



Uncover the True Cost of Anti-Money  
Laundering & KYC Compliance

A LexisNexis® Risk Solutions report study on  
Financial institutions across six markets in Asia

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## Executive Summary

Anti-money laundering and know-your-customer compliance have become leading concerns at financial institutions in Asia today. The influence of AML regulation in the US, UK and EU, as well as local and regional concerns, have led to a significant broadening of compliance measures across virtually all of Asia. This is driving a deepening of operational and technology requirements around AML compliance for banks and other financial institutions in the region. The growing regulatory focus on concomitant risks such as tax evasion and anti-corruption means the tide of compliance change is not likely to recede any time soon.

Clearly, the burden for financial institutions operating in Asia is significant. This includes not only direct costs for compliance operations and technology, but also indirect costs arising from the impact of AML compliance on productivity, customer acquisition and business growth.

What is the true cost of AML and KYC compliance for financial institutions operating in Asia? At the same time, are there any benefits to the business from maintaining a rigorous approach to compliance operations?

To answer these questions, LexisNexis Risk Solutions conducted an in-depth survey of AML, compliance and risk professionals across six markets in Asia: China, Hong Kong, Indonesia, Malaysia, Singapore and Thailand. The survey focused heavily on the banking industry, which accounted for 50% of survey responses. Insurers, asset managers, money services businesses (MSBs) and securities firms were also represented.

The survey was designed to capture the direct and indirect costs to financial institutions of AML compliance, including productivity, customer attrition, and employee morale issues.

At the same time, the survey sought to understand the degree to which AML compliance change led to improved processes and supported business objectives such as shorter onboarding cycles, stronger data management and better understanding of customers for suitability and CRM purposes.

Key findings from this survey of AML compliance professionals in Asia include:

- Extrapolating from the survey results, we estimate that AML compliance budgets across the six Asian markets in this study total an estimated US\$1.5 billion annually for banks alone.
- Regulation was seen as the primary motivation for AML compliance change, cited as the top driver by 28% of respondents. Significantly, a need to improve business results was the second most cited top driver (21% of respondents).
- A majority of respondents (55%) indicated that AML compliance has a negative impact on their firms' business productivity.
  - An additional 15% felt that AML compliance actually threatens their firms' ability to do business.
- Eighty-two per cent of survey respondents saw overall AML compliance costs increasing in 2016, with one-third projecting that costs will rise by 20% or more.
- Watchlist activities – KYC processes, periodic screening and sanctions operations – accounted for 33% of AML compliance costs.
  - By comparison, transaction monitoring analysis comprised only 9% of costs.
- Most firms in the region have not achieved fast onboarding times. Only 15% of respondents complete Customer Due Diligence in less than one hour, even for retail customers.
  - Processing times for alerts are also substantial. Fewer than 10% of firms clear any type of alert in less than one hour.

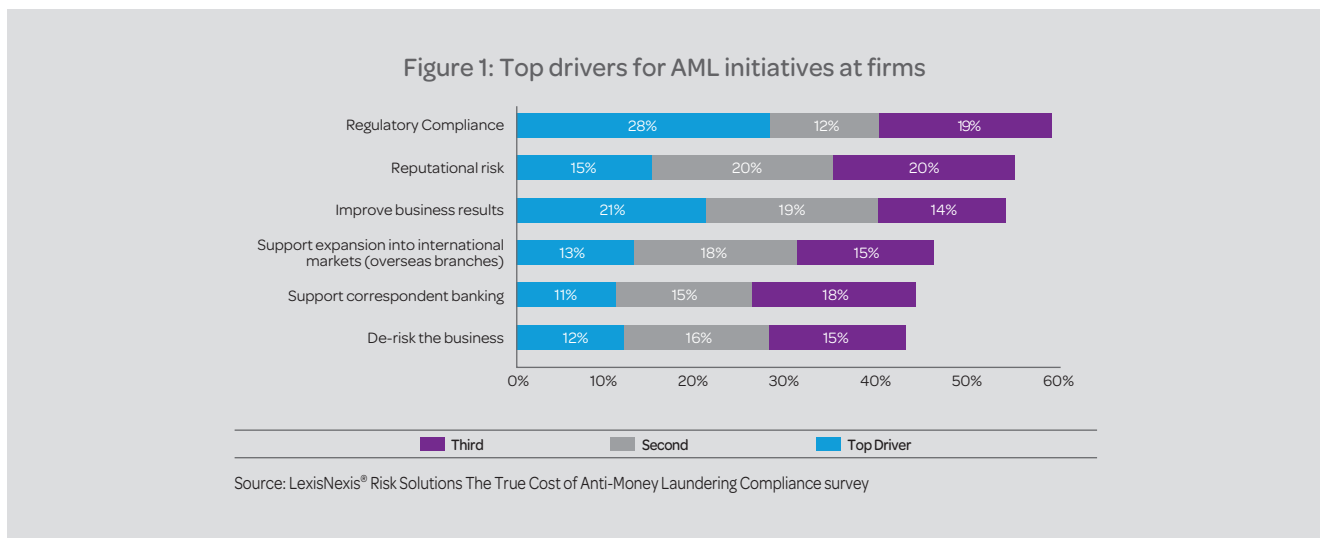
- 96% of survey respondents indicated that their KYC processes require scrutiny of Asian language official documents, including company registration documents.
- Seventy-six per cent of respondents were concerned or very concerned about job satisfaction issues in their AML compliance departments. Survey results also indicated that low morale has a negative impact on compliance operations productivity.

There is a silver lining to AML compliance, in the form of business benefits brought by AML compliance change. The most important benefit, cited by 47% of survey respondents, is an increased understanding of customers. Improvements in data management for business and risk management purposes, and deriving insight into customer suitability were also frequently cited as benefits.

## AML Compliance Change: Drivers And Influencers

Before assessing the various costs and impacts attributable to anti-money laundering compliance at financial institutions in Asia, let us take a look at the environment that is driving compliance change in the region.

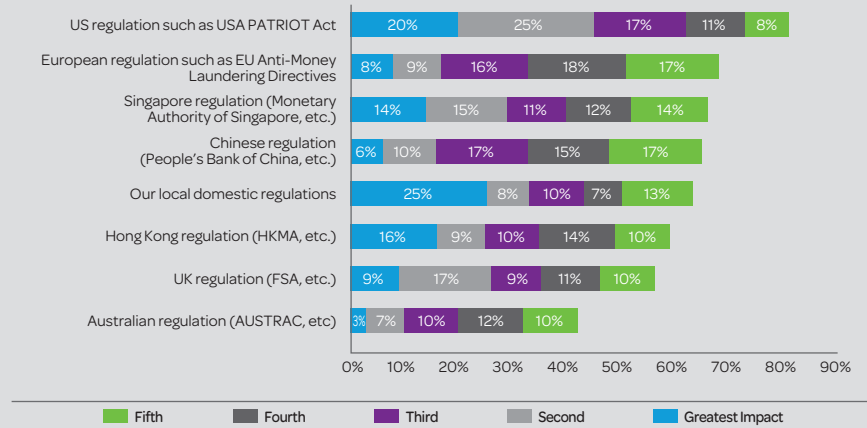
Regulatory compliance came out as the top driver. Significantly, this was followed by a concern with reputational risk and improving business results. Financial institutions in Asia thus see AML compliance driven nearly as much by business issues as by regulatory or risk concerns.



