About Veris Consulting

Headquartered in the Washington, D.C. metropolitan area, with offices in Jacksonville and Miami, FL, Veris Consulting, Inc. (Veris) serves a diverse portfolio of domestic and international clients as a premier provider of highly specialized consulting services in the areas of forensic accounting, corporate investigations, regulatory compliance, due diligence, financial management outsourcing and survey research.

The members of our Regulatory Compliance practice include multicultural former regulators, bankers, auditors, accountants, attorneys and compliance officers. With our breadth and depth of expertise, we have successfully assisted Fortune 1000 companies and leading financial institutions worldwide by providing insights into compliance issues that affect our clients, while providing pragmatic advice with viable business solutions pertaining to the Bank Secrecy Act (BSA), the USA PATRIOT Act, Office of Foreign Assets Control (OFAC) regulations, the Foreign Account Tax Compliance Act (FATCA) and the Foreign Corrupt Practices Act (FCPA).
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Introduction

The growing expectations of the financial services industry to comply with constantly evolving regulatory demands have made Anti-Money Laundering (AML) and Office of Foreign Assets Control (OFAC) compliance a major challenge globally. Given this context and the fact that AML and OFAC compliance are often seen as impediments to growth and profitability, Veris has conducted this first annual global survey, *The Global Cost of Anti-Money Laundering Compliance*.

The goal of the survey was to gauge how AML and OFAC compliance costs are impacting financial institutions and to better understand the budgetary challenges they face in light of increased regulation. While there are slight national or regional differences, overwhelmingly the respondents, which consisted of senior management and compliance executives at financial institutions throughout the world, note one common theme – the cost of AML and OFAC compliance has steadily increased as financial institutions globally refine their compliance programs to adapt to new business realities and increased regulatory demands and expectations. The survey results also reveal that financial institutions are becoming increasingly more concerned about the effectiveness of their compliance programs and the return on investments made in their AML and OFAC systems and controls. The survey also demonstrates a growing realization among financial services executives that what has worked in the past may not work in the future – ultimately leading to a re-thinking of AML and OFAC compliance strategies among participating institutions.

At Veris we are committed to providing insight that supports the financial services industry and the challenges and opportunities it faces. This report of the results of *The Global Cost of Anti-Money Laundering Compliance* survey provides a compelling account of the challenges presented by AML and OFAC compliance globally and we trust its findings will be useful in addressing the challenges that lie ahead.

On behalf of Veris, I would like to thank the survey’s 284 participants and welcome the opportunity to discuss its findings and the implications for your business in the year ahead.

Sven Stumbauer  
Managing Director  
Practice Lead Miami and Latin America
Survey By the Numbers

284 Respondents
46 Countries
89% Multinational Financial Institutions
Participation

This first edition of *The Global Cost of Anti-Money Laundering Compliance* survey was conducted to provide a global benchmark on how financial organizations are coping with ever increasing regulatory demands and their associated costs, while facing significant budgetary restraints. The information provided in this and future surveys will allow us to better understand the challenges AML and OFAC compliance presents to financial institutions and the cost it represents for the financial services industry as a whole.

The bulk of the survey’s 284 respondents included banks across the operational spectrum of retail, corporate and business banking, private banking and wholesale banking, followed by broker-dealers, money service business (MSBs) and other types of financial institutions.

A vast majority of the respondents (89%) included financial institutions operating in more than one jurisdiction, which provided a comprehensive view of the various cross-border challenges financial institutions face in the current regulatory environment. There was also considerable geographic diversity among survey participants, with 46 countries being represented in the results.
More than 75% of the respondents were senior executives representing the position of General Counsel, Head of Risk Management, Head of Group Compliance, Head of Enterprise Risk Management, BSA Compliance Officer, Head of Internal Audit, AML Compliance Officer and Chief Financial Officer.

Notably, more than 4% of survey respondents included members of the Board of Directors of their respective financial institutions. As the survey results show, Board of Directors involvement in AML and OFAC compliance has increased significantly. Given the impact AML and OFAC compliance can have on the reputation and economic viability of a financial institution, this is no surprise.

“I am a shareholder and member of the board of my institution. Given the importance of AML compliance to ensure the future growth of our bank, I have started to take an additional interest in AML compliance.”

