TRUE COST OF FINANCIAL CRIME **COMPLIANCE**

2024

Investment in technology and automation begins to see returns, despite higher customer volumes and a tougher operating environment.

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Foreword

"I am delighted to see the publication of this year's LexisNexis Risk Solutions' report on the true cost of compliance in collaboration with Oxford Economics. The report provides a truly unique and timely insight on how senior decision makers can address the challenges of the rising costs of compliance and its increased complexity.

FinTech and financial services firms recognise that smart regulation is the foundation for creating a healthy and vibrant marketplace to invest in the UK. Embracing technology is also critical in navigating increased complexity, maintaining compliance and preventing financial crime without placing an undue burden on financial or human resources.

One of the most interesting findings in the report is the growth in the share of technology. Firms have taken onboard the FCA's advice to deploy more robust and scalable technology to address the gaps and manual processes that have long been issues for firms of all sizes. Technology roles now appear to represent over half of all employment and training costs for financial crime compliance and it is encouraging to see the significant impact this investment is having throughout firms' customer journeys.

The report's findings also raise questions on the true impact of AI implementation. The extent to which AI, Predictive Analysis, or Machine Learning are being introduced successfully into workflows remains to be seen. However, firms do appear to now be increasingly focused on addressing access to better or more accurate customer data to help with this. As a lack of access to relevant customer data or intelligence has long been a barrier preventing organisations from getting these types of AI tools to deliver on their promise.

At Innovate Finance, along with our partners at the City of London, we have consistently advocated for a 'RegTech Test', to help regulators assess how technology can assist firms with regulatory compliance. This will be critical in helping us realise the full potential of adopting RegTech solutions in financial services.

The LexisNexis Risk Solutions' report underscores the importance of industry collaboration with government and regulators to address the rising cost of compliance. We are confident that this report will provide valuable insights and drive meaningful discussions on the future of compliance in the financial sector."

Janine Hirt,
CEO at Innovate Finance

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Contents

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The cost of compliance continues to rise for most UK financial institutions

UK financial institutions spent £38.3 billion on financial crime compliance (FCC) in 2023, up 12% on the previous year and up 32% since 2021.

Almost all financial institutions reported a rise in the cost of compliance last year – only 2% reported a fall in costs.

For smaller businesses (< £49 million AUM), the median cost was £6.9 million per year, a 15% increase year on year. In comparison the median cost for larger firms (> £49 million) was significantly higher at £130 million, an 18% rise since 2022.

<£49m AUM:

£6.9m per year

>£49m AUM:

£130m per year

Additionally, the composition of firms within the UK financial sector shifted, affecting total FCC expenditure. There was a decrease in the number of large institutions and an increase in the number of smaller institutions.

UK financial services firms are, on average, each spending £188 million, equivalent to over half a million pounds (£515,000) a day on FCC activities or £21,000 per hour.

Smaller firms shouldering disproportionate costs

Whilst it's true that the average annual FCC cost burden continues to be significantly lower for smaller firms, nevertheless it remains significantly higher when measured as a cost-to-revenue ratio. In fact, smaller firms' FCC costs were calculated to be five times higher, as a proportion of revenue, than those of their larger counterparts in 2023, as they shouldered the rising cost of doing business, without the economies of scale enjoyed by larger institutions.

Fig 1: Compliance cost as a proportion of revenue – last 3 years

	2023	2022	2021
<£49m AUM	2.3%	2.0%	1.8%
>£49m AUM	0.43%	0.37%	0.33%

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Internal and external factors driving up the cost

The rise in compliance costs in 2023 was largely driven by underlying cost pressures.

Investment in new technologies was reported as the most important driver of internal FCC costs, narrowly surpassing growth in volume of FCC activity and increased staffing costs.

This has been the case for the past three years, with firm level FCC cost increases mainly driven by increases in the costs of external technology and software. Growth in technology costs in 2023 was consistent with the previous year of the 2022 survey (11%).

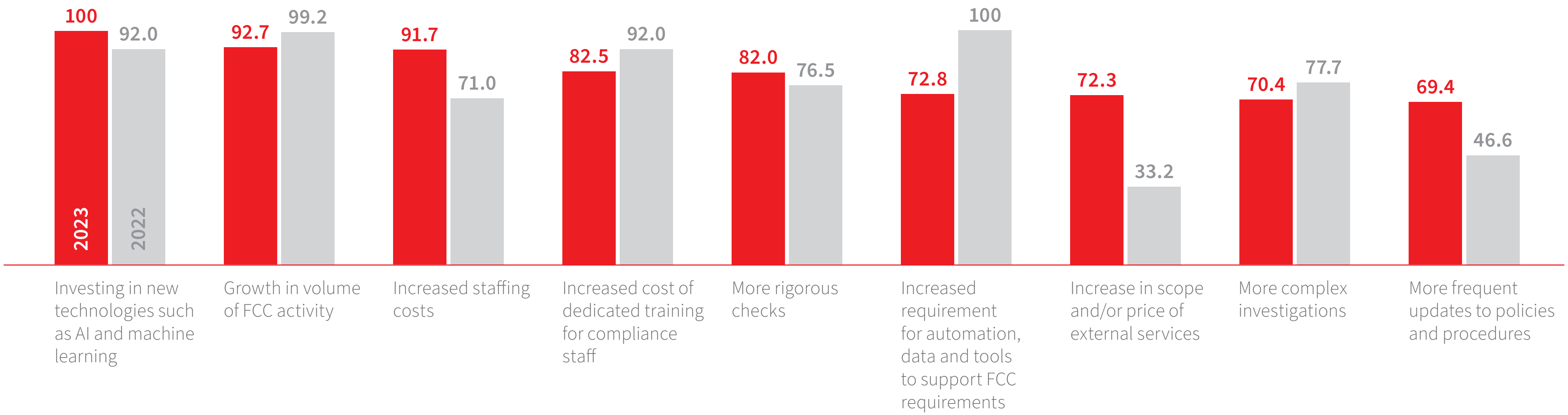
Employee related costs have also risen over the past three years, contributing to the increase in firm level FCC costs, although these have slowed significantly in 2022 (down to 4.8% vs 10.7% in 2022).

Increasing volumes of customers and more rigorous checks also contributed to the increase in 2023.

Notably, in 2022, firms reported increased requirement for automation as the largest driver in internal FCC costs, but it now ranks sixth – falling in importance as firms' priorities change and many processes are already heavily automated.

Fig 2: Perceived importance of **internal** drivers of increased compliance costs

Most significant factor = 100*



N=241 – only those firms reporting increasing costs | Source: Oxford Economics

* The index is created in three stages. First a score of 3 is given to the highest ranked driver, with a score of 2 and 1 given to those ranking 2nd and 3rd respectively. These scores are then totalled across all firms. The factor with the highest score is standardised to 100, and the remaining factors are indexed relative to this benchmark.

Regulatory expectations continue to be the greatest external driver of costs

Increasing regulation and regulatory expectations continues to be the key external driver of increased compliance costs, however in 2023 the gap between this and other drivers narrowed considerably. Other factors such as increased competition and geo-political factors grew in relative importance.

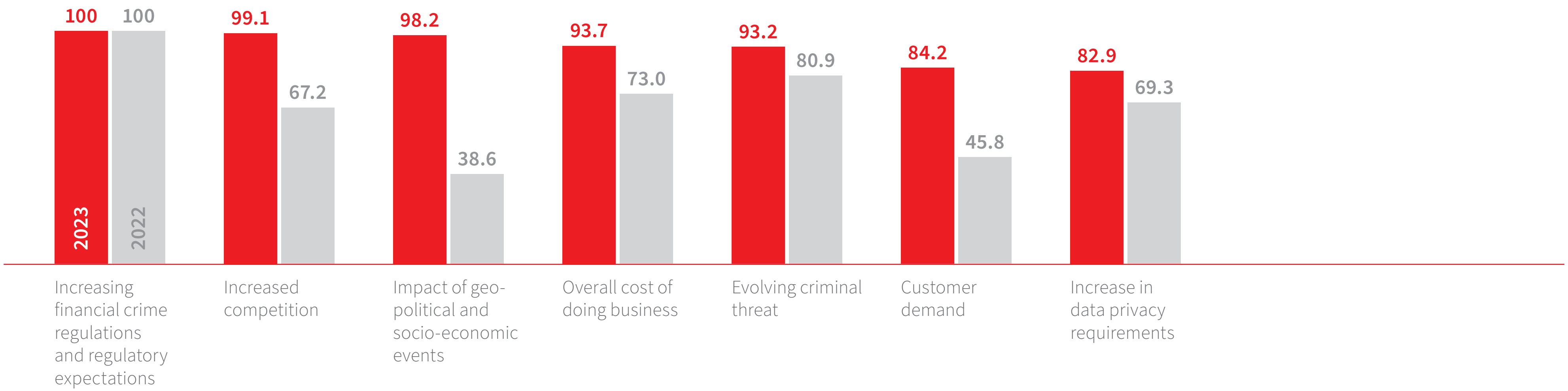
The continued pressure of regulation on firms is certainly no surprise, considering the UK is currently in the midst of implementing Economic Crime Plan 2. The plan introduced new legislation (the Economic Crime and Corporate Transparency Act) and anticipates secondary regulations, alongside a significant reform of Companies House.