Breaking down the results by country, both Hong Kong and Singapore cited compliance and reputational risk as the top two drivers, reflecting the maturity of regulation in these two markets. Firms in China and Thailand emphasized the commercial aims of supporting correspondent banking and international expansion. In Malaysia and Indonesia, both regulatory and business aims are important, with respondents citing compliance and support for commercial activities (business results and correspondent banking respectively) as the top two drivers. Interestingly, respondents in China listed regulatory compliance as the lowest of their priorities by a wide margin.

Is AML compliance change being led by regulators within Asia, or by regulators in other regions? Local regulations were cited most frequently as having the greatest impact. However US regulation, embodied in the PATRIOT Act, was cited most frequently overall by respondents, followed by European regulation. Singapore and Hong Kong regulation are also seen as having an impact on AML regulation in Asia, which is in line with their role as important hubs of financial activity. China was the fourth most-cited regulator in terms of overall responses, which reflects the growing importance of China and its currency, the RMB, in the region.

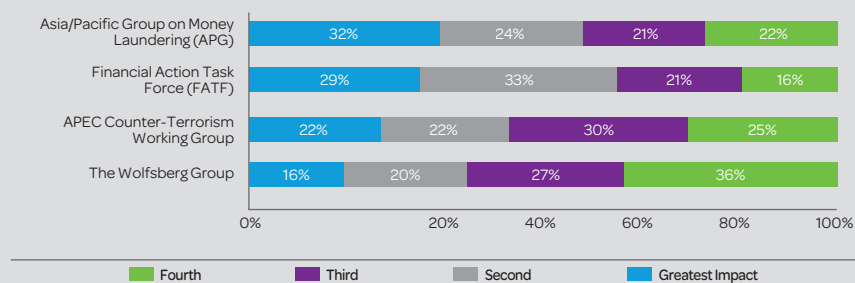
Figure 2: Regulators seen as having the greatest impact (including indirect influence) on regulatory compliance change



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Among compliance organizations, the international Financial Action Task Force (FATF) is seen as having the most influence on compliance operations, followed by the regional Asia/ Pacific Group on Money Laundering and APEC Counter-Terrorism Working Group.

Figure 3: Organizations seen as having the greatest impact (including indirect influence) on regulatory compliance change

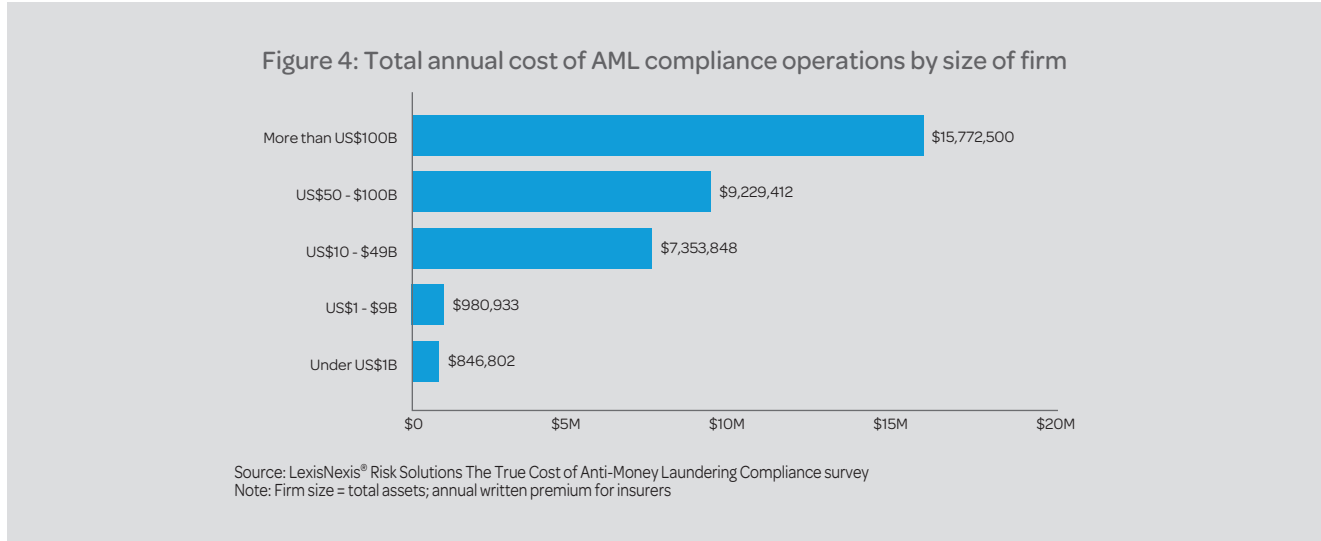


Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey



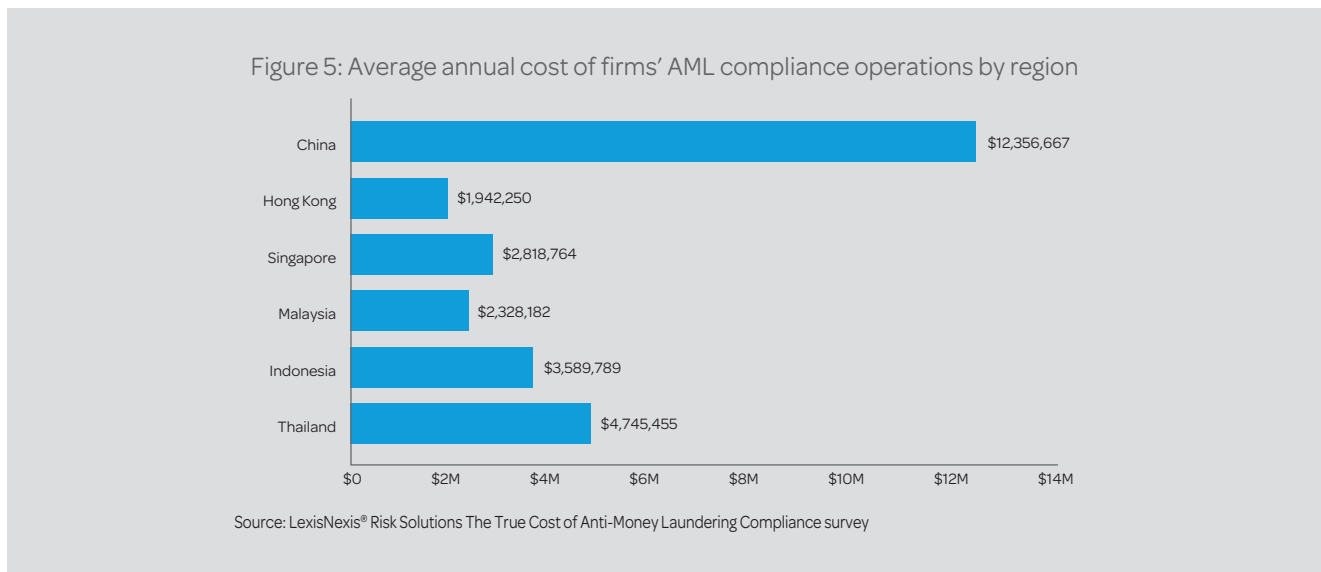
## AML Compliance Operations: Spending Trends

Firms were asked to estimate the annual cost of their overall AML compliance operations. Figure 4 shows the average AML compliance cost by firm size. Firms with less than US\$1 billion in assets averaged some US\$850,000 in AML operational costs. Mid-tier firms averaged US\$7.4 million, and top tier firms with more than US\$100 billion in assets spend an average of US\$15.8 million on AML compliance annually.