— Survey Respondent
The Good, the Bad and the Ugly Truth

61% cite an **INCREASE** in board involvement

66% saw an **INCREASE** in their AML and OFAC compliance budget

32% consider their AML and OFAC compliance budget **INADEQUATE** or **SEVERELY INADEQUATE**

75% identify **AUTOMATED TRANSACTION MONITORING SYSTEMS** as the **MAIN COST DRIVER** in their AML and OFAC compliance efforts

78% estimate an **IMPACT** on their compliance budget from the *Foreign Account Tax Compliance Act (FATCA)*

53% estimate an **IMPACT** on their compliance budget from the *Foreign Corrupt Practices Act (FCPA)*
Executive Summary

The results of The Global Cost of Anti-Money Laundering Compliance survey show that AML and OFAC compliance issues remain top of mind for senior management and Boards of Directors of financial institutions around the world. Compliance costs are increasing and the expectation is that they will continue to increase for the foreseeable future. Despite these increases, adequacy of budgets and allocation of personnel remains a concern for compliance executives. The survey results show that financial institutions are spending significant amounts of their resources on automated transaction monitoring systems and customer due diligence and that additional regulations, such as the FCPA and FATCA, are further taxing their compliance budgets.

In particular, the survey results show the following:

- 61% of survey respondents saw an increase in their Board of Directors’ involvement with AML and OFAC compliance over the last three years, with respondents from the Latin America and Caribbean region and EMA region citing the largest increases. Interestingly, 7% of U.S. respondents cite no involvement of their Board of Directors in AML and OFAC compliance matters.

- A constant theme that emerged among survey respondents was that the cost of AML and OFAC compliance has been increasing and will continue to increase as regulation and regulatory expectations evolve across the globe. While variations exist across the major regions, the data revealed that globally 57% of survey respondents reported increases in their AML and OFAC compliance budgets. That is a long-term phenomenon as evidenced by the fact that almost 66% of survey respondents saw an increase in their AML and OFAC compliance budgets over the last three years. The most significant increase has occurred in the Latin American and Caribbean region where 68% of the respondents reported an AML and OFAC compliance budget increase.

- The adequacy of compliance budgets remains a significant issue. Only 8% of respondents consider their current AML and OFAC compliance budget to be more than adequate, while 32% of survey respondents consider their AML and OFAC compliance budget inadequate or severely inadequate.

1 For purposes of the analysis of our survey results, we grouped respondents into four major geographic regions: (i) the United States, (ii) Latin America and the Caribbean, (iii) Europe, Middle East and Africa (EMA) and (iv) the Asia Pacific region. Unless otherwise noted, our survey analysis refers to those main geographic regions.
As compliance budgets have increased, so has the headcount of employees dedicated to or otherwise assigned to assist with AML and OFAC compliance matters. 61% of respondents reported an increase in their AML and OFAC headcount.

In spite of increases in AML and OFAC headcount, financial institutions are augmenting their compliance staff with personnel from other functional departments. Almost 70% of respondents cited an increase in assistance from other functional areas within their financial institution over the last three years and 24% cited an increase in the use of outside consultants during that same period.

Respondents cited automated transaction monitoring systems as the largest cost driver by far. 75% of all respondents indicated that these systems are a key challenge for financial institutions globally. The anecdotal evidence we received indicates that it is not only the cost of the system implementation and maintenance, but the analysis of the output that is driving the cost.

With the evolution of Know Your Customer (KYC) standards, the identification and management of Politically Exposed Persons (PEPs) and compliance with various Anti-Bribery and Corruption (ABC) laws have impacted compliance budgets significantly. Reviewing and updating KYC information was identified by respondents as the third largest cost driver and 53% of the respondents cited that the FCPA has had a significant impact on compliance costs.

Additional regulations have an impact on AML and OFAC compliance costs as well. The majority of respondents cited additional regulatory compliance budget increases due to their efforts to comply with FATCA and FCPA. 78% of all respondents answered that FATCA will impact their overall AML and OFAC compliance budget. Surprisingly, 36% of the respondents believe that the FCPA or similar ABC rules and regulations will have no impact on their compliance budget.
Survey Results
AML and OFAC Compliance Issues Remain on Top of Board Agendas

61% of all survey respondents cited that their Board of Directors has become more involved in AML and OFAC compliance over the last three years. This is a positive development. An active, involved and knowledgeable Board of Directors is essential for the successful implementation of AML and OFAC compliance programs. A Board of Directors that possesses a general understanding of the applicable legal and regulatory requirements will be in the best position to adequately provide oversight and allocate sufficient resources – both in terms of funds and staffing. A financial institution’s Board of Directors should be trained periodically on the various legal and regulatory requirements, penalties for non-compliance and the financial institution’s overall AML and OFAC risk.