Additionally, there are ongoing consultations and expected updates to the Money Laundering Regulations (MLRs) and Financial Conduct Authority (FCA) guidance.

Regulatory pressures are set to continue. Beyond these direct financial crime regulations, other regulatory initiatives will have implications for financial crime compliance in the UK. For instance, the development of a digital identity framework, once enabled, will offer new ways to prove identity and perform customer due diligence. Evolving regulation, continued investment and adaptation by financial institutions, is driving up compliance costs as firms work to meet new requirements and leverage new tools and frameworks in their compliance efforts.

Fig 3: Perceived importance of **external** drivers of increased compliance costs

Most significant factor = 100*



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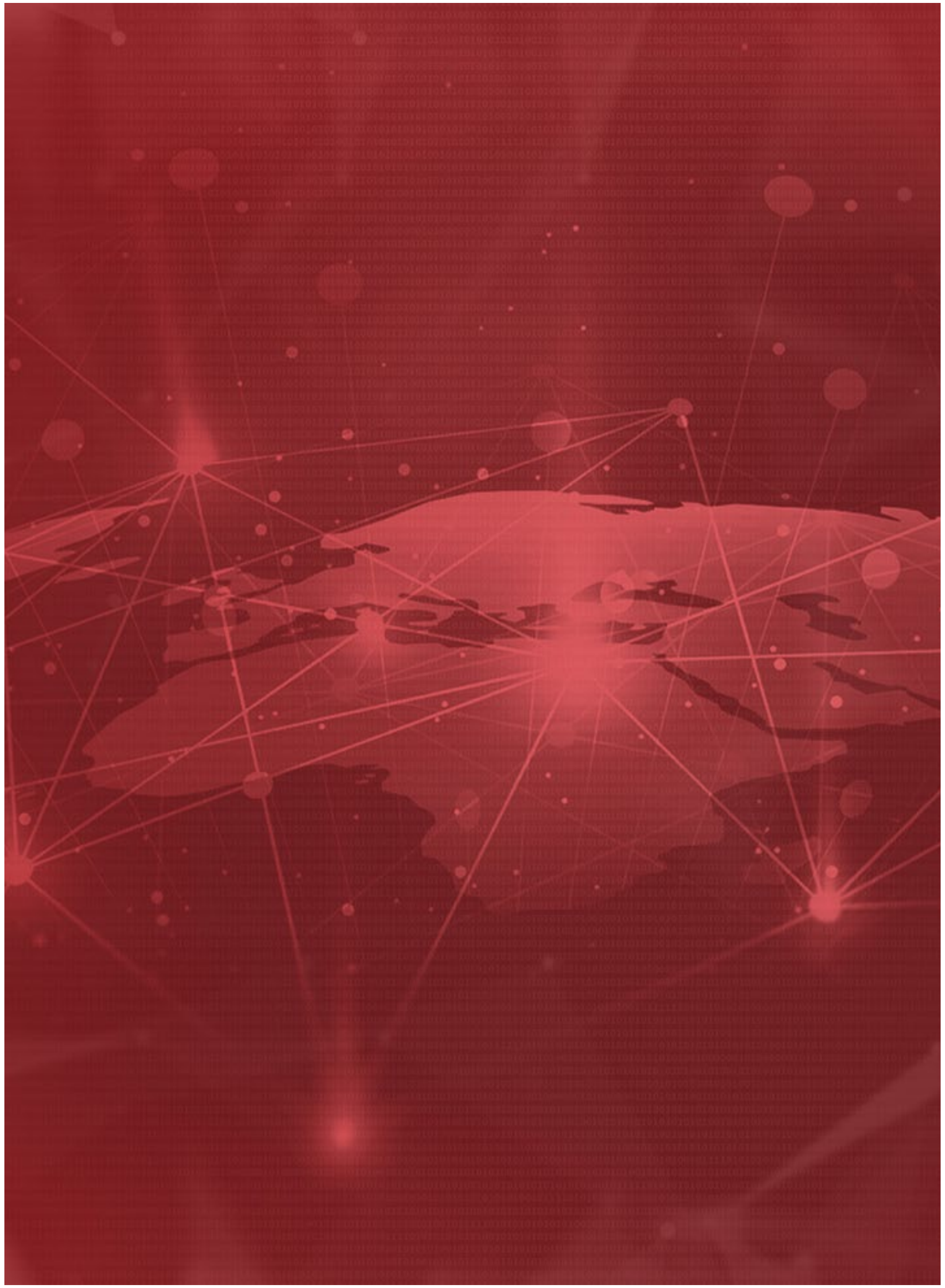
Geo-political factors have become relatively more important

In last year's study, respondents were asked about the perceived impact of geo-political events, like the war in Ukraine, on their compliance costs. At the time only 40% said their financial crime costs had increased as a result of the conflict, and by an average of just over 3%.

Back in 2022, geo-political events were perceived to be the least impactful of external drivers of costs, well below other factors such as increasing regulation and the cost of doing business. This was perhaps unsurprising given that at the time of the study, the war was a relatively recent development.

Whilst this year's study didn't ask directly about the impact of the conflict in Ukraine, nevertheless, geo-political events appeared to take on far more significance in terms of driving up compliance costs, recording a huge 60-point index score increase since 2022. This correlates with a doubling of firms reporting increasing SARs costs since 2022 and more firms reporting a rising cost from AML checks at onboarding.

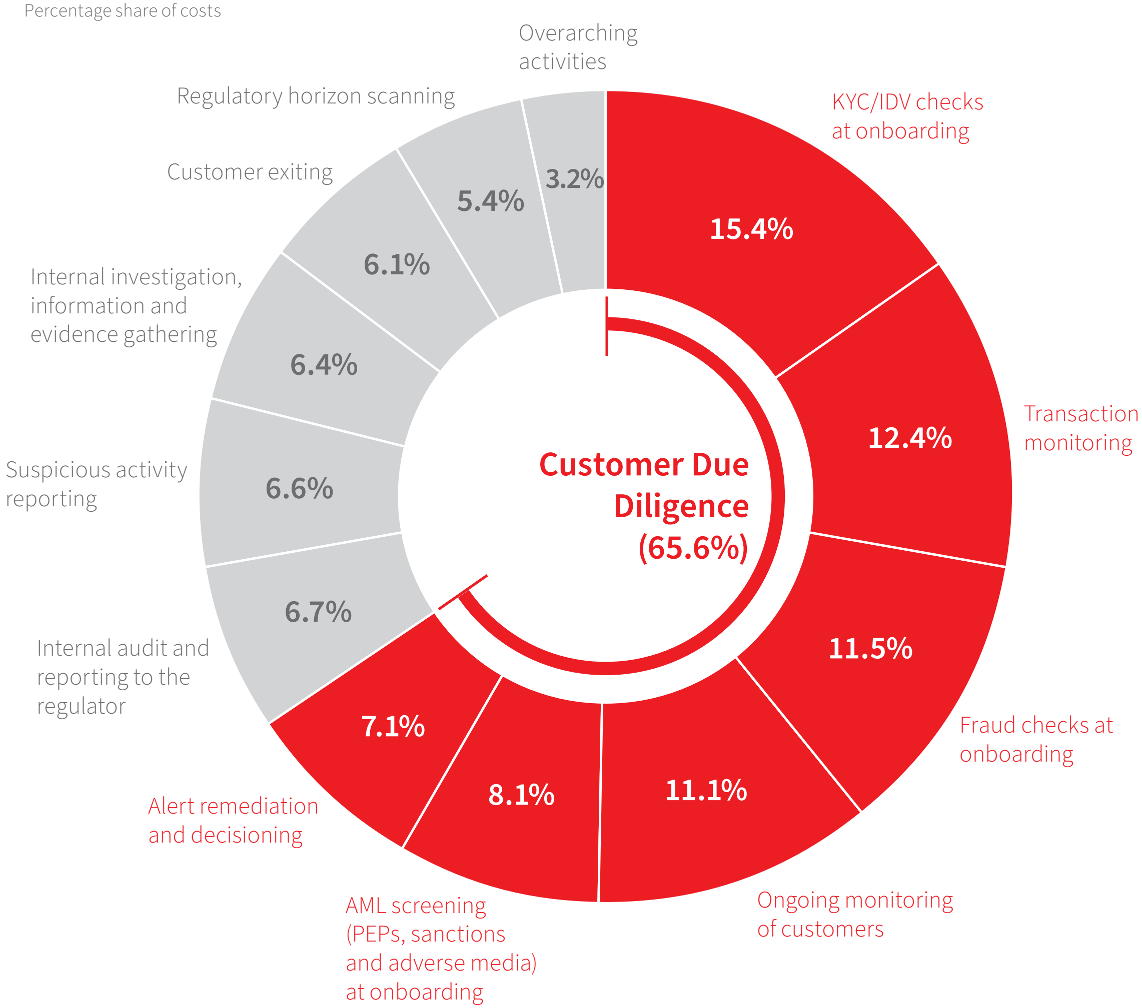
Customer exiting costs may also have been affected by a higher prevalence of geo-political events, recording a significant 22% increase by a quarter of firms. With over 3,700 net designations added to the main four sanctions lists in 2023 and sanctions aimed at Russian individuals and entities dominating updates, it's clear that global affairs continue to significantly impact the day-to-day operations of UK financial services institutions.