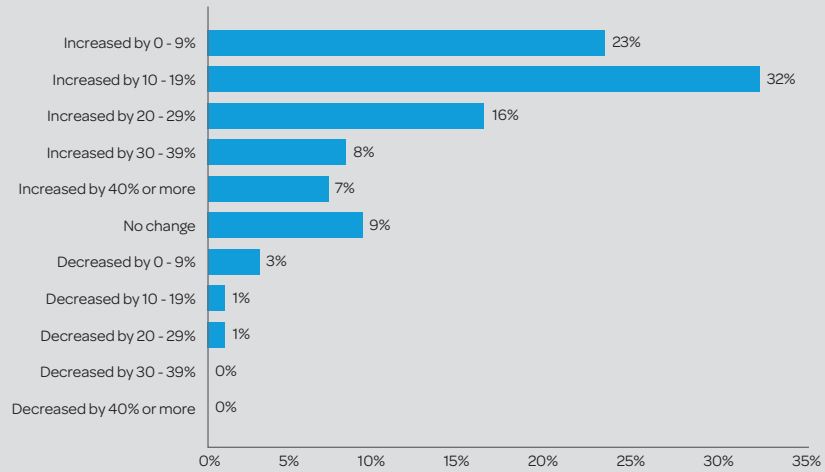
Considered by region, at US\$12.4 million firms in China had the highest average AML operational costs as a group, due to the preponderance of large banks among the response pool for firms in China. Hong Kong had the lowest average cost among the regions, US\$1.9 million. Hong Kong also had many responses from large firms, so this result perhaps reflects the smaller scale of operations in this geographically and demographically compact market.

Extrapolating these results, AML compliance budgets across the six markets in this study total US\$1.5 billion annually for the banking industry alone.



AML compliance costs have been increasing in Asia Pacific. Eighty-five per cent of respondents indicated that costs have increased over the past two years. Nearly one-third estimate their firms' costs rose between by 20% or more during this period.

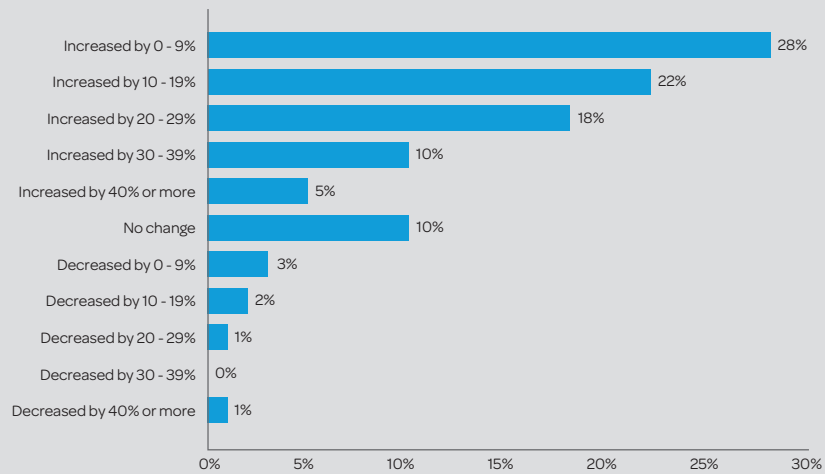
Figure 6: Change in firms' AML compliance costs over the past 24 months



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

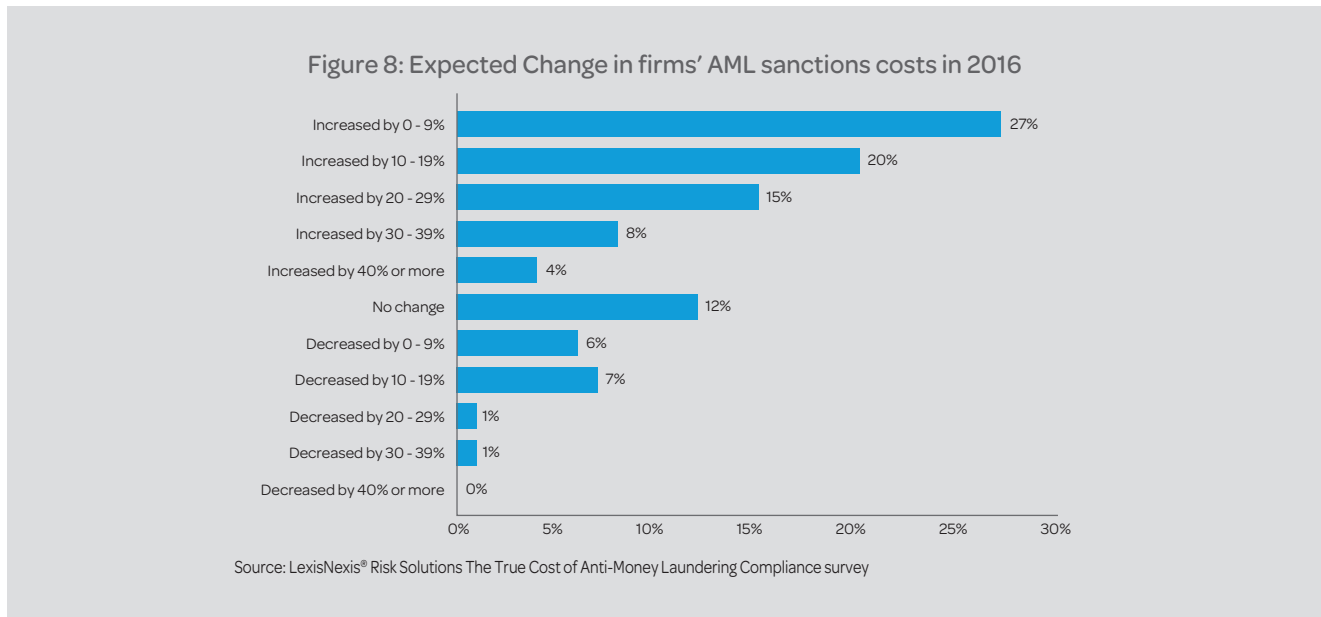
Looking ahead, firms see AML compliance costs continuing to rise. Eighty-two per cent of respondents see overall AML compliance costs increasing in 2016, with one-third projecting that costs will rise by 20% or more.

Figure 7: Expected Change in firms' AML compliance costs in 2016



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Focusing on costs for sanctions-related AML compliance, 73% of respondents see costs increasing in 2016, with more than one-quarter of firms projecting increases of 20% or more.



These trends vary by country. Firms in China are experiencing the sharpest increase in compliance spending, with nearly three-quarters of respondents stating that overall AML compliance costs increased 20 – 39% in the past 24 months, and half the respondents expecting overall costs to increase 20 – 39% in 2016.