“The increasing and often changing demands and requests from our U.S. counterparts make AML and OFAC compliance an ongoing discussion topic at board meetings. We need to better understand the requirements and expectations in order to adapt not only our compliance operations but our business model in order to continue having access to the U.S. correspondent system.”

— Survey Respondent

Setting the Tone at the Top

Under U.S. rules and regulations, the Board of Directors is required to approve an enterprise-wide AML compliance program which includes:

- internal policies, procedures and controls
- a designated AML compliance officer with sufficient authority
- ongoing employee training program
- independent testing

Regulatory guidance and recent enforcement actions also point to additional expectations that members of boards should keep in mind. Board members should:

- be aware of their ultimate responsibility for a financial institution’s AML and OFAC compliance program
- establish a compliance culture relating to AML and OFAC compliance and be visible throughout the financial institution
- establish the AML and OFAC risk appetite of their financial institution
- ensure that sufficient resources are in place for AML and OFAC compliance efforts
- ensure that corrective actions are taken when AML and OFAC deficiencies are discovered and ensure proper senior management attention is given to remedial efforts
Regional Differences

Although the survey results show that Board of Directors involvement has increased significantly across all respondent groups, the results also reflect interesting regional differences between the four major geographic regions represented in our survey.

68% of respondents in the Latin American and Caribbean region cited an increase in Board of Directors involvement and 65% of respondents in the EMA region reported a similar increase. By comparison, only 53% of U.S. respondents indicated an increase in Board of Directors involvement in AML and OFAC compliance matters. The significantly greater involvement of Boards of Directors in the Latin America and Caribbean and EMA regions is most likely due to the extraterritorial effects of U.S. rules and regulations and the shifting focus of local regulatory bodies to risk-based, rather than rules-based, approaches to examinations.
For foreign financial institutions with significant correspondent relationships with U.S. banks, complying solely with local regulations will not be sufficient. There is also a business reality that drives significant Board of Directors interest in AML and OFAC compliance in the Latin America and Caribbean and EMA regions. The anecdotal evidence suggests that correspondent banks, especially U.S. banks, are increasingly requiring their international counterparts to provide information and adapt their processes to *de facto* meet U.S. standards.

Following several recent AML enforcement actions, U.S. regulatory agencies have required sanctioned banks to establish board-level compliance committees and have demanded more involvement of financial institutions’ Boards of Directors. Given these increased regulatory expectations, it was surprising to see that 7% of U.S. respondents cited no involvement of their Board of Directors in AML and OFAC compliance matters. Our work and anecdotal evidence shows that Board of Directors attention to AML and OFAC compliance in the U.S. may be “crowded out” by a number of new regulations that have been promulgated in the U.S. in recent years, which may take precedence on Board of Directors’ agendas.
The Cost of Compliance
The Rising Cost of AML and OFAC

Overall, survey participants reported that the cost of AML and OFAC compliance has been increasing and will continue to increase as new challenges emerge. 57% of respondents indicate that their compliance budgets and costs have increased in the last 12 months. This is not a short term trend. The survey results also show that 66% of all respondents reported that their AML and OFAC compliance budgets and costs have been increasing over the last three years. We have observed similar trends in our work with various financial institutions and our survey confirms this anecdotal observation. Perhaps most importantly, there is a consensus that the overall cost for AML and OFAC compliance efforts will continue to increase in the future.

The most significant group reporting budget increases was the Latin American and Caribbean region, where almost 68% of survey respondents commented that their annual AML and OFAC compliance budgets increased.

Veris’ client work in this region indicates that these budget increases are being driven at least in part by pressure from correspondent banks in the U.S., the U.K. and other jurisdictions, as well as an increased level of regulatory scrutiny toward AML compliance.
Consistent with the reported budget increases, the majority of respondents (61%) also noted a significant increase in headcount within their AML and OFAC compliance function over the last three years. While respondents across all regions noted similar increases in compliance headcounts, most respondents still feel understaffed and that additional assistance from other departments within their organizations, such as legal, risk management and internal audit, is required. 70% of respondents cited an increase in assistance from other functional areas over the last three years. This presents an additional challenge to the AML and OFAC compliance efforts and could potentially lead to duplication of work or, even worse, to areas that do not receive adequate attention if clear lines of responsibility have not been defined.

