SteelEye

The state of

Financial Services Compliance 2023

Annual Compliance Health Check Report

Contents

Executive Summary

2022 was, in many ways, an unprecedented year when it came to global events, and the resilience of the financial markets was truly put to the test.

As the world started to recover from the impacts of the Covid-19 pandemic and related lockdowns, the devastation of the Russia-Ukraine war rippled through the world, triggering widespread supply chain issues and driving up energy prices. And it didn't stop there.

The UK Government saw three different prime ministers in 2022. The crypto market sustained huge blows after the collapse of one of its leading players. Wall Street was hit with fines amounting to $2 billion for the use of unauthorized communications channels.

Inflation soared across most of the world's economies, with many countries at risk of entering an economic recession.

In response, interest rates have increased, which, combined with the war in Ukraine, continues to weigh on economic activity.

All of these factors have put mounting pressure on financial firms and their compliance functions.

At the same time, the collapse of SVB Bank and the troubles at Credit Suisse that we saw in the first quarter of 2023 means that the finance industry is under immense pressure to prove it has learned from past mistakes.

SteelEye's 2022 report highlighted the breadth and complexity of the challenges compliance professionals have faced following events like Covid-19 and years of mounting regulations.

While many firms still grapple with these issues, they now have a new plethora of challenges to contend with, as unveiled in this 2023 Compliance Health Check Report.

The compliance burden is now bigger than ever, as firms face reduced budgets, scrapped technology projects, and smaller teams as a result of the macroeconomic events of 2022. And this comes at a time when regulatory demand is higher than ever.

Consequently and unsurprisingly, compliance costs are on the rise. The majority of financial services firms (76%) reported increased compliance expenditure in 2022, and more than two-thirds (73%) expect to invest more in RegTech over the next 12 months.

However, while costs are going up, they seem to be increasing for the right reason. Nearly 2-in-5 firms (38%) attribute investment in technology as the main driver for the increased costs.

In fact, while challenges and priorities vary across firms of different sizes and those operating in different markets or verticals, all signs point to the increasingly important role of technology in solving compliance challenges in financial services.

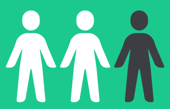
SteelEye's 2023 Compliance Health Check Report highlights the evolving risks and challenges firms and their compliance teams are facing in 2023. It also provides an overview of firms' priorities, compliance expenditure, and the adoption of technologies like artificial intelligence and machine learning.

2022’s Macro Events and Impacts
Overview

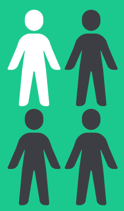
- **Impact of the Ukraine war, increased interest rates, and inflation.**
- **Risk-taking in a recession environment.**
- **Crypto appetite following the FTX collapse.**
- **Repercussions of mass redundancies and layoffs in financial services.**
- **The state of communications monitoring following the $2 billion Wall Street fines.**

KEY FINDINGS

45% of firms have scrapped certain technology projects because of **the war in Ukraine, increased interest rates, and inflation.**



62% are concerned about traders or portfolio managers taking more risk **in a recession environment.**



25% have less appetite to deal with high-risk alternative assets **following the FTX collapse.**

41% of firms believe compliance teams will be faced with a heavier workload **on the back of mass redundancies and layoffs.**

71% are investing in eComms monitoring **in response to the increased fines** over the last 18 months.

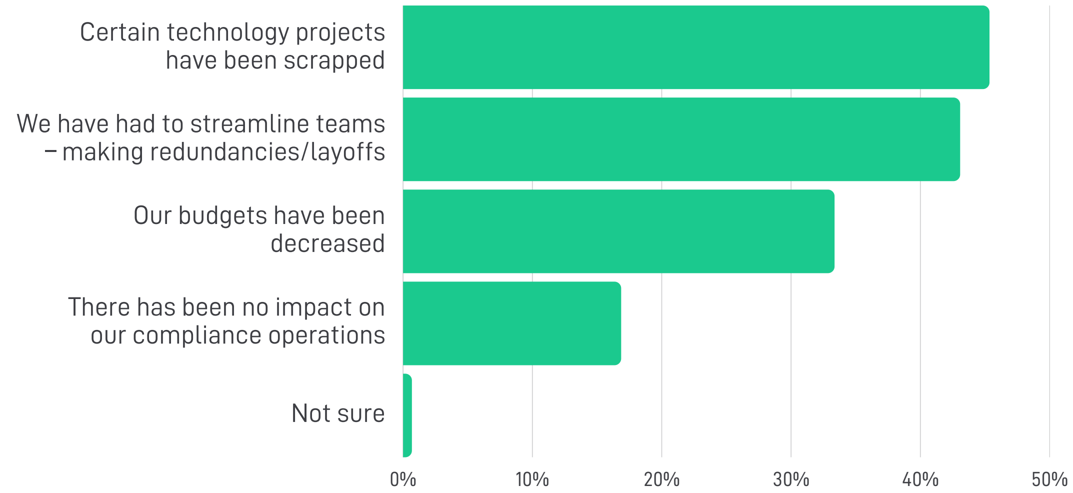
Impact of the Ukraine war, increased interest rates, and inflation

45% of firms have scrapped certain technology projects because of the war in Ukraine, increased interest rates, and inflation.

43% of firms have had to make redundancies or layoffs, and 33% have seen budgets cut. Only 17% of firms have felt no impact.