Firms are improving FCC controls throughout the customer journey

Fig 4: Breakdown of FCC cost by process*

Percentage share of costs



A breakdown of the costs of financial crime compliance reveals that the distribution has remained largely stable between 2022 and 2023.

As in previous years, some two thirds of financial crime compliance spend goes into customer due diligence (CDD) – 66%, with the remainder being spent largely on horizon scanning, investigations and regulatory reporting.

The key changes we're seeing here are:

- More rigorous checks at onboarding
- Greater emphasis on ongoing monitoring
- Improved efficiencies through automation

Fig 5: Comparative breakdown YOY of FCC cost by process*

Process	2023	2022	Difference
KYC/IDV checks at onboarding	15.4%	22.1%	-6.7pp
Transaction monitoring	12.4%	8.1%	4.3pp
Fraud checks at onboarding	11.5%	9.4%	2.1pp
Ongoing monitoring of customers	11.1%	9.3%	1.8pp
AML screening at onboarding	8.1%	10.1%	-2pp
Alert remediation and decisioning	7.1%	8%	-0.9pp
Internal audit and reporting to the regulator	6.7%	5.6%	1.1pp
Suspicious activity reporting	6.6%	6.1%	0.5pp
Internal investigation, information and evidence gathering	6.4%	7.3%	-0.9pp
Customer exiting	6.1%	4.5%	1.6pp
Regulatory horizon scanning	5.4%	4.9%	0.5pp
Overarching activities	3.2%	4.7%	-1.5pp

N=254 | Source: Oxford Economics
* Cost-weighted sample

More rigorous checks at onboarding

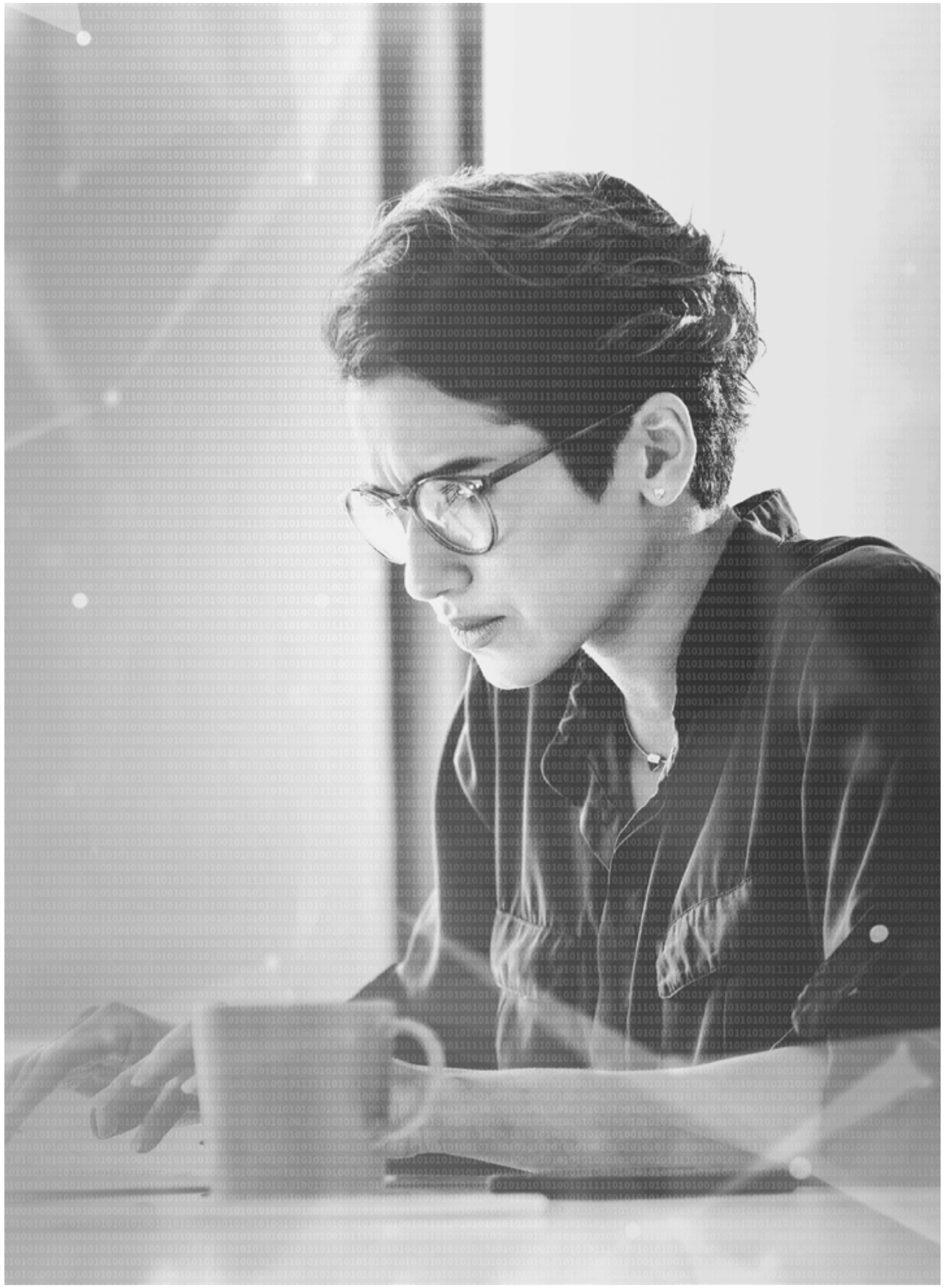
A third of firms (35%) reported an increase in AML screening costs at onboarding, up 6.7% from 2022 (see Fig 6). The same percentage of firms (35%) also reported an increase in the cost of fraud checks at onboarding – more than twice as many as last year. In terms of actual costs, the costs of fraud checks rose from 9.4% of total FCC costs, to 11.5%, although AML screening costs as a share of overall costs, fell modestly, from 10.1% to 8.1%.

There may also be a correlation here with the reported decline in screening alerts that are false positives (a 2% decline year on year) and screening alerts remediated (2.7% decline year on year) – the only CDD processes to report such a decline. This is no doubt in large part due to improvements in both technology and the quality and scope of the data being used to return more accurate screening results on customers.

Greater emphasis on ongoing monitoring

A growing proportion of total CDD cost (35%) is now focused on the ongoing monitoring of customers and transactions in 2023, compared with the previous year (26.8%). In particular, transaction monitoring costs have increased by half year on year, rising from 8% to 12% of overall costs. This increase in transaction monitoring costs was somewhat anticipated and was indicated as the most likely areas to increase in costs over the period to 2025.

Ongoing monitoring of customers also increased from 9% to 11% of total costs, with almost a third of firms indicating they had seen an increase in costs year on year.



Improved efficiencies through automation

The reduction in the cost of several enhanced due diligence functions notably investigations, AML alerts and false positive remediation, points clearly to firms reaping the benefits of new, more effective, automated identity verification checks and customer data improvement initiatives – a planned future enhancement for 80% of firms, according to the 2022 study.