While AML and OFAC costs and headcounts have increased, the amount being allocated still remains inadequate. 32% of survey respondents feel that their budget for AML and OFAC compliance is either inadequate or severely inadequate, while only 8% of respondents consider their annual compliance budget as more than adequate. As a consequence, a number of survey respondents indicated planned budget increases of 15% – 40% over the next 12 months depending on their main jurisdiction of operation, the nature and complexity of their business and their short and long term plans for expansion.

“Given that we exhausted our budget for 2012 earlier, we started utilizing resources from our legal and our risk management department for AML compliance purposes.”

— Survey Respondent
Based on the response of survey participants and Veris’ experience working with financial institutions globally, adequately forecasting the cost of AML and OFAC compliance efforts is becoming an increasingly greater challenge, especially in the current environment of evolving regulations, cost control mandates and prioritization of investment by financial institutions. However, accurate cost forecasting, even for unforeseen events like new enforcement trends, is necessary for members of senior management and Boards of Directors at financial institutions to make informed strategic decisions without risking the reputation of their financial institutions.

“Given the dynamic nature and the changing expectations of our regulators, we seem to be unable to budget our expected AML and OFAC budgetary needs through normal forecasting models. What we thought was a reasonable number at the beginning of the year is often times spent in the first six months.”

— Survey Respondent
The results of the survey show that there are clearly identifiable drivers of the cost of AML and OFAC compliance. These drivers seem to be universal across the spectrum of financial institutions.
Automated Transaction Monitoring Systems

An overwhelming majority (75%) of all survey respondents identified automated transaction monitoring systems as the main cost driver in their AML and OFAC compliance efforts. Our work in this space suggests that the cost is not only in system implementation and maintenance, but also in the analysis of the output of those systems. The majority of financial institutions are becoming increasingly dissatisfied with their current automated monitoring efforts, looking for software solutions that can actually lighten the workload of many AML and OFAC compliance departments, rather than adding to it.

Despite significant expenditures on automated transaction monitoring systems, regulatory enforcement actions routinely cite failures of financial institutions in identifying and subsequently reporting suspicious activities. Given that automated transaction monitoring systems have been identified as the largest drivers of the AML and OFAC compliance cost, financial institutions should review their monitoring programs to ensure that they are adequately meeting their responsibilities to prevent, detect and respond to the risk of money laundering.
However, there is no single, shrink-wrapped solution for automated transaction monitoring. Each financial institution is different and the automated transaction monitoring systems should be deployed and enhanced using a risk-based approach tailored to the specific circumstances of each financial institution. There are certain key areas every financial institution should consider in its automated transaction monitoring solutions to ensure that the system works to meet the financial institution’s expectations and regulatory requirements, such as:

- completing an analysis to understand the universe of all transaction types the institution utilizes
- completing a comprehensive customer risk assessment and include customer risk in its monitoring efforts
- completing a comprehensive assessment in order to determine the risks certain products and product groups pose for money laundering
- completing a cross-business analysis and geographical analysis of its customer base in order to be in a position to monitor customers across various lines of business and jurisdictions
- assessing the scalability of the automated transaction monitoring system in terms of product and geographic expansion
- developing appropriate risk-based intelligent detection scenarios for the identification of unusual and potentially suspicious activity

AML detection scenarios, whether rules-based or behavioral, are the engine behind every automated transaction monitoring system and are critical to a system’s ability to perform adequately and up to regulatory expectations.

“Our institution opted to supplement the commercial monitoring system with an additional solution developed in-house – over the last 12 months; we have identified a significantly larger number of unusual activities through our in-house system than the commercial system.”

— Survey Respondent

“Our software vendor promised a lot, but we have been implementing our monitoring system for over 12 months now can’t get it to work with our other core systems.”

— Survey Respondent
Garbage In. Garbage Out.

Any detection scenario, and by extension any automated transaction monitoring system, is only as good as the data it receives. At the core of an AML automated transaction monitoring system is complete and accurate customer information. This idea is also reflected in survey responses indicating that reviewing and updating customer information is one of the top cost drivers of AML and OFAC compliance.