China and Hong Kong show the greatest focus on sanctions, with 43% of firms in China expecting sanctions compliance costs to increase 20 – 39% in 2016, and 58% of respondents in Hong Kong seeing sanctions costs rising 10 – 29%.

Financial institutions in Singapore and Malaysia have recently put in place sanctions technology in response to regulatory pressures. Accordingly, 42% of respondents in Singapore and 33% in Malaysia expect no change or a decrease in sanctions compliance costs in 2016. Nearly 40% of firms in Thailand also expect sanctions compliance costs to decrease or remain flat in 2016.

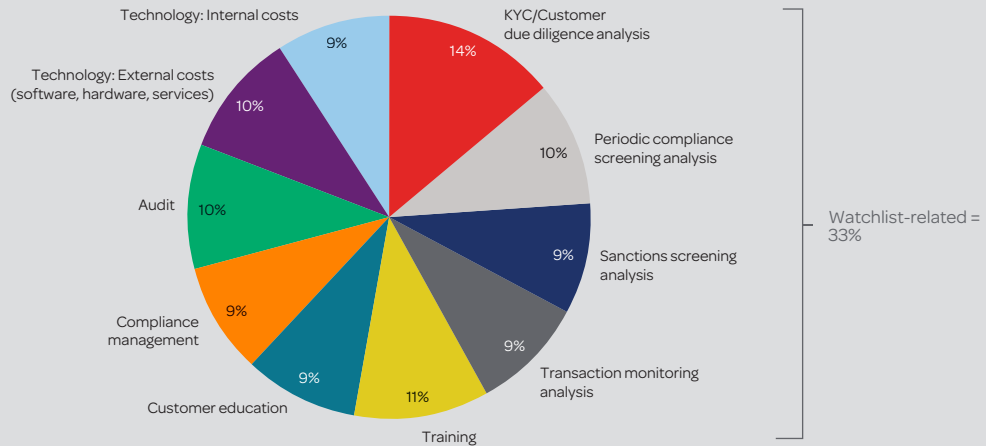
## AML Compliance Costs Breakdown

On average, costs are distributed fairly evenly among the various operational components of firms' AML compliance regimes. However important patterns emerge. Taken as a whole, watchlist activities (KYC processes, periodic screening and sanctions operations) account for 33% of AML compliance costs. By comparison, transaction monitoring analysis comprises only 9% of costs.

From a global perspective, anti-money laundering operations increasingly rely on sophisticated technology to automate behavior analysis and entity screening and to support analysis workflow and decisioning. Technology costs in Asia, however, on average make up a mere 19% of AML budgets according to the survey. This suggests that technology use at AML operations in Asia is still somewhat immature, and that personnel costs are by far the largest portion (81%) of AML compliance spending in the region.



Figure 9: Breakdown of AML compliance cost by area

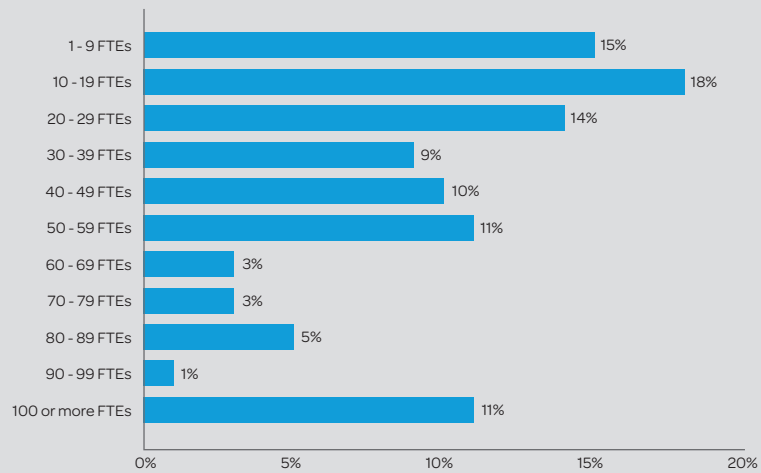


Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

## AML Compliance Staff Sizes

The size of AML compliance teams at respondent firms roughly corresponded to the firms’ asset sizes. As such, total employee counts of AML teams describe a continuum from small teams of less than 10 employees, to large teams of 100 or more. Forty-seven per cent of firms have small AML compliance teams of less than 30 people, while 42% have fairly substantial teams of between 30 and 99 people. Eleven per cent of the firms have large AML compliance teams of 100 or more employees.

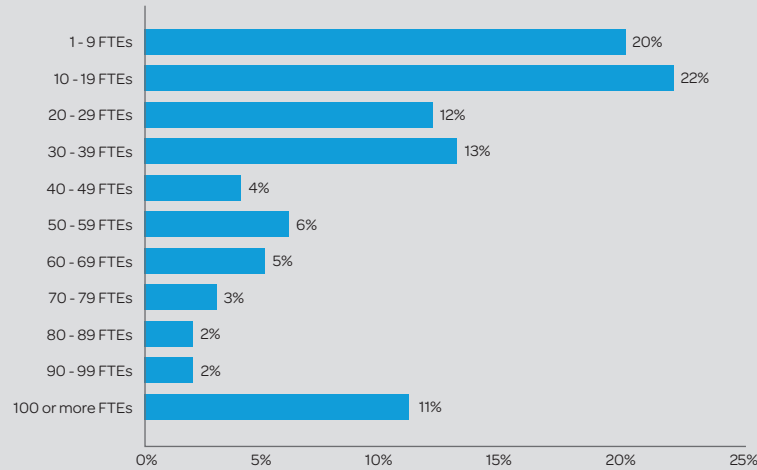
Figure 10: Number of FTE staff employed in firms’ overall AML compliance operations



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Compliance screening analysts are a naturally smaller but quite substantial subset of the overall AML compliance team. Compliance screening refers to watchlist screening for KYC/ onboarding and periodic customer checks. Fifty-four per cent of the firms have small compliance screening teams of less than 30 analysts, and 35% of firms have teams of 30 to 99 analysts. Underscoring the importance and scale of compliance screening operations to large financial institutions, 11% of firms have teams of 100 employees or more.

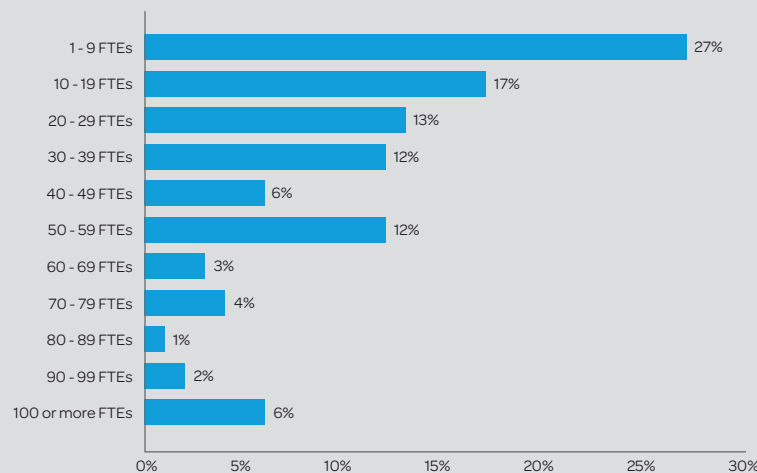
Figure 11: Number of FTE staff employed in firms' compliance screening operations



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Sanctions screening teams are a significant aspect of AML operations at mid- to large-size firms. Sanctions screening refers to watchlist screening of especially cross-border payments to ensure that international fund transfers do not involve individuals, corporations or countries on the US OFAC and other government sanctions lists. While 56% of firms have sanctions screening teams of less than 30 employees, fully 38% of firms have substantial teams of 30 to 99 employees. Six per cent of respondents have large teams of 100 or more analysts devoted to sanctions screening activities.

