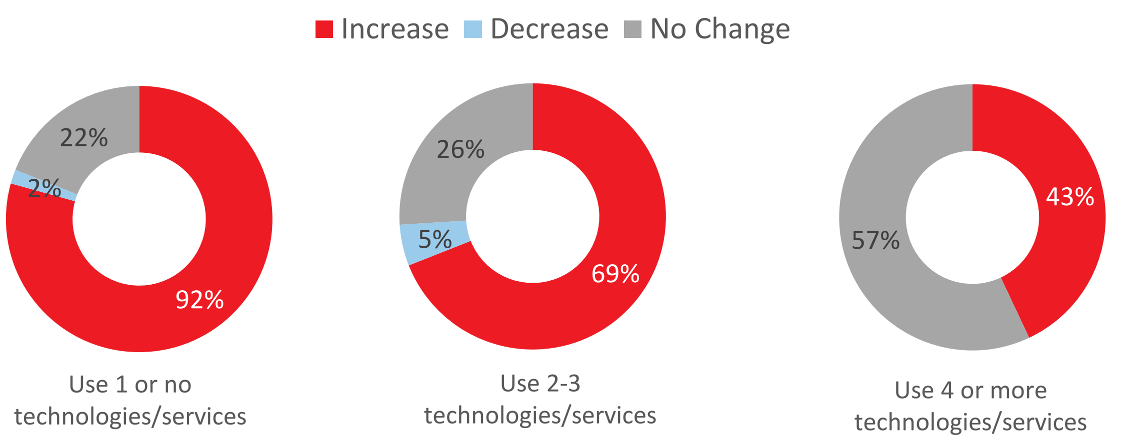
Regional Findings

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



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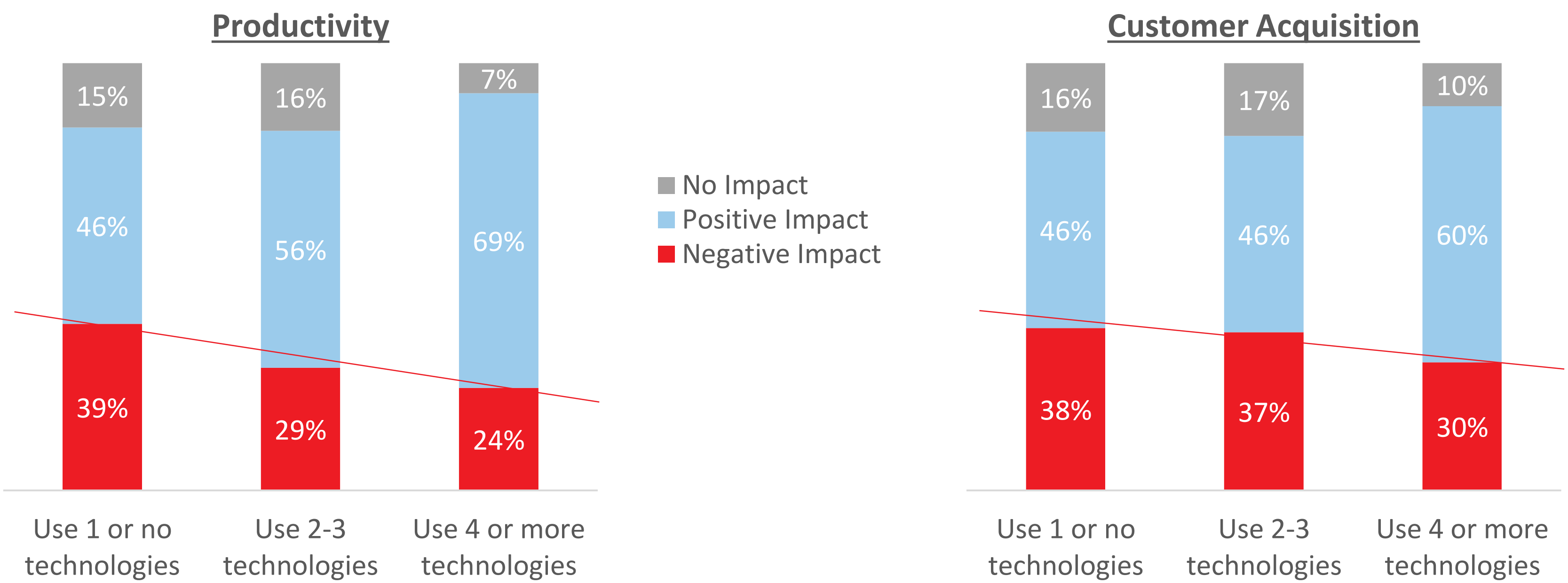
Q18: What is the average time required for an analyst to clear each of the following alert types?
Q19a: Do you expect alert volumes to increase or decrease in 2019?
Q19b. Percent you expect alert volumes to increase in 2019?