Customer information should not be viewed as static, but should be enhanced, trued-up and revalidated periodically based on the individual risk the customer poses. Our work with clients globally indicates that, without complete and accurate customer information, financial institutions will continue to struggle with their automated transaction monitoring systems and the quality of the output they provide.

Financial institutions should understand that a robust automated transaction monitoring system can provide them with additional benefits that go beyond AML and OFAC compliance. A well-functioning and properly calibrated automated transaction monitoring system can have a significant positive impact on a financial institution’s knowledge base, providing opportunities to identify its most profitable products and also to develop new products based on their customer’s behavior.

“We exhausted our budget this year, so we pushed the upgrade of our monitoring system out by another 12 months. Although this satisfies our controller, we will spend more time reviewing the output of an obsolete system.”

— Survey Respondent

“We since the deployment of our monitoring system, the workload within my department has tripled - however, despite looking at many more alerts, we did not see an increase in suspicious activity reports filed over the last 12 months.”

— Survey Respondent

“I wish our monitoring system was able to aggregate alerts based on relationships across multiple accounts, rather than reviewing individual accounts in isolation. This would create greater efficiencies in our monitoring efforts.”

— Survey Respondent

“Our automated monitoring system is not useful for us – we try to identify outliers in customer activity based on profiles we have obtained from the customer rather than trying to identify truly unusual activity.”

— Survey Respondent
Policies and Procedures

AML and OFAC policies and procedures have been cited by 42% of survey respondents as the second largest cost driver. A significant number of our respondents stated that a shift in global and regional policy and procedure development is underway. While historically international financial institutions set global minimum standards, the implementation of those standards was often left open to the interpretation and subsequent operationalization of compliance teams within the local jurisdictions. As can be seen from recent enforcement actions against globally operating financial institutions, this has sometimes had disastrous outcomes.

In response to these outcomes, a number of survey respondents explained that they are currently undergoing significant changes in the development, enhancement and implementation of their AML and OFAC policies and procedures. A large number of financial institutions operating internationally have opted to go beyond global minimum requirements and adopt a hybrid approach, where the requirements of each of the various jurisdictions in which the financial institutions operate are being updated to meet leading international standards and subsequently implemented across their operations in all of those jurisdictions.

While the redesign of policies and procedures is certainly an important component of cost, the ongoing implementation of redesigned AML and OFAC compliance policies and procedures is often overlooked as a significant component of such expenditures.

“Given our regional expansion, we have adopted a global approach to AML and OFAC compliance to manage AML and OFAC risk consistently, while still taking into account all applicable local rules and regulations.”
— Survey Respondent

“While we have been employing a global AML and OFAC standard globally, we left it to local area compliance to develop a locally applicable AML and OFAC policies and procedures. This approach did not prove successful – we simply didn’t speak the same “compliance language.”
— Survey Respondent

“We were recently audited by our head office and received an unsatisfactory rating. While head office developed our policies, we had no input from the local perspective, and could not implement a significant amount of internal requirements in the local market.”
— Survey Respondent

“We are currently in the process of upgrading our AML and OFAC compliance program to a risk based program to satisfy the new approach by our regulators. Our old program was mainly static and based on checklists.”
— Survey Respondent
Financial institutions must continually focus on not only the implementation but also on the consistent application of AML and OFAC compliance policies and procedures. Recent enforcement actions indicate that financial institutions are criticized by regulatory bodies for failure to consistently implement and apply their policies and procedures as much as for not developing any at all. For AML and OFAC compliance officers this means that they must continually review their policies and procedures, as well as the effectiveness and consistency with which they apply those policies and procedures in their operations.

A common theme in the survey responses detailed a lack of clarity in the policies and procedures adopted by many financial institutions and a number of issues regarding the practical implementation of these policies and procedures in the field. Survey respondents discussed how quickly newly implemented policies and procedures are being implemented and to what degree they are being followed in light of local idiosyncrasies. This adds another level of complexity to the issue both in terms of effectiveness and practical application.