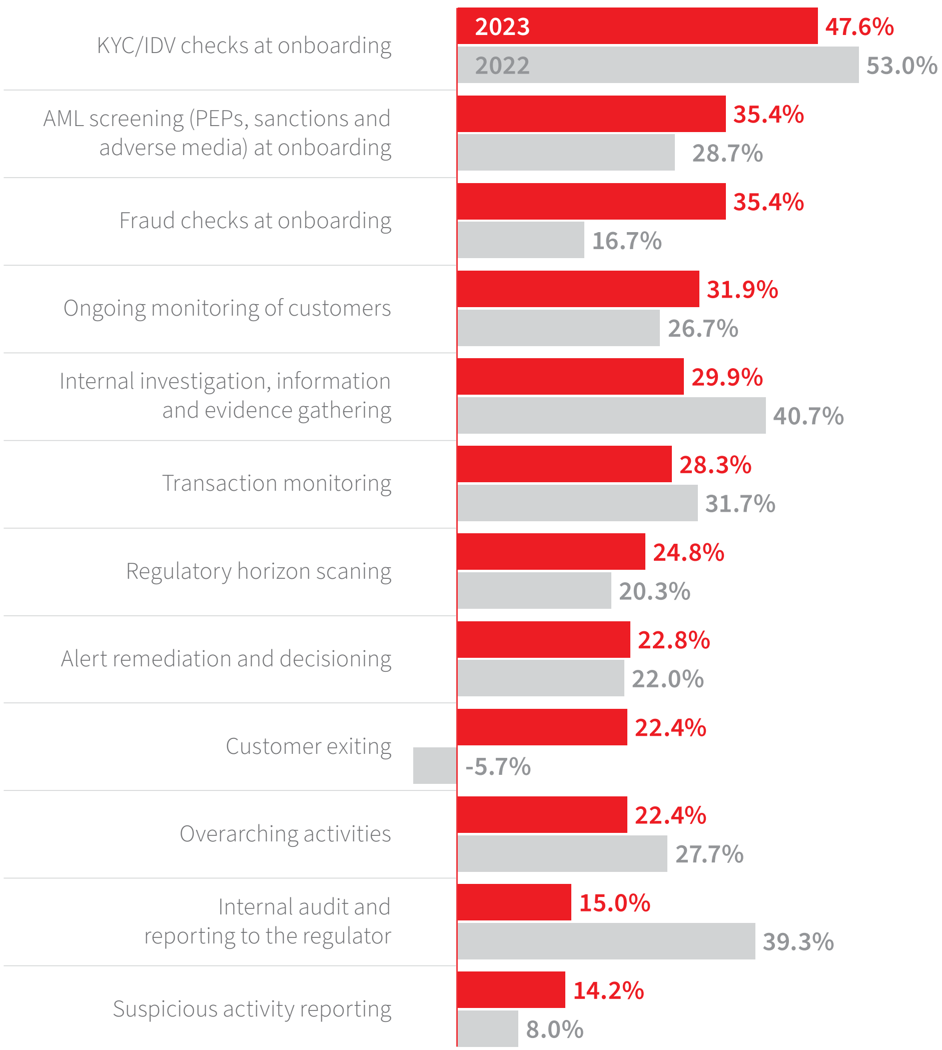
The significant fall in the share of FCC costs consumed by KYC functions is arguably one of the stand-out good news stories of this year's study. KYC/IDV onboarding checks remain the most expensive single FCC process, but now represent 15% of total FCC costs, significantly down from 22% in the previous year. This is despite a good deal more customers being onboarded over the past 12 months, with over half (52%) of firms reporting an increase in customer volumes, and one in six (15%) firms reporting a more than 20% increase.

Back in 2022, KYC/IDV was the number one area where financial crime leaders were planning to make improvements. Despite already being highly automated, it was (and still is) seen as the priority for further automation. The decrease in cost of KYC/IDV in 2023, against a backdrop of increased customer volumes and new digital identity checks integrated into KYC processes, suggests this increase in automation happened and is helping to make processes more efficient.

Whether the introduction of the identity trust framework and firms' plans for implementation of this new framework into IDV and KYC processes will have a further impact in this area, remains to be seen.

Fig 6: Net balance of FCC costs of respondents reporting that FCC costs have increased

Net share of respondents



N=241 – only those firms reporting increasing costs | Source: Oxford Economics

The positive impact of automation can already be seen right across the customer journey. Firms report that 80% of all CDD processes, on average, are now automated – up slightly on 2022 (77%).

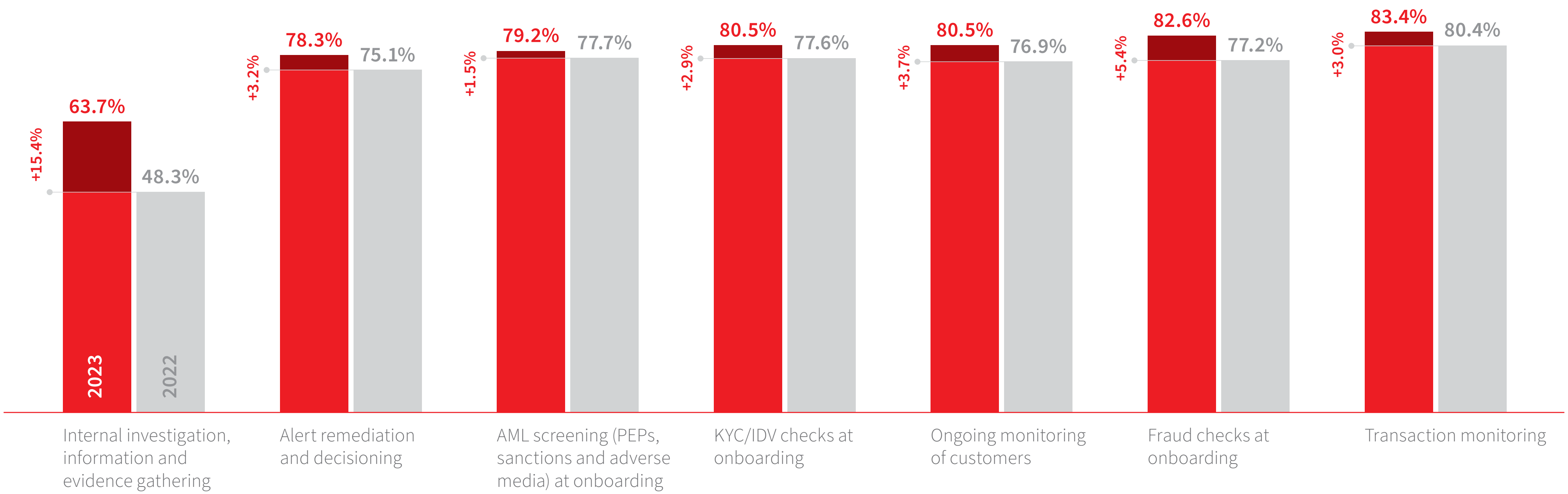
The effects can also be seen in the more traditionally manual, latter stages of the lifecycle, such as internal investigations, which saw the most substantial increase in automation of any process – up 15% year on year, along with a corresponding freezing of cost rises reported for that activity by a third of firms, year on year.

In contrast, the share of transaction monitoring costs as a proportion of overall CDD costs has increased from 8.1% to 12.4%, with fraud checks and ongoing customer monitoring costs also seeing a rise, as customer volumes increase.

The takeaway here is that good progress has been made in automation efficiencies, but there's still work to do. Little surprise then, that CDD onboarding checks are the firm focus for future automation.

Fig 7: Average automation rate by process

Percentage automated by process



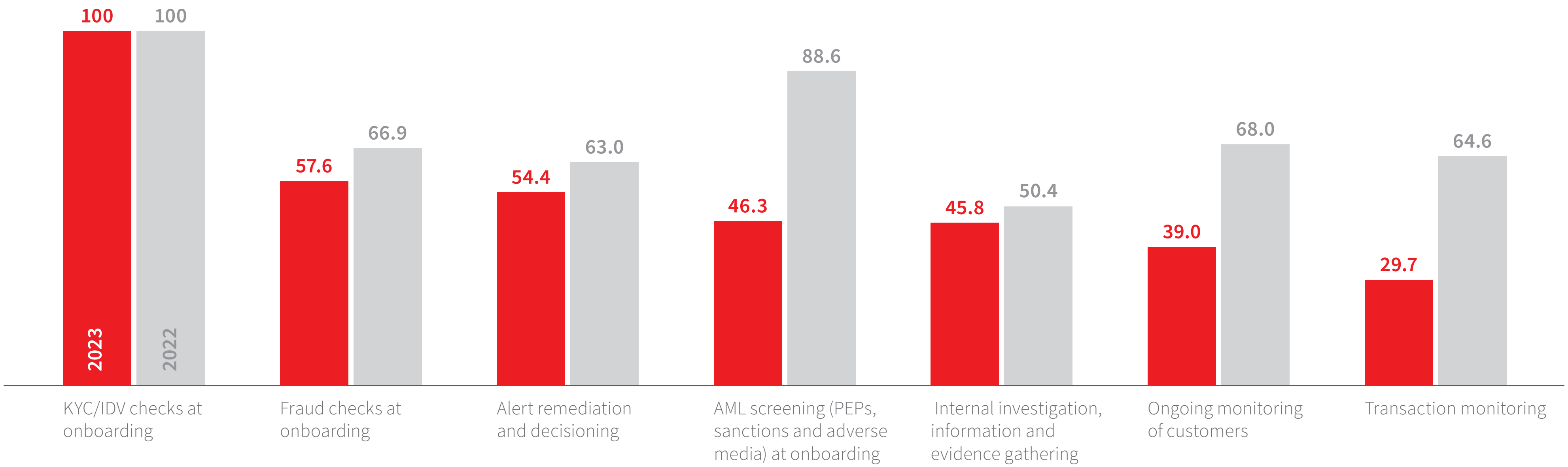
N=254 | Source: Oxford Economics

Further automation is planned throughout the customer journey

The automation and integration of technologies to support the compliance process is expected to continue at a pace, delivering further efficiencies and cost pressure reductions throughout the customer journey. CDD onboarding processes are expected to receive the lion's share of ongoing investment, with KYC and IDV processes being cited as the highest priority (Index score 100), well above fraud checks (score: 58) and alert remediation (score: 54).