Figure 12: Number of FTE staff employed in firms' sanctions screening operations



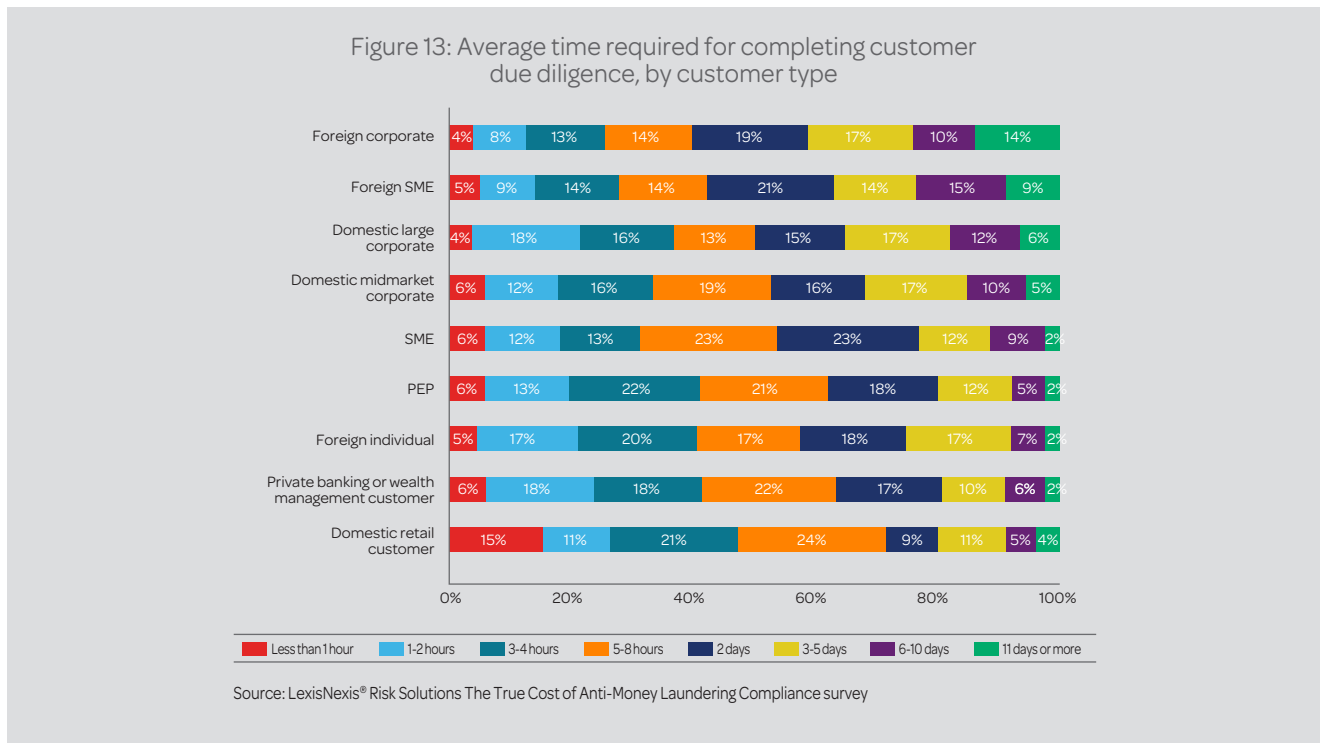
Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

## AML Processing Times

As noted in the previous chapter, personnel costs account for the majority of AML compliance operations costs at financial institutions in Asia. Accordingly, the time required for analysts to process customers for onboarding and to work through compliance alerts has a large impact on AML budgets in the region.

Most firms in the region have not achieved fast onboarding times. Even for domestic retail customers, the segment with the most straightforward compliance procedures, only 15% of respondents complete customer due diligence in less than one hour. Fully 45% of firms require three to eight hours for their retail CDD processes, and 20% take two to five days. Thirty per cent of firms in the region require two to five days to perform CDD on politically exposed persons (PEPs), and 35% need the same period to onboard foreign individuals.

Corporate customers also require long CDD times, with 35% of firms needing two to five days to onboard domestic SMEs. Twenty-four per cent of respondent firms require very long cycle times of six to ten days – or even more – to perform due diligence on foreign corporates (both SMEs and larger enterprises).

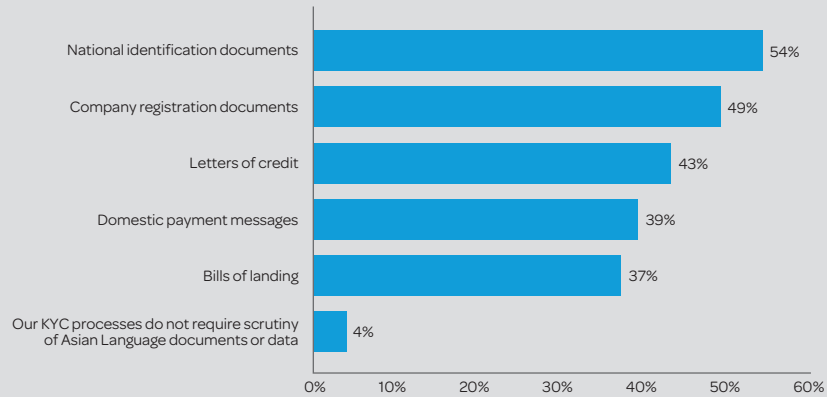


AML compliance is in large part an international affair, often involving global payments and transfers, international correspondent banking relationships and, for multinational institutions, compliance reporting to the home office. As such, local or regional Asian language official documentation can introduce added complexity to compliance procedures. Nearly all (96%) of survey respondents indicated that their KYC processes require a variety of Asian language documents. The most frequently cited documents were national IDs and company registration documents.

“AML compliance facilitates the implementation of standards that help a bank achieve its corporate goals as well as the nation’s goals.”

—Chief risk officer, Major Thai bank

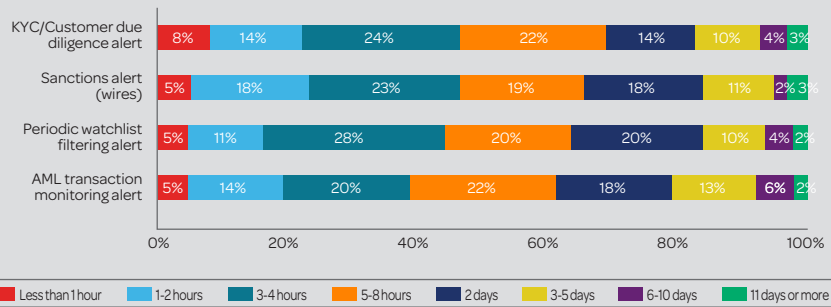
Figure 14: Asian language documents or data used in KYC processes  
 What Asian language documents or data do you currently scrutinize?