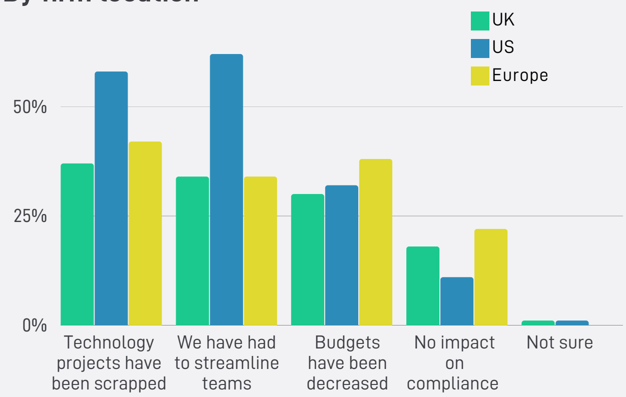
The effects have been felt the strongest in the US, where only 11% have been unaffected (compared to 18% in the UK and 22% in Europe), and in companies with less than 500 employees, where only 12% have been unaffected, compared to 23% in larger firms.

What, if anything, explains how the war in Ukraine, increased interest rates, and inflation has impacted your firms' compliance operations? (Select all that apply)

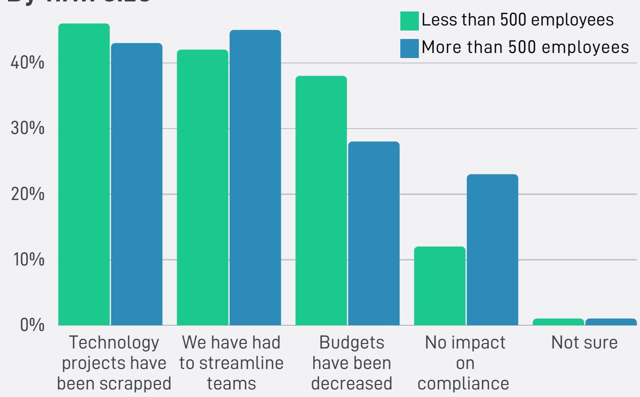


*Percentages do not add up to 100% due to multiple responses

By firm location



By firm size



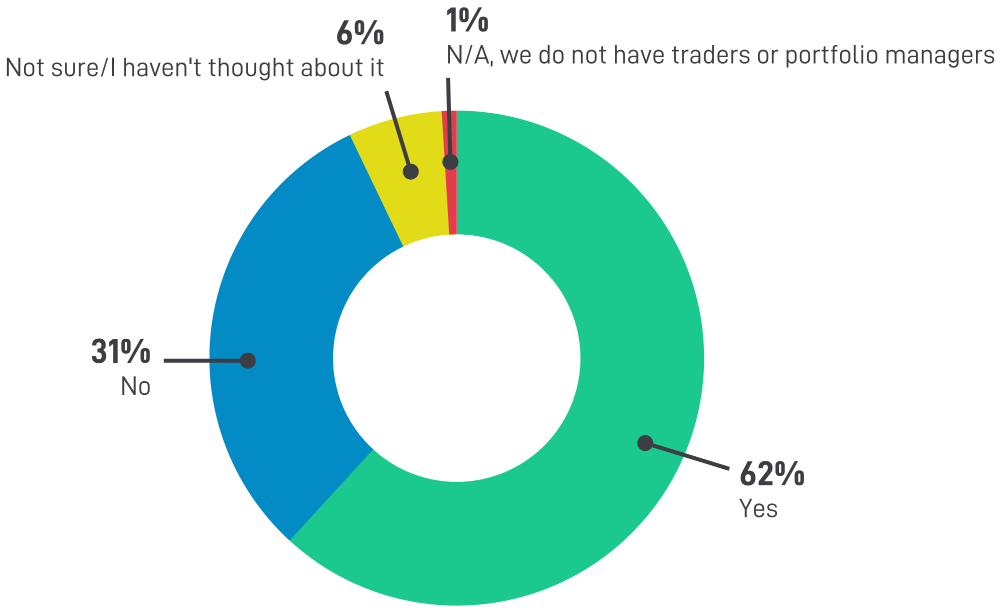
Risk-taking in a recession environment

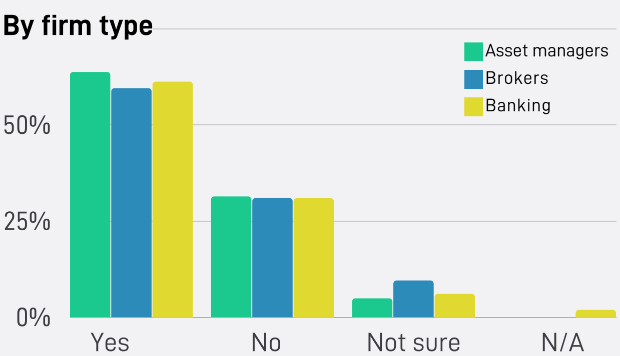
Nearly two-thirds (62%) of firms are concerned about traders and portfolio managers taking more risks in the pursuit of performance in a recession environment.

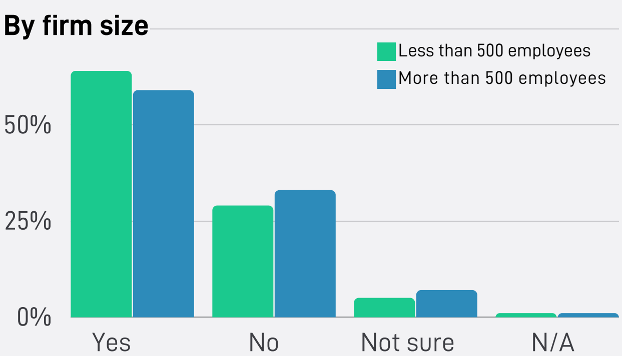
These results are consistent across business types but differ when it comes to firm size and location. In the US, 69% of firms are concerned about traders and portfolio managers taking more risks in a recession environment. These concerns are marginally lower in the UK (65%) and lowest in Europe (52%).