Fig 8: Reported priority for increasing future automation by activity

Most significant factor = 100*



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Investment in FCC technology and tech skills is growing

Technology is without doubt being seen as the big bet for financial crime compliance teams and is now attracting almost two thirds of financial crime compliance budgets (61.9%) compared with only half of budgets back in 2022 (50.9%).

In 2023, half of the tech spend is being put towards the technology itself (including software), whereas the other half of the investment is going towards acquiring the technical skills needed to operate the technology and interpret the findings, through training and recruitment.

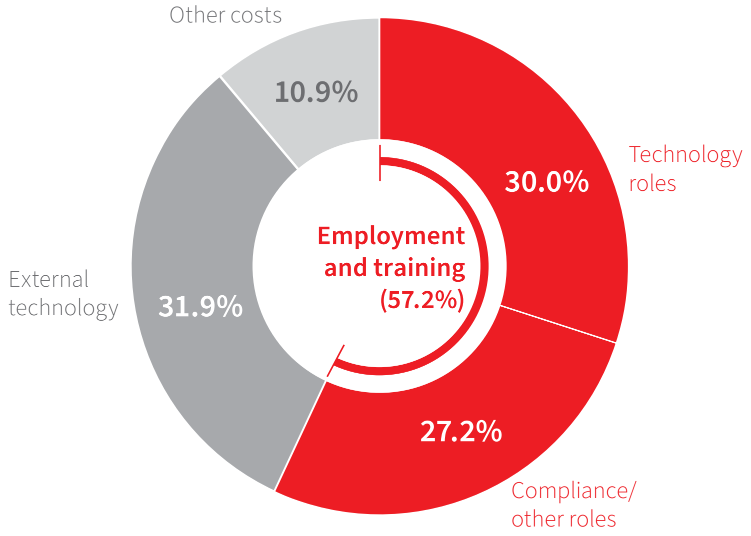
Steady growth in acquisition and adoption of external technology and software

The adoption and integration of external technology and software continues in 2023 but at a higher space, showing a steady increase of 11% in investment in both 2023 and 2022.

There is evidence that teams are more likely to throw technology at financial crime compliance rather than people: external technology costs have now grown faster than overall staff costs for the past three years running, and at almost twice the pace in 2023.

Fig 9: FCC costs by category*

Percentage share of costs



Recruitment and training focused more on tech roles and skills

Technical roles now make up the majority (52%) of staff costs, up significantly from a third (34%) last year, as firms ramp up on the recruitment and training of skilled technologists to help them build and maintain automated FCC systems in house, as well as procuring and integrating external technologies effectively into their existing stack.

Firms are spending more on technology roles across the board, with a near 10% increase in spend on technology roles as a proportion of total FCC costs across all firms between 2022 and 2023, and the biggest increase seen amongst large firms with more than £1 billion in AUM.

N=254 | Source: Oxford Economics
* Cost-weighted sample

A shift in focus from automation to AI

There is evidence of a shift in focus for technology spend, from process automation towards AI and innovative applications of AI such as machine learning.

Back in 2022, tech costs were focused on automation and efficiency. In 2023, automation remains very much a focus, but we're now seeing a real shift towards advanced analytical techniques and modelling, as well as the recruitment of data scientists.

Automation now only ranks as the sixth most important driver of increased FCC costs, whereas AI and machine learning occupy the top position for 2023 – see Fig 2.

Little surprise perhaps that after a strong persistent push towards automation over recent years, there's now a levelling-off of investment in technologies to streamline CDD processes.

Equally, the rise in the sophistication, capability and availability of AI and machine learning in recent years has not gone unnoticed and the financial services sector is shifting its focus to explore and test how these more advanced techniques can be harnessed to realise greater efficiency and effectiveness across financial crime compliance processes and controls.

Forty one percent of firms reported that they'd already implemented new technologies such as AI, machine learning and other analytical tools in 2023, and continued investment in developing these capabilities is expected to be a major ongoing driver of rising FCC costs across the industry moving forward, with almost all (99%) firms polled expecting to have increased their adoption of these new technologies by the end of 2026. The same proportion also expect to recruit and train more data science and technology specialists over the same period.

Several catalysts are in play here. The relative accessibility of AI capability; more clarity being issued around how these technologies can be effectively employed; and less fear surrounding its lack of transparency (as a cause for regulatory concern), are key factors.

Organisations are coming around to understanding that people and technology work best together, and that one is unlikely to ever fully replace the other. In that regard, firms are now more willing than before to invest in AI capability to support their financial crime compliance goals.

Finally, we have seen a greater drive for regulation in this space in the UK, meaning financial institutions are more open to talks with the regulator around technological capabilities that can drive far greater efficiency and effectiveness in financial crime compliance measures and fraud controls.

Data quality and AI are complementary top priorities for firms

Encouragingly, improving data quality was earmarked as one of the highest near-term priorities by firms, with almost half (46%) saying they intended to do so in the next year and 59% in the next 3 years.

Investing in more, varied data sources to augment their existing data was also regarded as a high priority with nearly three quarters (74%) saying they either already have, or plan to do so in the coming year. This is positive news for a number of reasons, not least of which is that quality data underpins the success of AI capabilities.

Firms expect to see better data quality as a result of their investments, with two-thirds anticipating their investment will have a positive effect.

Further enhancements are planned to maximise the effectiveness of FCC

Beyond their investment in AI and data quality improvement, firms are also planning other key improvements to enhance financial crime efficiency and effectiveness.

Integrating new digital identity checks into KYC processes

A significant proportion of firms have already implemented new digital identity checks into their KYC processes (55%). Others are planning to bring these in by the end of 2024 (30%) with the remainder expecting to introduce these by the end of 2026.

Sharing intelligence across the industry via a consortium

All financial institutions in the survey recognise the importance of information sharing across the industry and are planning to participate in an industry consortium model. The only question is how quickly they can achieve this. Approaching a third (29%) are leading the way and are already part of an industry consortium. The remainder are all planning to join a consortium, either by the end of 2024 (45%) or else within the next 2-3 years (26%).

