Financial Crime Compliance

7 Trends to Watch in 2023

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Although the world finally emerged from the dark days of the pandemic, 2022 was not without its challenges. The conflict in Ukraine, inflation, and constantly changing sanctions impacted organizations across the globe. Here are our predictions for the top financial crime compliance trends to watch in 2023.

1 The cost of compliance shows no sign of abating

The increasing volume of fraud combined with rising personnel costs, surging transactions, ongoing regulatory changes and the growing number and complexity of sanctions have made for a perfect storm. As a result, the global cost of financial crime compliance topped **$274B** in 2022, up from **$213.9B** in 2020.[1] Costs are expected to continue rising into 2023.

In 2022 **62%** of financial institutions reported an increase in fraud and financial crime

and nearly **58%** reported an increase in the cost of fraudulent transactions.[2]

An average large bank spends **U.S.$1 billion** per year trying to combat money laundering and associated crimes.[3]

Global transaction volume is up **44%** year-on-year.[4]

2 Financial crime compliance and fraud move toward integration

Financial crime compliance and fraud have traditionally operated as separate business silos. While financial crime compliance teams focus on meeting sanctions, anti-money laundering (AML) and other regulatory requirements, fraud departments are tasked with identifying and investigating potential and actual fraud. Now the two are converging.

Expect FRAML (**fraud + anti-money laundering**) to be the new watchword among financial institutions in 2023 and beyond.

FRAML Benefits

- Alignment of functions and processes delivers bottom-line cost savings
- Greater agility in responding to emerging threats
- Data sharing improves risk assessment
- Stronger regulatory compliance minimizes fines
- Improved operational efficiency and workflow

According to a **2019 KPMG** survey:

43% of survey respondents had no integration between fraud and financial crime compliance.[5]

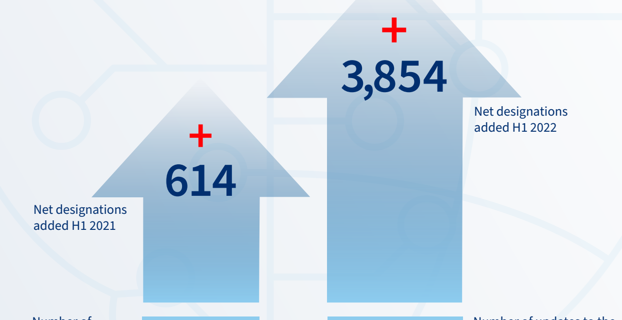
Yet **80%** of banks see FRAML as a key step toward stronger customer risk assessment.[6]

3 Regulatory oversight heightens focus on global supply chains

Supply chains thread through all corners of the world, exposing financial institutions and businesses of all sizes to a range of risks. Organizations need to vet their entire supply chain – including third-party suppliers – to prevent sanctions violations, money laundering, terrorist financing, human-rights abuses and other crimes.

Keeping up with ever-changing sanctions and other risks throughout the supply chain will weigh heavily on organizations in 2023.

Global sanctions activity[7]



In 2016, the U.S. introduced the **Global Magnitsky Act**, making it the first major country to implement a thematic sanctions program that targets human rights violations and corruption wherever it occurs.

The UK, EU, Canada, Lithuania, Australia, and other jurisdictions have since followed the U.S. with their own Magnitsky-like regulations.[8]

4 A confluence of factors drives the need for faster screening

2022 saw a surge of regulatory activity with watchlists updated at unprecedented speed. At the same time, the steady adoption of instant and real-time payment systems around the world is increasing in tandem with consumer expectations of real-time payments. As 2023 unfolds, fast, seamless screening and continuous monitoring have never been more critical for protecting consumers and businesses from financial crime.