Smaller firms (less than 500 employees) are also marginally more worried about this than larger firms, with 64% raising concerns, compared to 59%. Firms with more than 500 employees are likely to have larger teams and as a result, perhaps more sophisticated risk controls.

In a recession environment, are you worried about your traders or portfolio managers changing their behavior and taking more risk in the pursuit of performance?







Crypto appetite following the FTX collapse

The FTX collapse has only impacted crypto appetite for 25% of firms, while 66% remain undeterred.

The FTX collapse has only deterred a quarter of firms from dealing in high-risk alternative assets such as crypto. Appetite is the same among 44% of firms and has increased for 22%. Only 9% don't deal with alternative assets.

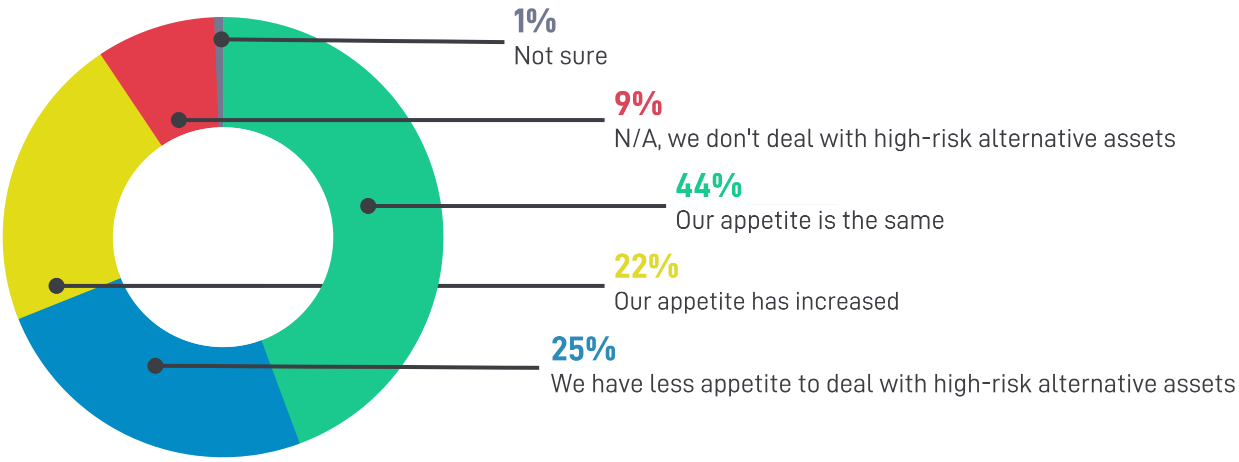
Analyzing the US results tells a different story. In the US, appetite has decreased by 40% and only 27% of firms say their appetite has stayed the same.

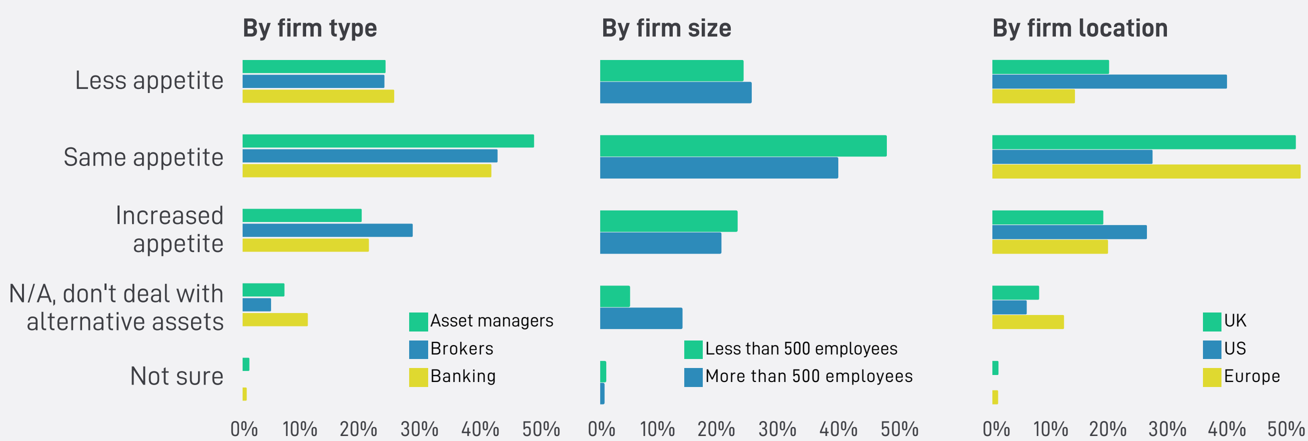
A higher proportion of large firms don't deal in alternative assets (14%), compared to only 5% among smaller firms of less than 500 employees. However, appetite among those firms that do deal in these high-risk assets doesn't change much depending on organizational size.

Nearly one-third of brokers (29%) have a higher appetite off the back of the FTX collapse, compared to 20% and 21% among asset managers and banks respectively.

Meanwhile, 11% of banks don't deal in these assets, compared to 7% among asset managers and 5% among brokers.

Has the FTX collapse impacted your firm's appetite to deal in high-risk alternative assets such as crypto?