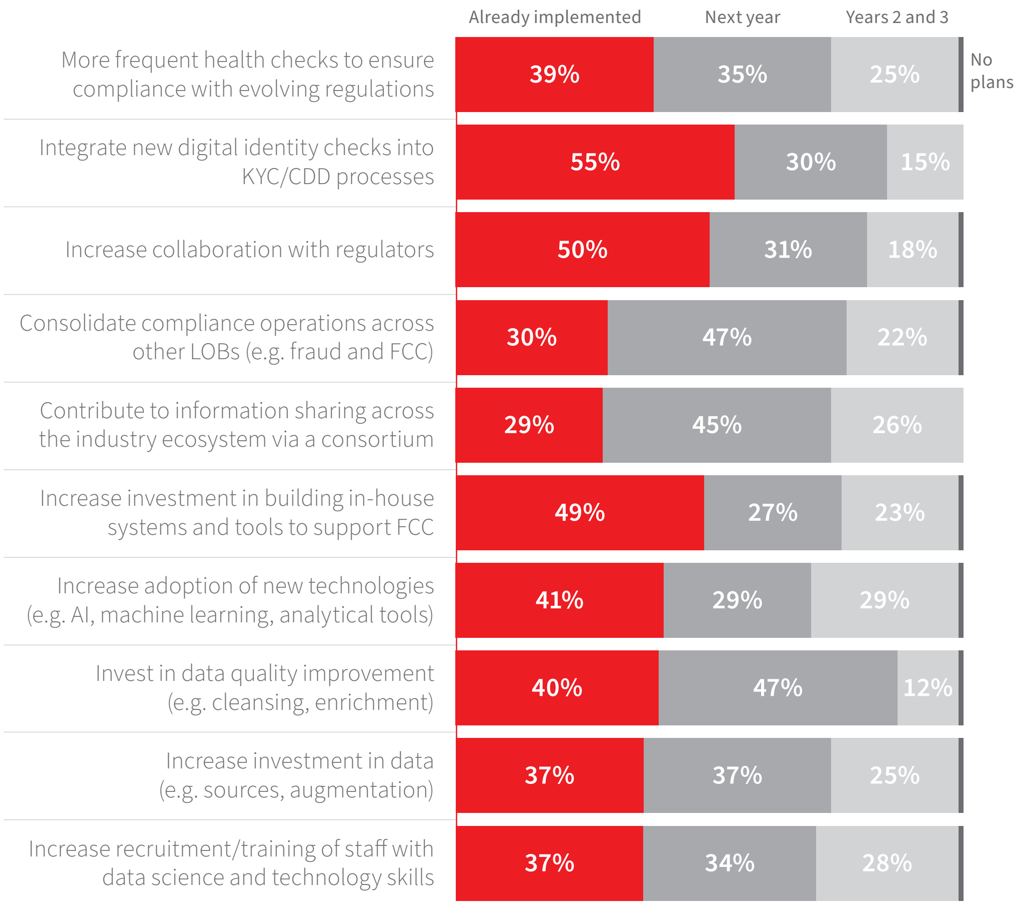
Bringing fraud and financial crime closer together

Nearly all firms also see the value in bringing fraud and financial crime operations closer together, with 30% having implemented this already and a further 47% planning to do so by the end of 2024.

Increasing collaboration with the regulators

In 2022, increased financial crime regulation and regulatory expectations were seen as being the biggest external cost driver, so it's hardly surprising that half of firms started to collaborate more closely with the regulator in 2023. The vast majority of firms (99%) see the value in this. Thirty one percent intend to build their relationship with the regulator over the next 12 months, whereas a further 18% anticipate this will take 2-3 years to achieve.

Fig 10: Planned FCC enhancements over the next 3 years



N=254 | Source: Oxford Economics

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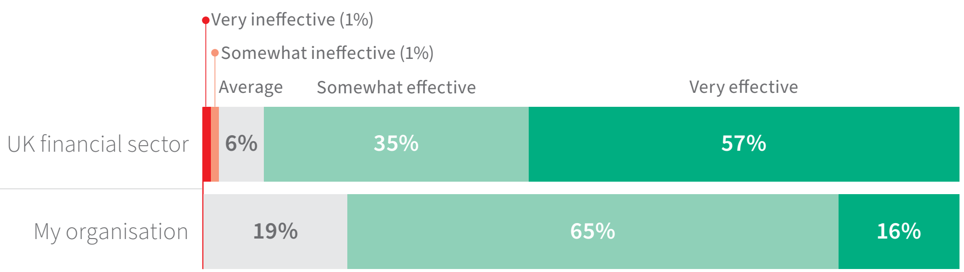
Financial crime leaders are feeling more positive

In 2022, two-thirds of respondents evaluated the financial services sector in general as 'effective' at fighting financial crime, with 28% of those rating it very effective. Respondents were a little more critical of their own firm's efforts however, with just over half (57.3%) rating themselves effective and nearly a third choosing the less inspiring epithet 'average' to describe their efforts.

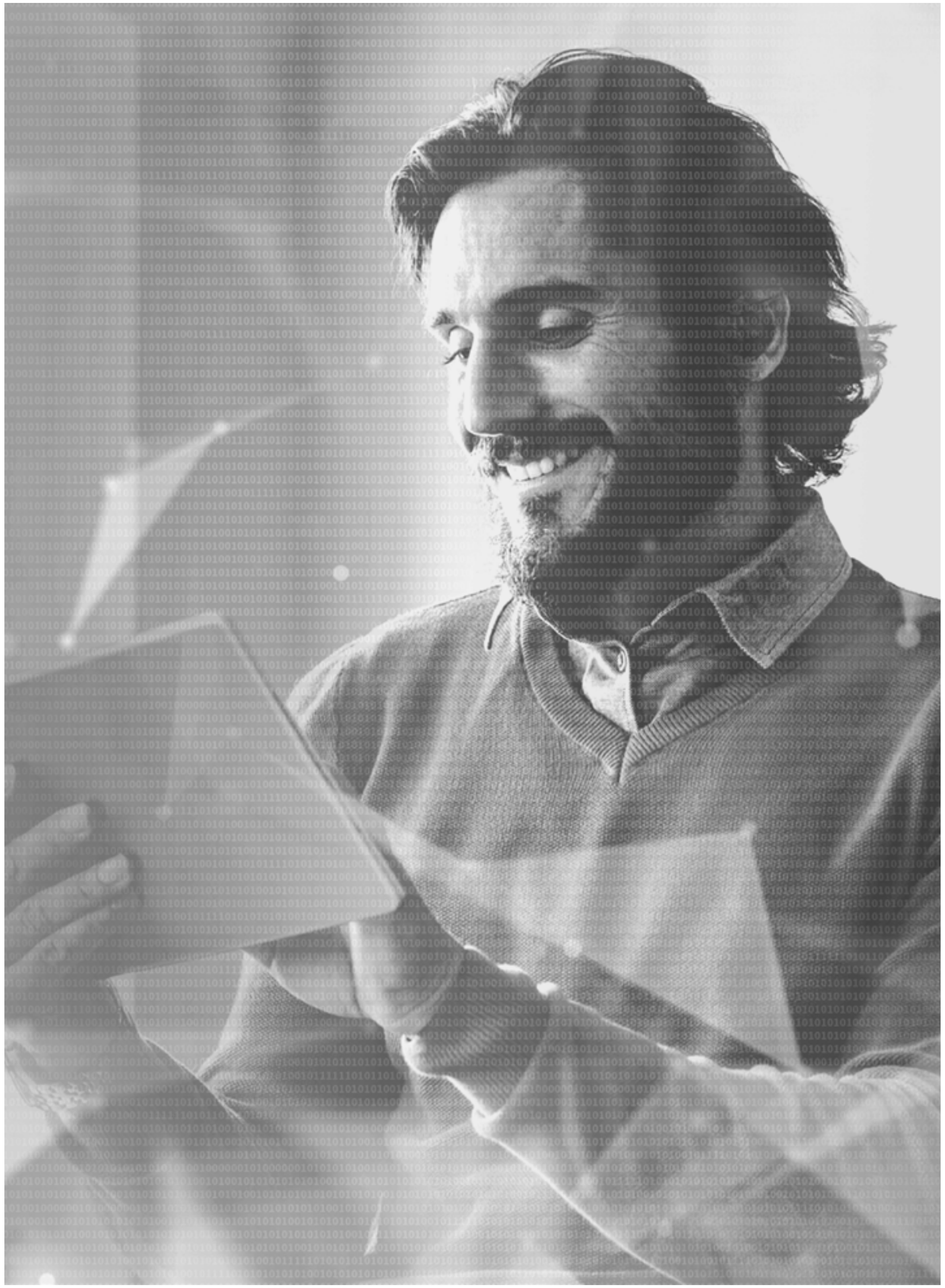
Twelve months on and confidence in the system is significantly higher, with 92% of respondents believing the UK financial sector is at least 'somewhat effective' at detecting and preventing financial crime. The notable change is that in 2023 over half (57%) of respondents perceive the industry's efforts as very effective in fighting financial crime – up by almost 30 percentage points year on year. Fewer people think the sector is ineffective in this latest study, compared to last year.

Self-reflection responses also saw net improvements. In 2022, around a third of respondents scored their firm's effectiveness at detecting and preventing financial crime as 'average' – this was down significantly to a fifth (19%) of respondents in 2023. While only 16% rated their organisations as 'very effective', around two-thirds (65%) opted for 'somewhat effective'. Just one respondent rated their own firm 'ineffective', a significant improvement on the one in seven that did so previously.