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Processing times for alerts are also substantial. Fewer than 10% of firms clear any type of alert in less than one hour. Forty-two to 48% of firms take three to eight hours to clear an alert. Alert processing cycles at a substantial number of firms – 24 to 31% – require an average of two to five days.

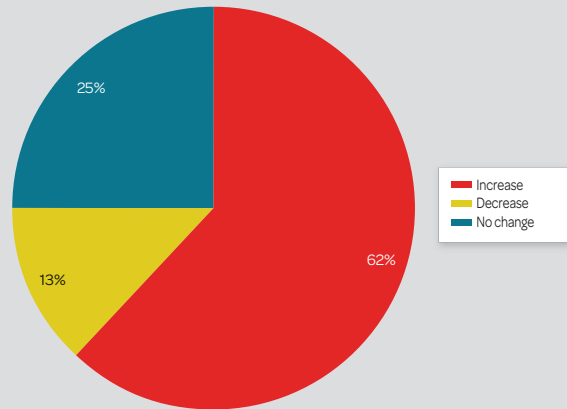
Figure 15: Average time required for an analyst to clear an alert, by alert type



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Alert volumes will only increase in 2016, according to 62% of respondent firms. This is in line with firms' expectations that AML compliance costs – both overall costs and costs for sanctions compliance specifically – will also increase in 2016. Respondents who expect alert volumes to increase estimate they will rise by an average of 21% in 2016. Firms in Indonesia, Hong Kong and Malaysia in particularly expect growth in alert volumes, with 71%, 70% and 67% of respondents respectively in those countries projecting an increase in alerts in 2016.

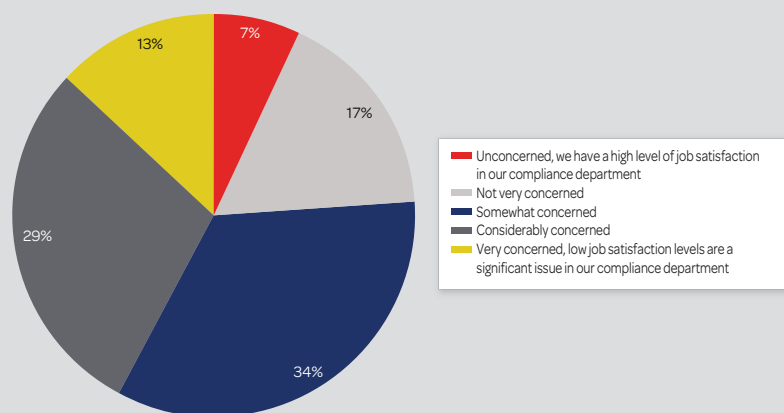
Figure 16: Expected change in alert volumes in 2016



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Accordingly, financial institutions are under increasing pressure to keep up with AML compliance change. This inevitably places pressures on compliance teams. Sixty-three per cent of survey respondents indicate some concern with job satisfaction among their analyst teams. An additional 13% agreed that they are very concerned with job satisfaction levels in their compliance departments.

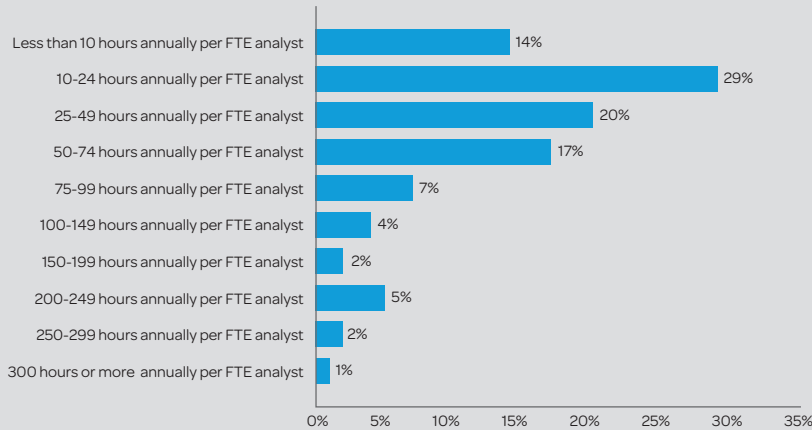
Figure 17: Job satisfaction concerns in compliance departments  
How concerned are you with job satisfaction in your compliance department?



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Sixty-six per cent of respondents estimated the productivity loss due to poor morale at between 10 to 74 hours annually per analyst.

Figure 18: Loss in AML compliance productivity due to job satisfaction issues



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Concern over morale in AML compliance departments runs high in all countries surveyed, but especially in China and Hong Kong. Seventy-nine per cent of respondents in China and 76% in Hong Kong said they were somewhat or considerably concerned about job satisfaction levels. These levels of concern perhaps reflect the high pressure of working at China's mega-financial institutions on the one hand, and at the regional hubs of multi-national firms in Hong Kong on the other.

## Business Impact of AML Compliance

We have focused thus far on the direct costs and effort involved in running an AML compliance operation, such as technology and personnel costs and AML processing times. This section will examine the equally crucial issue of the impact on the business of AML compliance.

A majority of respondents (55%) indicated that AML compliance has a negative impact on their firms' business productivity. Moreover, an additional 15% agreed that AML compliance actually threatens their firms' ability to do business. Thailand feels the strongest impact, where 32% of respondents felt that AML compliance threatens their ability to do business.

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*"Implementing an AML compliance program revealed deficiencies in many of our processes, enabling us to correct these issues and improve as a firm."*

*—Money laundering officer, Leading bank in China*

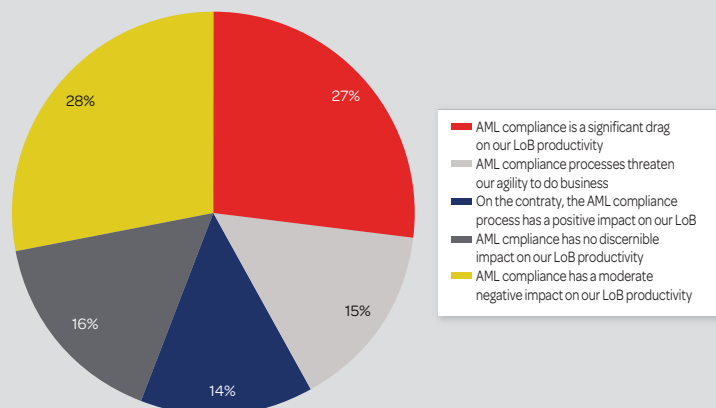
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While most firms see AML compliance as placing a drag on productivity, equally interesting is the fact that 14% of firms see AML compliance as having a positive impact on the business. This was felt most strongly in China and Malaysia, where 21% and 19% of respondents respectively agreed that AML has a positive impact on LoB productivity. A number of respondents explained that AML compliance change requires an evaluation and overhaul of procedural deficiencies, resulting in standardized, improved operational processes and reduced transactional losses. A reputation for strong AML compliance also "improves the credibility" of the firm in the eyes of their customers. In Thailand, on the other hand, only 7% of firms felt that AML compliance contributed to enhanced productivity in the lines of business.