Over 70 billion real-time payments transactions were processed globally in 2020,a surge of 41 percent compared to the previous year.[9]

By 2025, that number is expected to reach 1/2 trillion[10]

60 live real-time payment systems around the world

Covering 65 countries and territories

With over 5,000 institutions globally connected to real-time payment systems

Accounting for more than 89% of global GDP.[11]

5 Spotlight intensifies on KYC and financial counterparties

The Panama Papers and similar high-profile cases exposed the need for transparency, vaulting beneficial ownership into the spotlight. But a recent court ruling has now led several EU countries to close public access to beneficial ownership registers – a significant step backward for transparency.[12]

Closing public access will make vetting counterparties, customers, and third-party relationships even more difficult for KYC analysts who are already burdened with heavy workloads and wrestling with increasing regulation and global counterparty relationships. With further restrictions expected, organizations should develop an alternate data strategy for sourcing ultimate beneficial owner information in 2023.

An ultimate beneficial owner (UBO) is the natural person who is not recorded as a shareholder but who owns or controls 10-25% (varies by jurisdiction) of capital or voting rights in the underlying entity.[13]

A UBO is a person who:

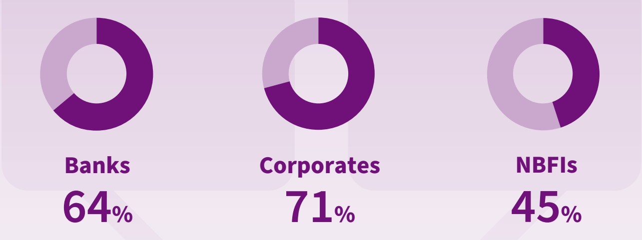
- **Owns at least 25%** of the entity's equity
- **Is a beneficiary of at least 25%** of an entity's capital
- **Has at least 25%** of voting rights and can exercise control
- **Has power of authority** to direct the entity

6 Global trade compliance automation picks up steam

The trade finance sector, which has long been a solid bastion of paper documentation and manual checks when it comes to compliance, is finally showing cracks of change. Regulators are tightening the screws on oversight as a result of increased trade-based money laundering, shifting sanctions and heightened supply chain risks. These factors portend an accelerated adoption of automation for global trade in 2023.

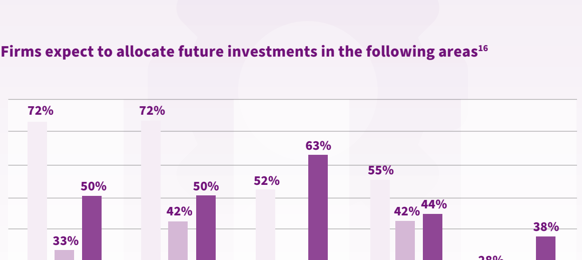
Trade compliance remains highly manual across banks, corporates and non-bank financial institutions.[14]

Manually using search engines



Manual reviews for compliance account for up to 30% of banks' trade operations capacity[15]

Firms expect to allocate future investments in the following areas[16]



7 A tight talent pool makes hiring experienced professionals more challenging

The "Great Resignation" that began in 2021 is likely to continue throughout 2023. In fact, several experts predict it will be permanent.[17] That means competition for talent will remain intense, making it difficult for financial institutions to find and afford skilled compliance professionals.

Institutions must shift their focus from hiring more staff to investing in technology – using automation to work smarter so personnel can be "upskilled" from mundane tasks.

Financial institutions that allocate a larger share of their financial crime compliance budget to technology rather than labor experience lower year-on-year increases in compliance costs and operational challenges.[18]

Mid/large financial firms in the highest spending EMEA markets (France, Germany and Netherlands) that dedicate 50% or more of their annual compliance costs to technology experienced lower average annual cost of compliance.

Average compliance cost per year

There is no doubt that the financial crime compliance landscape of 2023 will present organizations with myriad challenges. Global risk intelligence from LexisNexis® Risk Solutions can help organizations meet these challenges head on and remain compliant in the face of ever-changing regulations.

How LexisNexis ® Risk Solutions can help.
LexisNexis® Risk Solutions is ready to support your company in reducing the cost of financial crime.

Contact us to learn more

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