2022'S MACRO EVENTS AND IMPACTS

Repercussions of mass redundancies and layoffs in financial services

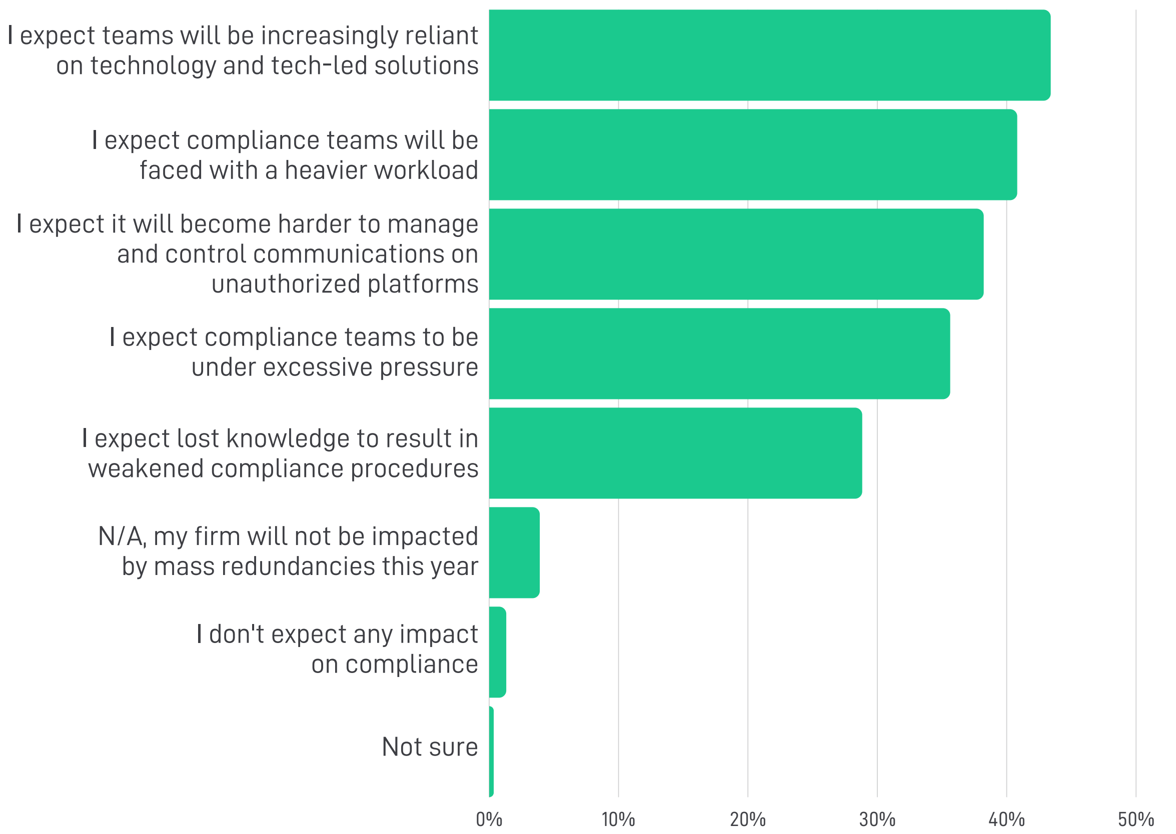
Mass redundancies and layoffs will have a significant impact – only 1% believe there will be no effect.

When asked about the impact of mass redundancies or layoffs within financial services, 43% of firms said they believe it will increase the reliance on tech and tech-led solutions. This increases to half (50%) in the US and drops to 41% in Europe and 40% in the UK.

41% of firms believe compliance teams will be faced with a heavier workload off the back of redundancies, while 38% worry it will become harder to manage and control communications on unauthorized platforms. This increases to 42% in the US, where we continue to see a significant regulatory crackdown on communications compliance.

Half of all banks believe compliance teams will be faced with a heavier workload, while 47% of asset managers and brokers believe teams will become increasingly reliant on technology and tech-led solutions.

What do you expect the impact of mass redundancies will have on compliance in financial services this year? (Select all that apply)



*Percentages do not add up to 100% due to multiple responses

The state of communications monitoring following the $2 billion Wall Street fines

71% of firms are investing in the monitoring of relevant eComms channels in response to increased fines over the last 18 months.

42% have fully implemented monitoring of relevant eComms channels, while an additional 29% have started projects to bring in monitoring of relevant channels.

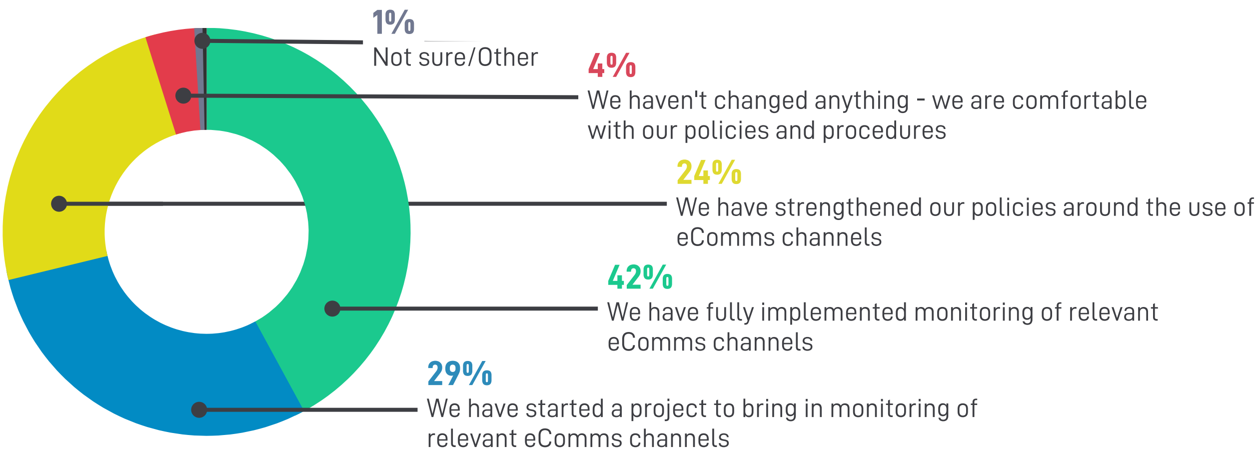
When it comes to eComms, firms typically have two options to ensure they are operating compliantly. The first option is to ban specific channel through policy. The second option is to store and monitor communications on the channel through technology.