Figure 19: Impact of AML compliance on line of business productivity

How much impact does the AML compliance process have on line of business productivity at your firm?



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

An area with obvious direct impact on customers is customer due diligence (CDD). Fifty per cent of survey respondents indicated that AML compliance has a moderate negative impact on customer acquisition, with an additional 17% seeing a significant negative impact.

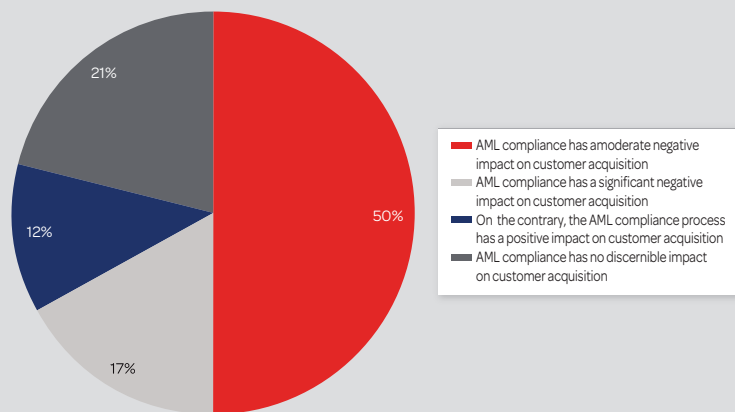
Again, 12% see AML compliance as having a positive impact on customer acquisition. The reasons for this include an increased understanding of valuable customers as well as the trust-building effect of a reputation for strong AML compliance mentioned above. This seems to be particularly true in Malaysia, where 26% of respondents cited the positive impact of AML compliance on customer acquisition.

“Strong AML compliance increases our client’s trust in our business and leads to enhanced business results.”

—Compliance officer, Hong Kong money services business

Figure 20: Impact of AML compliance process on customer acquisition

What kind of impact does the AML compliance process have on customer acquisition?

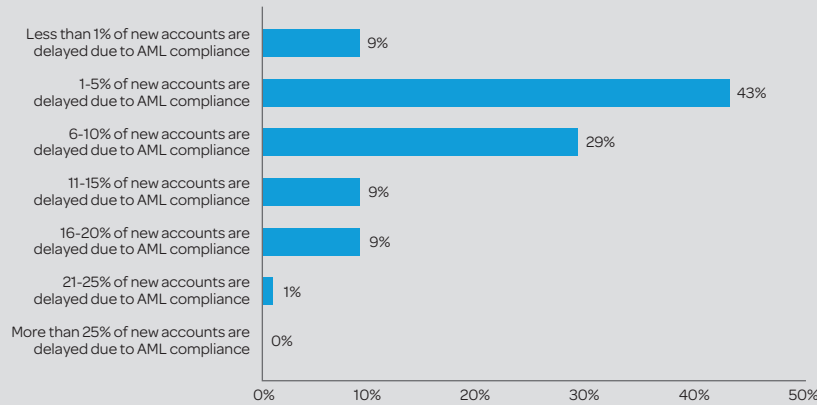


Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

As discussed in the previous chapter, AML processes have a direct impact on customer acquisition by delaying the onboarding process. When asked to quantify this impact, respondents indicated modest but real delays in account opening. Forty-three per cent of firms estimate that such delays affect 5% or less of accounts, and 29% estimate delays for a more significant 6 to 10% of accounts.

This has a real impact on the business because it delays the point at which these accounts are ready to transact.

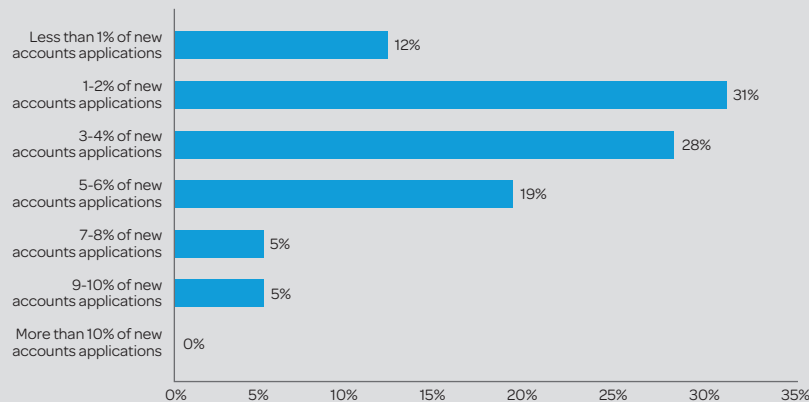
Figure 21: Opportunity cost of delayed account opening due to AML compliance, as a percentage of new account applications



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

Firms also face opportunity costs in the form of refused accounts or customers pulling out of the application process altogether. This impact is also moderate, with about one-fifth of respondents estimating that 5 to 6% of account opportunities are lost due to AML compliance. The opportunity costs are seen as highest in China and Thailand, where 36% and 26% of respondents respectively estimated that AML compliance leads to the loss of 5 – 6% of account opportunities. It must be mentioned, though, that some customers that walk out of the application process might be unwelcome elements to begin with.

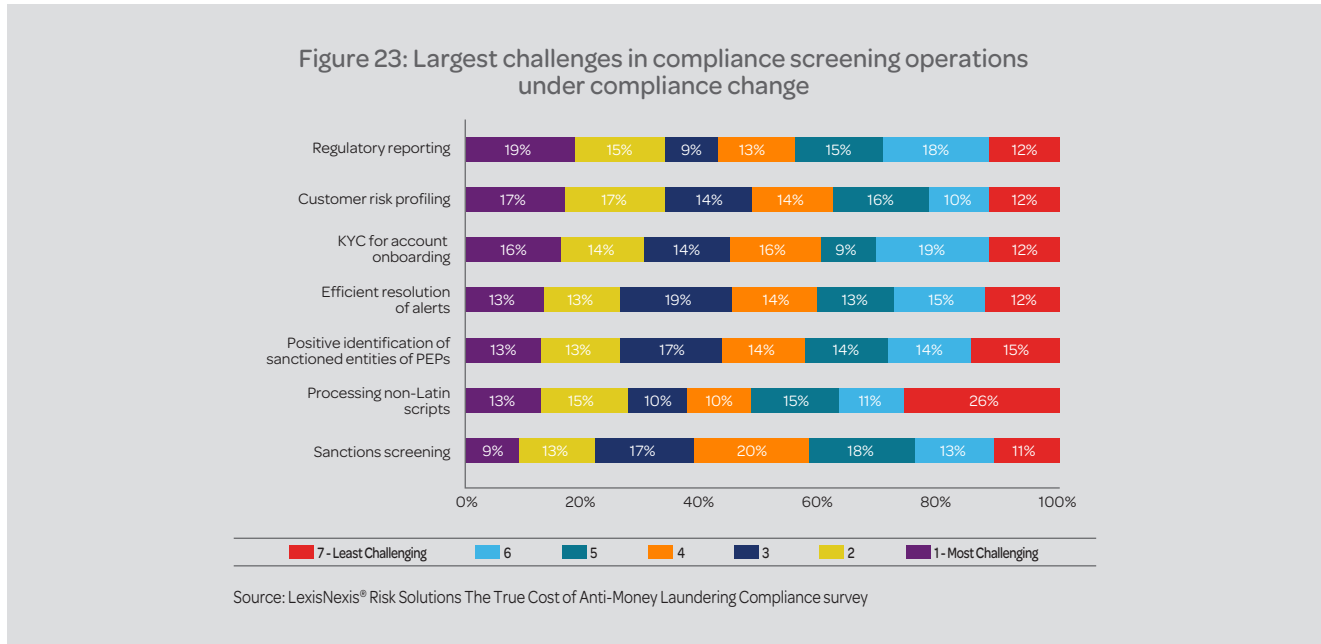
Figure 22: Opportunity cost of delayed accounts or customer walkouts due to AML compliance, as a percentage of new account applications