Fig 11: Perceived effectiveness at detecting and preventing financial crime



N=254 | Source: Oxford Economics



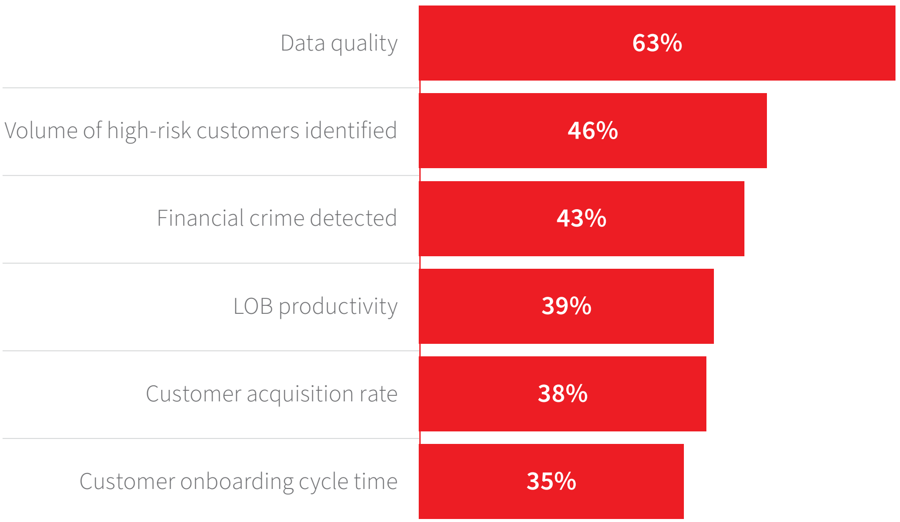
FCC enhancements are expected to deliver tangible business benefits

By 2026, 63% of respondents expect their data quality to increase. Nearly half (46%) expect an increase in the volume of high-risk customers identified, and more than a third (38%) expect an increase in their customer acquisition rate, with a further third (35%) expecting to see improved customer onboarding cycle times.

Just over 40% of respondents forecast an improved ability to detect financial crime.

Fig 12: Estimated impact of FCC enhancements on wider business over next 3 years

Share of respondents estimating a positive impact



FCC costs are expected to grow, but at a lower rate

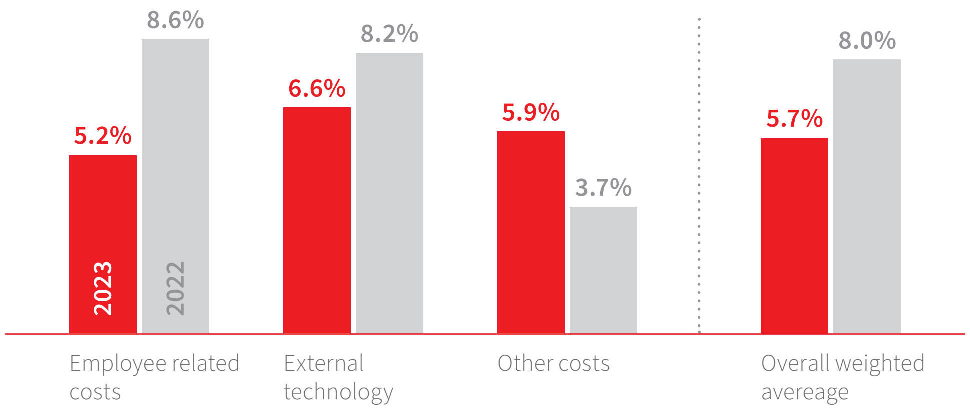
In the 2022 study, respondents forecasted average growth of 8% in financial crime costs over the coming three years, whereas in 2023 cost growth for the same length of time is expected to be lower, at 5.7%. This slight deceleration can be attributed to an expected slowdown in the growth rates of both employee and technology-related costs, according to responses.

Firms now expect employee related costs to increase by 5.2% over the next three years, a 3.4 percentage point reduction since last year. And equally, external technology costs are now expected to rise by 6.6% over the next three years, a 1.6 percentage point reduction from 2022.

In contrast, firms now expect other costs – such as audits and reviews, policy changes, internal technology development, data management, external consultants and data security costs – to rise more than 2 percentage points – faster than previously thought (in 2022).

Fig 13: Expected FCC cost growth by component – next 3 years

Percentage change



In 2023, growth in FCC activity volumes is expected to be most significant across customer onboarding, enhanced due diligence checks, screening alert remediation and internal investigations. However, internal investigations (expected to see the greatest growth in FCC activity in 2022) fell to fourth position in 2023, leaving increasing volumes of customers and enhanced due diligence as the activities most expected to drive volume growth in the future.

The notable decline in expectations for higher volumes of screening alerts and internal investigations may be a result of the ongoing automation effort across those activities, which alongside improving data quality, is leading to expectations of more accurate first-time screening efficiency and less need for remediation, despite rising customer volumes. This notion is further supported by the fact that SARs raised and screening alerts that are false positives are the two areas expected by a majority of respondents to see a fall in volumes.

FCC measures and controls moving up a gear

Technology is coming of age in the Financial Services sector. Years of investment in automation and skilling up now seems to be paying off and driving efficiencies. With the focus now pivoting increasingly towards improving data and AI, the industry can expect to see even greater efficiencies in coming months and years, as well as substantial improvement in the overall effectiveness of financial crime and fraud controls.

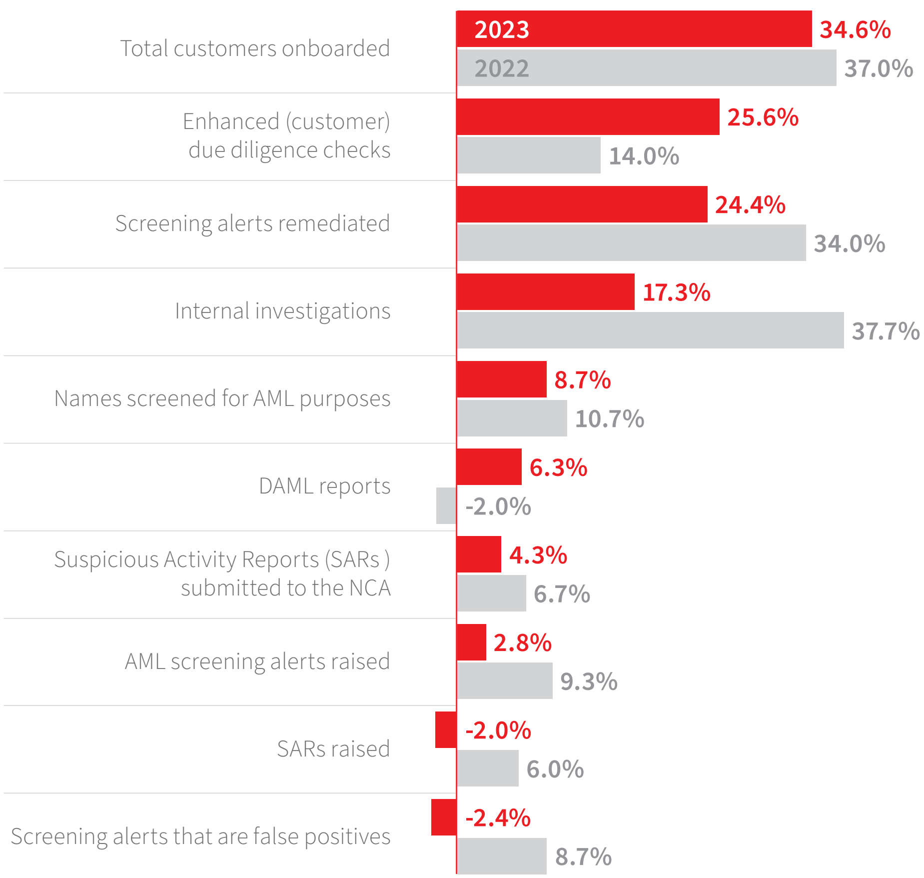
The survey suggests that following the past few years of intense procurement and development of technology-based FCC onboarding and screening solutions, activity is becoming more tech and data-driven as well as being increasingly automated. What is more, firms are already seeing the benefits in efficiency and effectiveness. There is a notable shift in the recruitment of FCC employees into more technology focused roles, which is likely to continue as firms invest further in AI and machine learning capabilities.

It seems we are about to enter a new phase with financial crime compliance. The last phase has been all about automation and efficiency and it's encouraging to see that firms are not taking their foot off the pedal, despite high levels of automation across key FCC processes.

The next phase will be around accelerating adoption of AI models, complemented by data acquisition and improvement programmes, with a view to pushing effectiveness and efficiency to higher levels and achieving ever greater accuracy in targeting, resulting in lower levels of false positives and lower volumes of alerts needing to be remediated.

Fig 14: Net balance of respondents reporting that FCC activity volumes expected to increase – next 3 years

Net share of respondents



N=254 | Source: Oxford Economics

A step in the right direction

The costs of FCC, already a significant burden on the UK financial services sector, have continued their growth trajectory in our latest study. The research also indicates that firms expect these costs to continue to grow over the next three years, though at a more moderate rate.

FCC activity is becoming more highly technical and automated, and firms seem to be seeing benefits in efficiency and effectiveness. There is a notable shift in staff to more technology focused roles and this can be expected to increase as firms invest further in AI and machine learning capabilities.