“Our fragmented procedures yield interesting results – a client that is coded low risk in one line of business is seen as high risk by the other line of business.”
— Survey Respondent

“We might lose a few customers because we employ stricter AML and OFAC standards than our local competitors. However, in the long run, I am sure we can avoid significant reputational damage which will more than make up for any business currently lost.”
— Survey Respondent

“We have operations in 20+ countries and while we try to accomplish effective monitoring in various hubs, I don't feel like anybody at head-office has a clear understanding of the monitoring efforts in the various regions and countries.”
— Survey Respondent
Reviewing and Updating Customer Files

Updating and maintaining accurate customer information has been identified by 39% of survey respondents as a top driver of AML and OFAC compliance costs. Up to date and complete customer information represents one of the cornerstones of a robust AML and OFAC compliance program and, based on our survey respondents, also poses a significant challenge for financial institutions globally.

As AML and OFAC compliance efforts have evolved, so have KYC standards at financial institutions. While a risk-based approach at account opening has been adopted by virtually all financial institutions, our work with financial institutions suggests there still is a struggle in determining what constitutes adequate customer due diligence and when to apply enhanced due diligence. As a result, financial institutions are revisiting their existing clients and the quality of KYC information currently at their disposal.

“A few years ago, to satisfy new regulations, we updated a process to backfill missing customer information. I still do not feel that we really know our customer. We do not have varying KYC requirements based on customer risk.”

— Survey Respondent

“We only true up customer information if there is a significant change to the customer relationship. However, this determination is made by the relationship manager – not compliance. This is a recent change from our previous policy implemented due to cost cutting measures.”

— Survey Respondent
Many survey respondents reported that they are currently undergoing extensive file remediation exercises to enhance documentation and collect additional data points on their customers. Given the significant volume of data involved in those efforts, this represents a significant challenge for most financial institutions. This challenge is greatest with legacy relationships, which may have been established well in the past and at a time when banks might not have collected or updated extensive KYC information.

The majority of survey respondents disclosed that their motivation in updating customer files, besides evolving regulatory expectations, is the desire to enhance their automated transaction monitoring systems and increase the quality of the alerts those systems produce.

Given that our survey respondents cited automated transaction monitoring systems as the greatest cost driver by a wide margin, the need to review and update customer information to enhance their monitoring efforts cannot be seen as a surprise.

A large number of survey respondents also cited local and international ABC laws, such as FCPA and U.K. Bribery Act (UKBA), as an additional cost factor as they are required to further update customer information and employ more sophisticated methodologies in addressing their regulatory risks.
Training

Training has been identified by 39% of survey respondents as a top driver of AML and OFAC compliance costs, on par with reviewing and updating customer files.

A financial institution can only achieve a robust AML and OFAC compliance program if and when all the necessary stakeholders have been adequately trained on regulatory and internal requirements. Once the program has been implemented, its requirements should be communicated throughout the organization on a regular basis.

Financial institutions across the globe employ different training methods, ranging from in-person training to conference attendance to computer based training programs rolled out based on functional areas within financial institutions. While the training delivery methods may vary, survey responses indicated several trends, such as:

- demand for more tailored training programs
- increased focus on the effectiveness of training programs
- emphasis on training regarding internal policies and procedures

A number of respondents declared the need for more customized training. They require training with a focus on their particular business and the AML and OFAC risk areas specific to them. The majority of our respondents felt satisfied with a certain level of baseline training delivered by most commercial providers through various training delivery forms, but the need for in-depth customized training, specific to both their institutions’ AML and OFAC risks as well as the practical implementation of policies and procedures, was an area demanding additional attention for a significant number of respondents.
Another important factor, especially when considering a cost benefit analysis, was measuring the effectiveness of training. Respondents cited computer based training programs as cost efficient; however most admitted that the effectiveness of these kinds of programs can be difficult to assess.

While there is no universal method for measuring the effectiveness of training – certain empirical evidence identifies important implementation training components when assessing the level of an AML and OFAC compliance program. Examples include:

- are new customer files being completed in line with policies and procedures and the training provided or is significant re-work needed
- has the review of alerts generated from various monitoring systems become more efficient while the quality remained the same or increased

As financial institutions globally continue to enhance their AML and OFAC compliance programs, training will certainly continue to play a key role and account for significant portions of compliance budgets.

“As a member of the Board of Directors of a financial institution, I have insisted on quarterly AML and OFAC training for myself and my colleagues. Once a year simply wasn’t enough for us to make informed strategic decisions.”

— Survey Respondent

“While we provide training for all of our employees, we need more training customized to our specific business model. I do not feel our training is particularly effective.”