The US is leading the way when it comes to communications monitoring, evidenced by the fact that only 16% of US firms responded to the fines by strengthening their policies, compared to 32% in the UK and 25% in Europe.

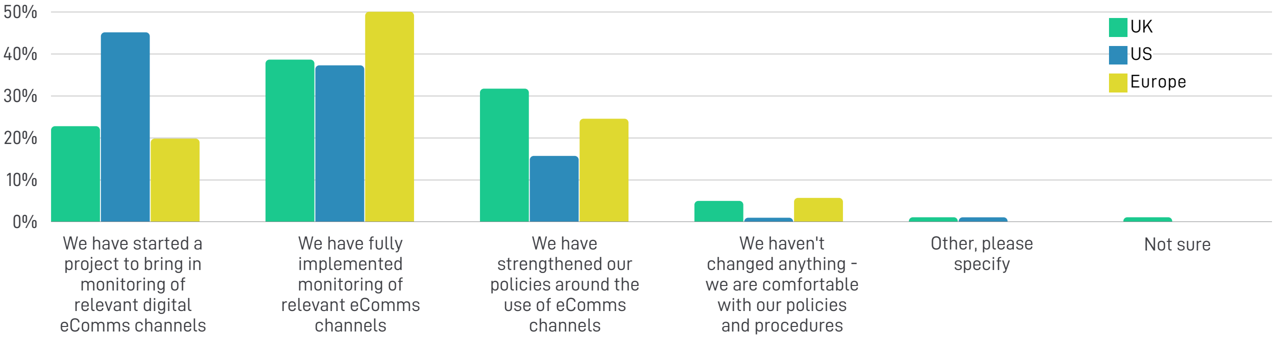
Instead, 82% of firms in the US are investing in eComms monitoring, with 45% having started projects to bring in monitoring of relevant channels and 37% having fully implemented monitoring of relevant channels.

This total drops to 70% in Europe and to 61% in the UK. However, in Europe, half of all firms (50%) have fully implemented monitoring of relevant eComms channels, which is higher than in the UK and the US.

What, if anything, best explains how your firm has responded to the increased fines around communications monitoring of electronic channels like WhatsApp?



By firm location



2022'S MACRO EVENTS AND IMPACTS

The state of communications monitoring following the $2 billion Wall Street fines

Firms are expanding their eComms coverage, with 50% now monitoring WhatsApp.

50% of firms are now monitoring WhatsApp, compared to 15% in 2022. 35% started monitoring the channel in the last 12 months. Zoom has also been incorporated into 34% of financial firms monitoring programs over the last 12 months.

The US is leading the way with WhatsApp and Zoom adoption.

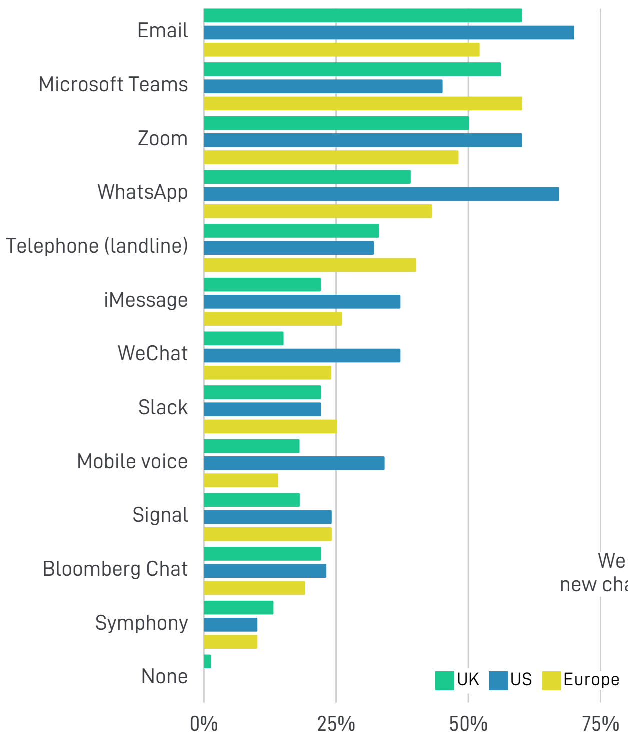
After email, the most commonly monitored channel in the US is WhatsApp, monitored by 67% of firms, compared to 39% in the UK and 43% in Europe.

54% of US firms started monitoring WhatsApp in the last year, compared to 24% and 28% in the UK and Europe respectively.