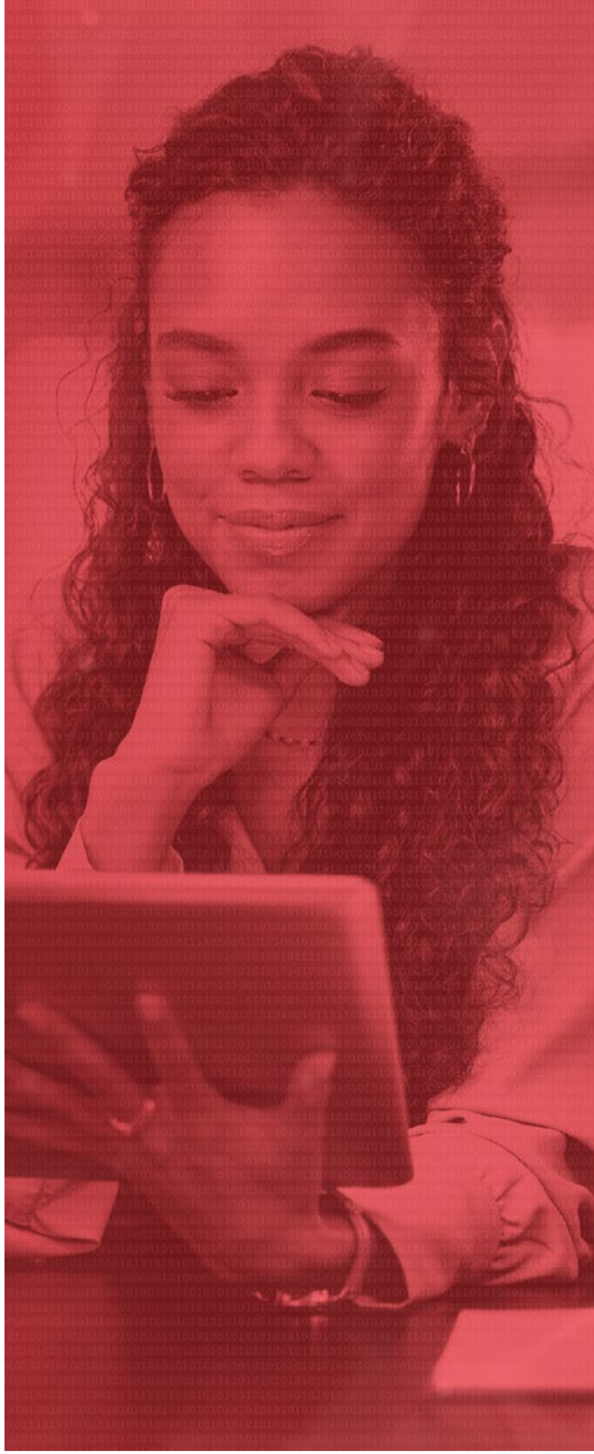
The survey points to plenty of scope to improve FCC, both at the overall level and the supporting activities. Firms are planning initiatives in many areas, investing in technology, improved data quality, training and reorganising FCC activities.

There's some cause for hope. There are high levels of satisfaction with the overall effectiveness of FCC and there is some evidence that this perception is reality. For example, the latest LexisNexis® Risk Solutions Cybercrime report analysed 92 billion global transactions during 2023* and showed that although global digital fraud attack rates rose by 19% year on year, nevertheless the UK attack rate was just 0.2% of all transactions, compared to 1.5% globally, despite a rise in UK transaction volumes of 16% in the corresponding period.

The UK's favourable position is in large part due to volumes of 'trusted' customer traffic accessing UK digital banking services, particularly via mobile app. It is also in part thanks to UK institutions being ahead of the curve in adopting sophisticated tech-based fraud prevention solutions, which help catch much of the traditional, large-scale third-party fraud that remains an issue in most other parts of the world.

The financial services industry recognises the need for greater collaboration to enhance FCC effectiveness, both with the regulator and with one another. There is evidence that the latter is becoming a reality as our first digital banking consortium, founded in the UK in 2019 by two early adopters, now facilitates collaboration between 10 active member organisations, with 37,000 net new contributions added on a near real-time basis every month.

All in all, despite increasing regulatory pressure, a tumultuous geo-political backdrop and a difficult economic climate, there are positive signals in this study that organisations are finding effective ways to manage the high costs of financial crime compliance through driving greater efficiencies and that this is not preventing them from investment in technologies to support greater efficiency and innovation. There are also encouraging signs that the industry continues to improve the effectiveness of measures and controls by introducing new and more rigorous checks throughout the customer journey and evidence that they are investing heavily in new technologies that should drive significant improvements in future in the detection and prevention of financial crime.



* Source: LexisNexis Risk Solutions Cybercrime Report: Confidence Amid Chaos
https://risk.lexisnexis.co.uk/insights-resources/research/cybercrime-report

Survey methodology

A three-step process

Step 1

We surveyed 254 individuals from different types of financial institutions across the financial services industry. As part of this survey, each respondent provided an estimate of the total annual cost of FCC.

Step 2

Using business demography data from the ONS, we estimate that, in 2023, there were 1005 firms* with a turnover of at least £5 million based in the UK across these financial institution types.

Step 3

We scaled up the estimated cost per firm to the total number of businesses to develop an estimate of the total cost of FCC in the UK across surveyed industries.

Business demography data

Aggregating up to a UK Financial Services total compliance cost requires data on the total number of registered firms in the UK by firm size and financial institution type as per the survey. This information has been obtained from the ONS via the NOMIS platform. As shown below, firm size is measured by revenue as opposed to AUM.

Description	Revenue: Less than £5m	Revenue: £5m - £9.999m	Revenue: £10m - £49.999m	Revenue: £50m+
Banks	70	20	60	105
Building societies	295	10	15	10
Other financial service activities, except insurance and pension funding (not including security dealing on own account and factoring) n.e.c.	5,475	95	100	35
Other activities auxiliary to financial services, except insurance and pension funding	22,065	205	245	105
Total	27,905	330	420	255

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* Medium firms have revenues ranging from £5 million up to £50 million. Firms with revenues exceeding £50 million are classed as large firms.

Mapping AUM bands into revenue bands

To translate AUM bands into equivalent revenue bands, we assumed that the average ratio of revenue to AUM was 25%. This was taken from a report by the Investment Association which has undertaken a survey on investment management in the UK for 2022/23*.

Firms in our survey are relatively large compared to registered businesses in the UK in these respective financial institution types. For example, assuming that the smallest firm in our sample had AUM of £25 million, this would still imply a revenue of over £5 million. On this basis, we have assumed that the results from our survey can be used to estimate compliance costs for firms with a turnover of at least £5 million but have not grossed up to account for smaller firms. It is worth noting that although excluded firms cover 97% of all registered businesses, they only account for 3% of turnover, suggesting that this choice does not significantly distort our results.

Given the average relationship between revenue and AUM, we have assumed that firms with AUM of more than £500 million had a turnover of above £50 million. Other firms in the survey were assumed to be representative of UK businesses with a turnover of between £5 million and £49.999 million in relevant SIC codes.

Scaling up

Consistent with the 2022 analysis, the median FCC cost per AUM is calculated and applied to the median AUM size to calculate firm FCC costs.

To better account for volatility in responses, we use the median FCC costs from the 2022 survey along with the estimated growth in FCC costs to calculate the change in the medium firm's FCC costs.

Medium-sized firms have reported an increase in costs over the past three years, albeit at a slower rate than larger firms (78% of the increase reported in larger firms). Consequently, we adjust the growth rate of larger firms by this difference before applying it to the 2022 ratio of FCC cost to AUM.

These costs are then summed to get the total FCC cost figure.

Firm type		**2023**	**2022**	**2020**
Firms with a revenue of between £5m - £49.999m	Number of firms	750	660	675
	Median firm FCC cost (£m)	6.8	6.0	5.3
	Ratio of FCC cost to AUM	2.3%	2.0%	1.8%
	Reported AUM (£mns)	300	300	300
Firms with revenues of more than £50m	Number of firms	255	275	255
	Median firm FCC cost (£m)	130	110	99
	Ratio of FCC cost to AUM	0.43%	0.37%	0.33%
	Reported AUM (£mns)	30,000	30,000	30,000
All firms: Estimated total costs (£bns)		38.3	34.2	28.7

* https://www.theia.org/sites/default/files/2022-09/Investment%20Management%20Survey%202021-22%20full%20report.pdf

For more information, please call 029 2067 8555
or email uk-irl-enquiry@lexisnexisrisk.com

risk.lexisnexis.co.uk

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