— Survey Respondent
The Impact of Additional Regulations
The Impact of the Foreign Account Tax Compliance Act

Respondents were asked about the overall impact FATCA would have on their regulatory compliance budget and the estimated effect on their overall regulatory cost. A large majority of respondents (78%) answered that FATCA will impact their overall AML and OFAC compliance budget, while only 6% reported that FATCA will not apply to them.

At most financial institutions, the AML and OFAC compliance function is also often seen as the gatekeeper of updated customer information. Respondents were asked to identify the involvement of the AML and OFAC compliance department in their upcoming FATCA efforts. 83% of all respondents disclosed that the AML and OFAC compliance function will be involved in their financial institutions FATCA compliance efforts. 40% of all respondents stated that their AML and OFAC compliance function will lead the FATCA efforts within their financial institution.

What is FATCA?

The Foreign Account Tax Compliance Act (FATCA) was enacted as part of the Hiring Incentives to Restore Employment (HIRE) Act in March 2010 and serves as a tool of the U.S. government to prevent and detect U.S. tax evasion. Finalized on January 17, 2013, the FATCA rules are wide-ranging and require financial institutions, investment entities and insurance companies, among others, to report details on their U.S. clients directly to the Internal Revenue Service (IRS). Nonfinancial foreign companies with cross-border payments may also have FATCA-related reporting requirements.

Noncompliance risk can be substantial, including a 30-percent withholding tax, penalties and interest, and reputational damage. In addition, foreign financial institutions (FFIs) that do not comply with FATCA will find it increasingly difficult to conduct business with U.S. financial institutions as well as FATCA participating FFIs.
The Impact of the Foreign Corrupt Practices Act

The survey attempted to gauge the impact the FCPA and various other international ABC rules and regulations will have on financial institutions’ AML and OFAC compliance budgets.

It is extraordinary to note that 36% of respondents believe that the FCPA or similar local ABC rules and regulations will have no impact on their compliance budget or their overall regulatory cost. This is especially notable, given that some of the largest areas of expenditure cited by our survey respondents were automated transaction monitoring systems and the review and updating of current customer information.

A possible explanation is that financial institutions have already budgeted sufficiently for their ABC compliance efforts. This may explain why approximately one-third of respondents do not expect a significant impact on their budget.

Financial institutions are generally at an advantage in the design of an ABC compliance framework. Most currently have an AML and OFAC compliance program, internal controls, monitoring systems, investigation/escalation procedures and other similar processes in place. These can be easily adapted to create or enhance an ABC compliance program.

However, as is the case with AML and OFAC compliance, ABC compliance should not be static and should follow a risk-based approach. In addition to yielding better results, a risk-based approach allows financial institutions to deploy scarce resources to areas of greatest risk and intelligently managing the cost of ABC compliance.

What is FCPA?

SEC investigations in the mid-1970’s discovered over 400 U.S. companies making questionable or illegal payments in excess of $300 million to foreign government officials, politicians, and political parties. As a result, the Foreign Corrupt Practices Act (FCPA) was signed into law in 1977. The ACT makes it unlawful to make payments to foreign government officials to assist in obtaining or retaining business.
Concluding Comments
Our survey makes clear that AML and OFAC compliance remains a significant cost factor for financial institutions globally. As the operations of financial institutions become more complex and interconnected across jurisdictions – and as the rules, regulations and examination procedures of regulatory bodies continue to evolve – financial institutions increasingly will be required to devote considerable resources to AML and OFAC compliance issues. In fact, there appears to be an industry-wide expectation that the overall cost for AML and OFAC compliance efforts will continue to increase for the foreseeable future, with a number of our respondents forecasting cost increases of 15% – 40% over the next 12 months.

The survey responses show that financial institutions’ Boards of Directors are taking AML and OFAC compliance matters seriously and are investing significant resources on designing and implementing policies, procedures, systems, controls and training that will enable them to meet their compliance requirements more efficiently and cost-effectively. These are all positive developments and financial institutions should think strategically to find ways to leverage these efforts to better serve their customers, grow revenue and increase profitability, and ultimately enhance their competitiveness on a global scale.

In the current climate of ever-changing regulations and increasing regulatory expectations, the AML and OFAC challenges faced by financial institutions will continue to tax their resources. These challenges are best met through meaningful cooperation between financial institutions and the various regulatory bodies that supervise them. While both the financial services industry and the regulatory community have made progress in this respect, more work and cooperation seems to be needed or we will undoubtedly continue to see record fines for AML and OFAC violations going forward.
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