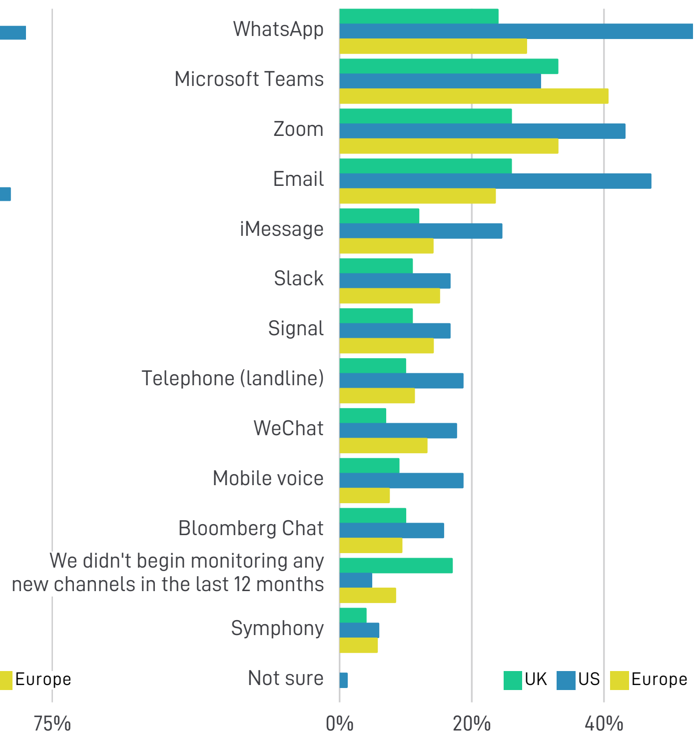
The percentage of firms monitoring Zoom is also higher in the US, where 60% monitor the channel, compared to 50% in the UK and 48% in Europe.

While voice capture is not a requirement in the US, 32% of firms capture telephone and 34% mobile voice. 37% started monitoring these channels in the last 12 months.

What communications channels do you currently capture and monitor, if any? (Select all that apply)



Of the channels you capture and monitor, which have you started monitoring in the last 12 months? (Select all that apply)



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The state of communications monitoring following the $2 billion Wall Street fines

Bigger doesn't equal better when it comes to communications compliance.

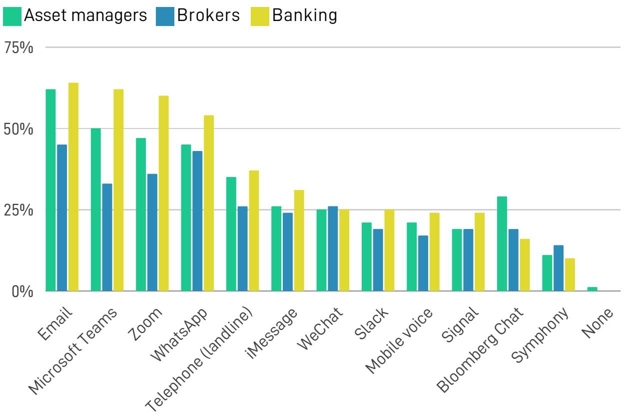
The proportion of firms monitoring email increases as firms get bigger in size. However, this is not the case for more modern channels like WhatsApp, WeChat, and Zoom, where adoption is lower in larger firms. The same trend can be seen if we look at the channels that have been adopted in the last 12 months. Smaller firms have increased their levels of monitoring across a wider range of channels. However, a higher proportion of large firms started monitoring Teams and Zoom.

Banks lead the way with Teams, WhatsApp, and Zoom monitoring.

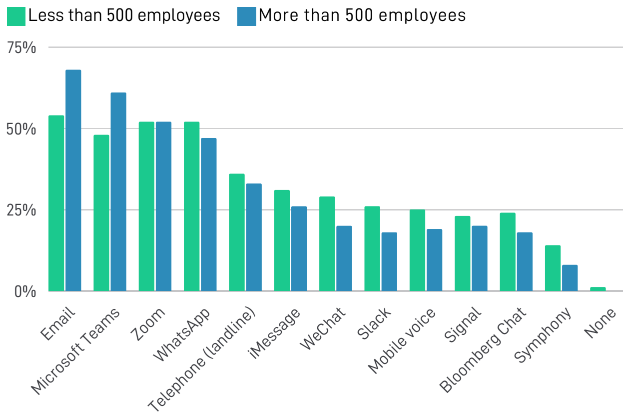
54-62% of banks capture and monitor Teams, WhatsApp, and Zoom, of which 30-45% began monitoring these channels in the last 12 months. Among asset managers, 40-50% are monitoring Teams, Zoom, and WhatsApp. This drops to 33-43% among brokers. Bloomberg chat monitoring is highest among asset managers, but telephone and mobile voice capture is highest among banks.