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

## Challenges and Opportunities of AML Compliance

This study has examined the cost of AML compliance as it affects operations, technology, processes, personnel and customers. In closing, we will examine the areas that financial institutions see as the most challenging aspects of compliance screening operations. The most obvious conclusion to draw from the survey results in the figure below is that firms in Asia are challenged by all aspects of compliance screening, from onboarding to reporting.



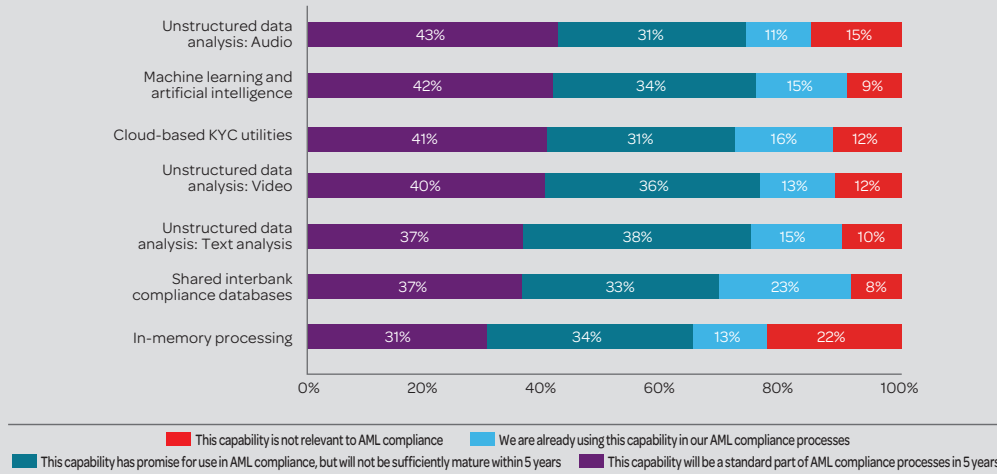
Within this framework, regulatory reporting, customer risk profiling and KYC for account onboarding were cited as the most challenging aspects of firms' compliance screening operations.

Interestingly, although lapses in sanctions compliance have triggered the highest profile regulatory actions of recent years, sanctions screening appears as one of the less challenging aspects of compliance in this survey. This may reflect less of an emphasis on sanctions screening as compared to KYC and risk profiling by local regulators in Asia, as well as the existence of fairly standard technology and procedures around international payments.

## Adoption of New AML Compliance Technologies

Technology has played a valuable role in overcoming the challenges of AML compliance, and continues to evolve in order to bring new capabilities to the issues wrought by compliance change. Survey respondents were upbeat about the potential of new technologies such as unstructured data analysis, machine learning, and cloud-based KYC utilities. Sixty-five to 76% of respondents say these technologies will be used for AML compliance, with 31 to 43% expecting them to be a part of AML compliance processes within five years. Moreover, 11 – 23% of respondents report that they are already using these technologies and platforms.

**Figure 24: Adoption of new technologies in AML compliance**  
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?



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

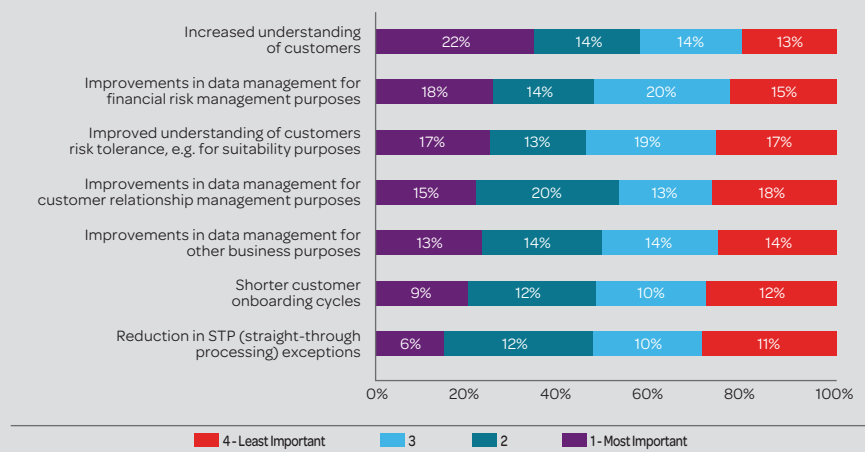
## Benefits to the Business

There is a silver lining to AML compliance, in the form of business benefits brought by AML compliance change. The most important benefit as seen by survey respondents is an increased understanding of customers. Improvements in data management for business and risk management purposes, and deriving insight into customer suitability were the next most cited benefits.

“The data management capabilities required by AML can help a bank understand its customers better.”

—KYC professional, Leading Singapore bank

Figure 25: Benefits to the business brought by AML compliance change



Source: LexisNexis® Risk Solutions The True Cost of Anti-Money Laundering Compliance survey

## Appendix: Survey Background

The True Cost of Anti-Money Laundering Compliance: Asia Pacific Edition was designed by LexisNexis Risk Solutions and fielded in six regions in Asia. Celent provided analysis around the results. The survey was conducted online in September and October 2015 and received 210 completed responses. Analysis of the data took place between November 2015 and January 2016. The distribution of respondents by region, type and size of firm, and respondent's position are shown in table 2 below.

The survey was supplemented by a number of one-on-one telephone interviews to provide more insight around issues in AML compliance.

Figure 26: The True Cost of Anti-Money Laundering Compliance Survey Respondents

Region		Firm	
HONG KONG	24%	Bank	50%
SINGAPORE	21%	Insurance Company	13%
MALAYSIA	20%	Asset Management Firm	11%
INDONESIA	15%	Money Services Business (MSB)	9%
THAILAND	13%	Securities Firm	4%
CHINA	7%	Other financial services firm	13%

Assets		Position	
MORE THAN US\$100 BN	16%	Sanctions/ Payments	26%
US\$50 – 100 BN	21%	KYC/ Customer Due Diligence	19%
US\$10 – 49 BN	26%	Compliance	19%
US\$1 – 9 BN	22%	Anti-Money Laundering	17%
UNDER US\$1 BN	15%	Risk	14%
		Other	5%

Source: LexisNexis Risk Solutions The True Cost of Anti-Money Laundering Compliance Survey, September – October 2015  
 Note: In the case of insurers, US\$ amounts indicate direct written premium



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#### About LexisNexis® Risk Solutions

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