

AML Compliance Requirements

Cost Breakdown and Business Effects

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Introduction/Background:

Increasing compliance requirements have brought a lot of attention in media lately. Banks failing to comply with Anti-Money Laundering (AML) regulations thus receiving hefty fines, new industries added to be affected by the Anti-Money Laundering Act and thorough business audits by governments are just some of the headlines of recent times.

The new compliance landscape has led to an increase in manual labour - and in addition costs - for those required to comply with regulations. And the list of industries under AML scrutiny just keeps getting longer and longer. Previously limited to financial institutions and businesses providing services in that realm, industries such as gambling, auditing, accounting and many more, are now affected by AML laws and regulations.



The tighter grip taken by authorities regarding money laundering activities, has led to a progressive increase in costs for those affected. In fact, the projected AML compliance costs for financial institutions in the U.S. alone, are now estimated at a staggering 26,4 billion dollars! And with an increase in AML compliance costs of 16% over the last 24 months, this number is expected to keep rising going forward.

In this e-book we will give you a brief introduction to money laundering as a concept before diving into the latest research in AML compliance costs and trends. Enjoy!

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How Does Money Laundering Work?

Money laundering is conducted in multiple ways, with skills and innovation of criminals increasing rapidly. However, at a basic level the process of laundering is described in the following steps by the FATF (Financial Action Task Force);

1. In the initial - **placement** - stage of money laundering, the launderer introduces his illegal profits into the financial system. This might be done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account.
2. After the funds have entered the financial system, the second – layering – stage takes place. In this phase, the launderer engages in a series of conversions or movements of the funds to distance them from their source.
3. Having successfully processed his criminal profits through the first two phases the launderer then moves them to the third stage – integration – in which the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

Anti-money laundering

Anti-money laundering (or AML) refers to the laws, regulations and procedures intended to prevent criminals from disguising illegally obtained funds as legitimate income. Though anti money laundering laws cover a limited range of transactions and criminal behavior, their implications are far-reaching.

For example, AML regulations require banks and other financial institutions that issue credit or accept customer deposits to follow rules that ensure they are not aiding or being used in money laundering activities.

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Costs of AML Compliance

Manual Labour

Manual labour is the biggest thief of the compliance game today in financial institutions. Regardless of continent or business size, more than 50% of costs in AML compliance originates from manual labour. For smaller financial firms and financial institutions in Europe and the U.S., numbers are even higher, with an average share of total AML costs from manual labour estimated at 62% and 74% (!) respectively.

In the U.S. and Canada, small firms tend to leverage AML compliance technology less, such that labour constitutes a somewhat larger share of compliance efforts and costs. However, in mid/large firms in terms of assets, a more extensive use of technology has reduced share of costs from manual labour significantly, despite having larger compliance teams on average.

Case

Getting a business loan when needed should be easy and smooth, which Corpia has taken note of. Through Roaring's API services, Corpia has created an application process with a high degree of automation, which only takes about 3 minutes to complete with BankID.

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Automating the process has led to a better customer experience, less churn and reduced amounts of manual handling.

- Emilia Åker, Head of Operations på Corpia

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AML Compliance - Drivers

Business Results

A driver of AML compliance incentives is the reason behind, or the goal of, the project. Across both sides of the Atlantic, improving business results is a top driver among financial institutions, correlating well with the impact of AML compliance on customer acquisition, described more in detail below.

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Risk Management

De-risking or risk management, regarding both regulatory compliance and reputational risk, is second on the list, regardless of geographic area.



Impact on Customer Acquisition

Combining regulatory compliance and customer acquisition has given financial institutions headaches. Increasing regulatory demands, especially in “knowing the customer” (KYC), has led to more information needing to be collected and verified from both potential and current customers. Because of this fact, financial institutions tend to complicate things for the customer or potential customer, by adding forms to fill out and to be sent back and forth, manual assessments of applications and other obstacles to a smooth onboarding process.

According to recent studies, manual labour spent on due diligence can not only slow down onboarding of new customers, but also increase customer friction and by extension erode profits. These challenges will likely increase with more regulations, alerts and reliance on manual resources. **In fact, nearly three quarters (73%) of European financial institutions have reported losing up to 4% of prospective customers because of friction during onboarding.** Therefore, it is painfully clear that these companies are struggling with both the direct cost of compliance, as well as the opportunity costs resulting from process inefficiencies and negative customer experiences.

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It's about creating an onboarding process which is as simple and user friendly as possible

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For those potential customers who chose not to abandon the onboarding process, delays cause a lot of frustration. 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. In addition, almost half (42%) of European financial institutions stated that between 6% and 10% of new accounts are delayed. That can translate to a sizeable number of disgruntled new customers who very quickly become high risk of churn at some point.

Technology is a common denominator, when it comes to building successful onboarding and conversion processes. Surveys show that U.S. and Canadian firms that leverage fewer technologies, experience a higher percentage of lost customers given delays during onboarding. Over one-third (37%) of firms that leverage less AML compliance technology indicate losing 3% or more of prospective customers due to customer walkouts or refused accounts compared to only 21% of firms that leverage more technology. In other words, a higher usage of compliance technology solutions reduces manual labour while increasing conversion and improving customer experience.

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Impact on Productivity

So how does increased compliance requirements affect employee morale and company productivity? Well, according to recent surveys, more than half (61%) of European companies that participated, expressed concern about job satisfaction in their compliance department.

Dissatisfaction is reported to result in a loss of job productivity, estimated to be quite significant. Roughly, 71% of companies indicated between 100 and 250 hours (!) of lost compliance productivity annually. Assuming a 40-hour work week, that compiles almost four weeks of productivity loss!

The perceived dissatisfaction is believed to come from the pressure of increasing compliance requirements, uncertainty in what is required (and what will be required in the future) and risks of violations leading to negative press and bad will.



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Summary

- Financial institutions - such as banks, asset management firms, insurance companies etc - in North America and Europe are spending billions of dollars every year, in order to ensure AML compliance.
- Top drivers of AML incentives are improving business results and risk management.
- More than 50% of AML compliance costs – regardless of company size or type – comes from manual labour and assessments.
- Increasing compliance requirements have had a negative impact on customer onboarding performance, as well as employee satisfaction and productivity.
- Leveraging more technology in AML compliance reduces churn rates of new customer onboarding and manual labour (in extension costs), while improving conversion rates, customer experience and bottom-line results.

About Roaring

Roaring was founded in 2016, as a result of seeing industries struggling to combine great customer experience with increasing compliance requirements. The solution? APIs to collect and verify information automatically, creating business and customer processes that are smooth and seamless. Roaring are now one of the most intriguing and fastest growing companies in the Nordics, when it comes to high quality data and digitizing and automating workflows and processes.