What communications channels do you currently capture and monitor, if any? (Select all that apply)

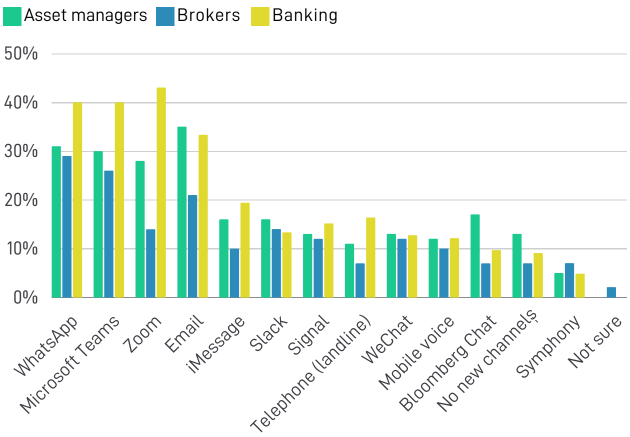
By firm type

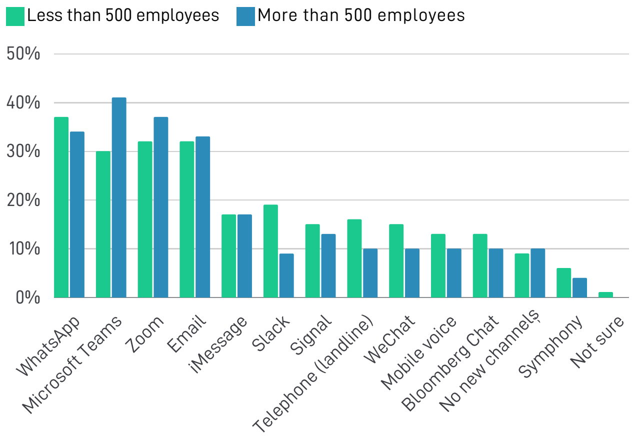


By firm size



Of the channels you capture and monitor, which have you started monitoring in the last 12 months? (Select all that apply)



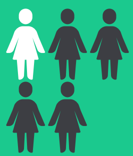


2023's Compliance Challenges
Overview

- **Most common compliance challenges in 2023.**
- **Biggest compliance challenges in 2023.**

KEY FINDINGS

38% of firms struggle with using Management Information (MI) efficiently to demonstrate **compliance risk to the business.**



Nearly 1-in-5 firms (19%) view managing market abuse and manipulation risk as their single **biggest compliance challenge.**

2023'S COMPLIANCE CHALLENGES

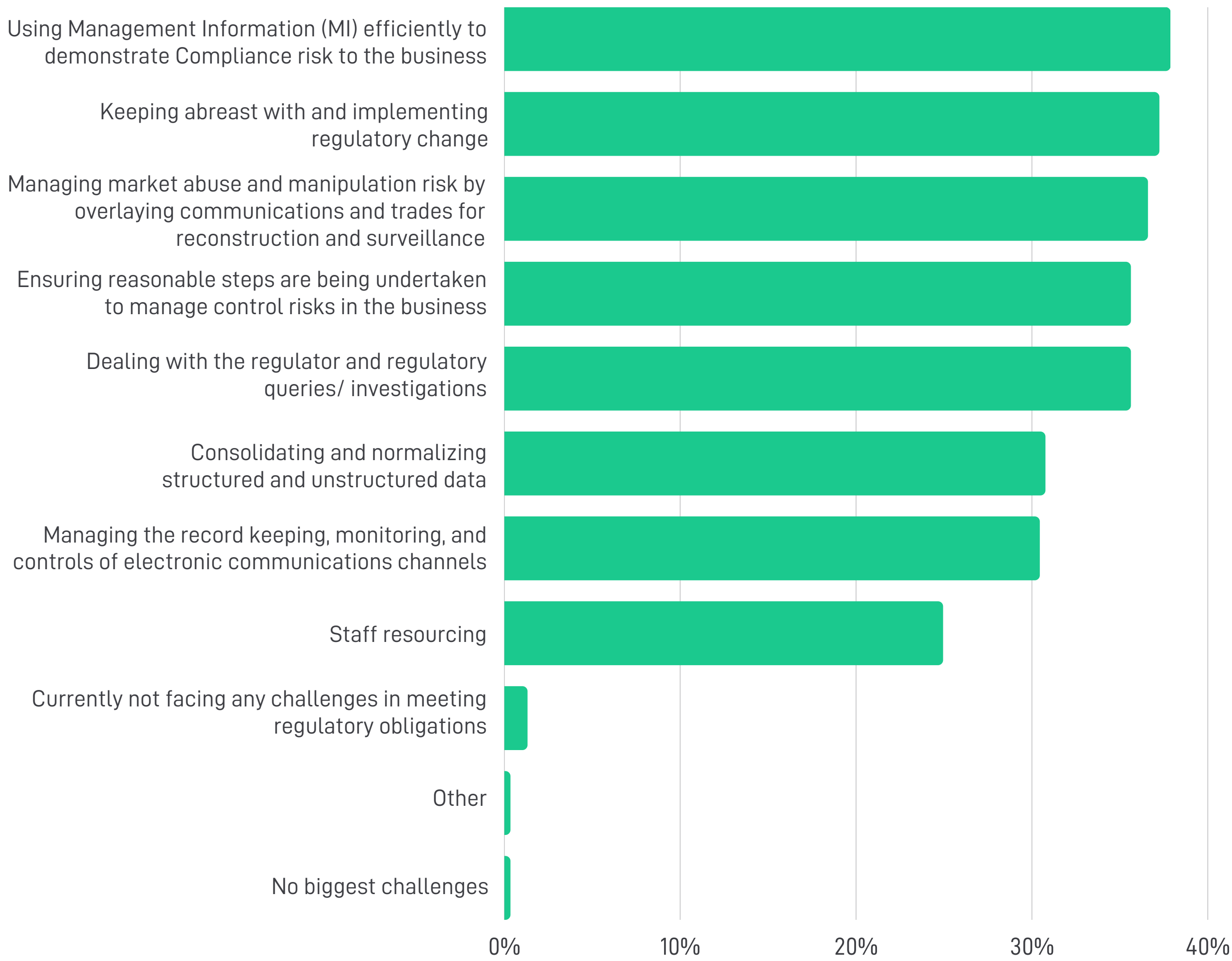
Most common compliance challenges in 2023

Using management information is the most common compliance challenge.