Regional Findings

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

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*

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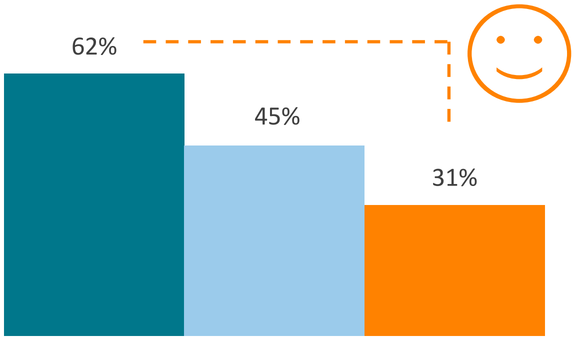
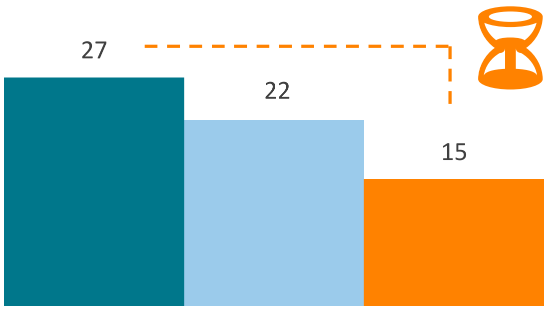
Q20a/22: What kind of impact does the AML compliance process have on LoB productivity/customer acquisition? Q21: What is your best estimate of the annual loss in LoB productivity due to AML compliance at your firm?

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



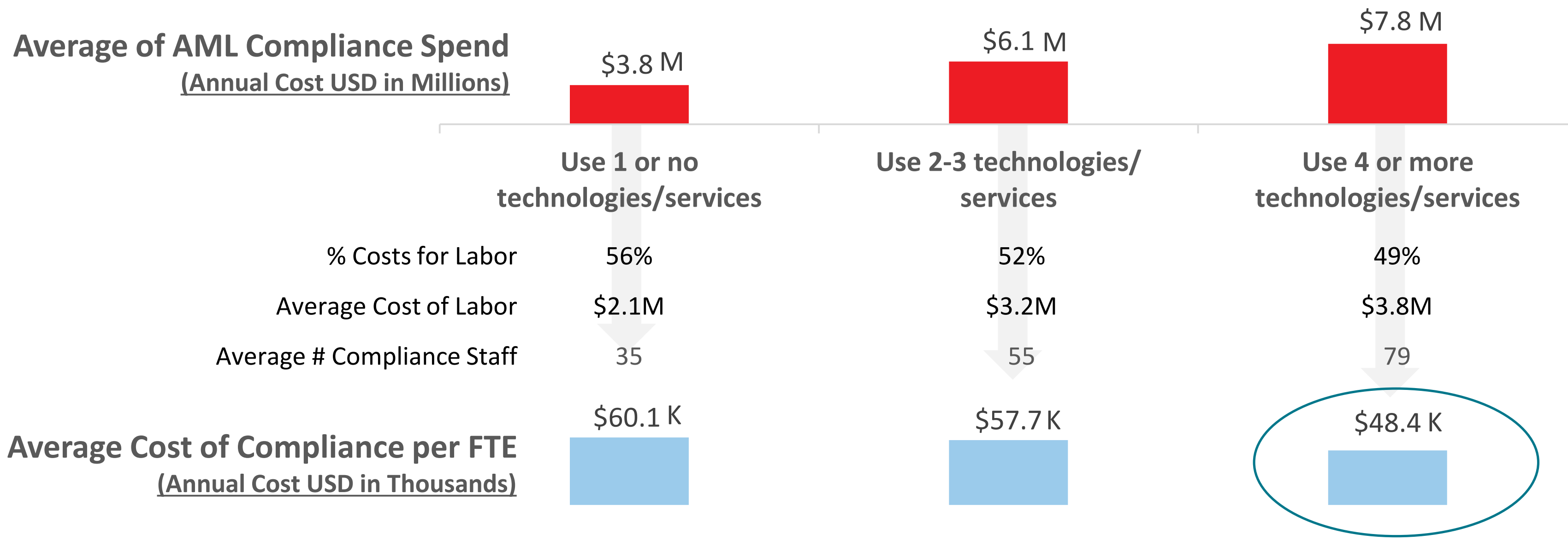
■ Use 1 or no technologies/services ■ Use 2-3 technologies/services ■ Use 4 or more technologies/services

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?

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

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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