Nearly 2-in-5 firms (38%) struggle with using Management Information (MI) efficiently to demonstrate compliance risk to the business, with 37% grappling with keeping abreast with regulatory change, and 36.5% finding managing market abuse and manipulation risk a challenge.

Only 1% of firms are not facing any challenges in meeting their regulatory obligations, and less than 0.5% say they have no single biggest challenge.

What is the biggest challenge(s) you currently face in meeting your regulatory obligations, if anything? (Select up to 3)



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Most common compliance challenges in 2023

Challenges vary depending on the region, size, and business type.

In the UK, the two most common challenges, both selected by 42% of firms, are managing regulatory change and dealing with regulatory queries/investigations. Staff Resourcing is the least common challenge.

In Europe, the most common challenge, selected by 41%, is keeping abreast with and implementing regulatory change, followed by using MI to demonstrate compliance risk to the business (38%).

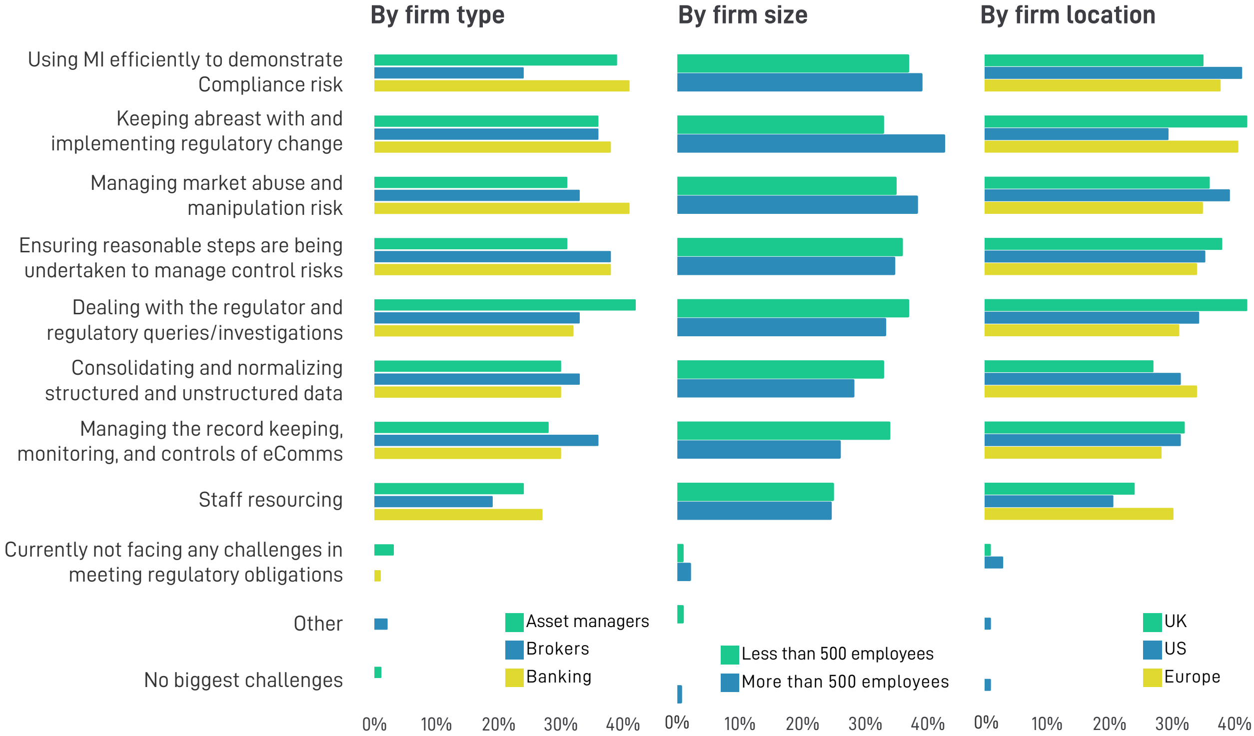
In the US, just over 2-in-5 (41%) struggle with using MI, while 39% find managing market abuse and manipulation risk challenging.

Unlike the UK and Europe, where keeping up with regulatory change is one of the most widespread challenges, it is the second lowest challenge in the US, felt by only a third of firms (29%).

It is possible that this could be due to the differences in the implementation of regulations between Europe and the US. The European and UK regulators tend to be much more prescriptive, while US regulations leave more room for interpretation.

Dealing with the regulator and regulatory investigations is the most common challenge among asset managers, selected by 42% of firms. For brokers, this shifts to ensuring reasonable steps are being undertaken to manage control risks, selected by 38%. For banks, the most common challenge is shared between using MI efficiently to demonstrate compliance risk and managing market abuse and manipulation risk. While a large proportion of banks and asset managers struggle with using MI, this is not as common of a challenge among brokers.

What is the biggest challenge(s) you currently face in meeting your regulatory obligations, if anything? (Select up to 3)



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Biggest compliance challenges in 2023

Managing market abuse and manipulation risk overtakes keeping abreast with regulatory risk as the single biggest challenge.

Nearly 1-in-5 firms (19%) view managing market abuse and manipulation risk by overlaying communications and trades for reconstruction and surveillance as their biggest compliance challenge in 2023. This is an increase of 36% on the 2022 results when only 14% of firms selected this as their biggest challenge.

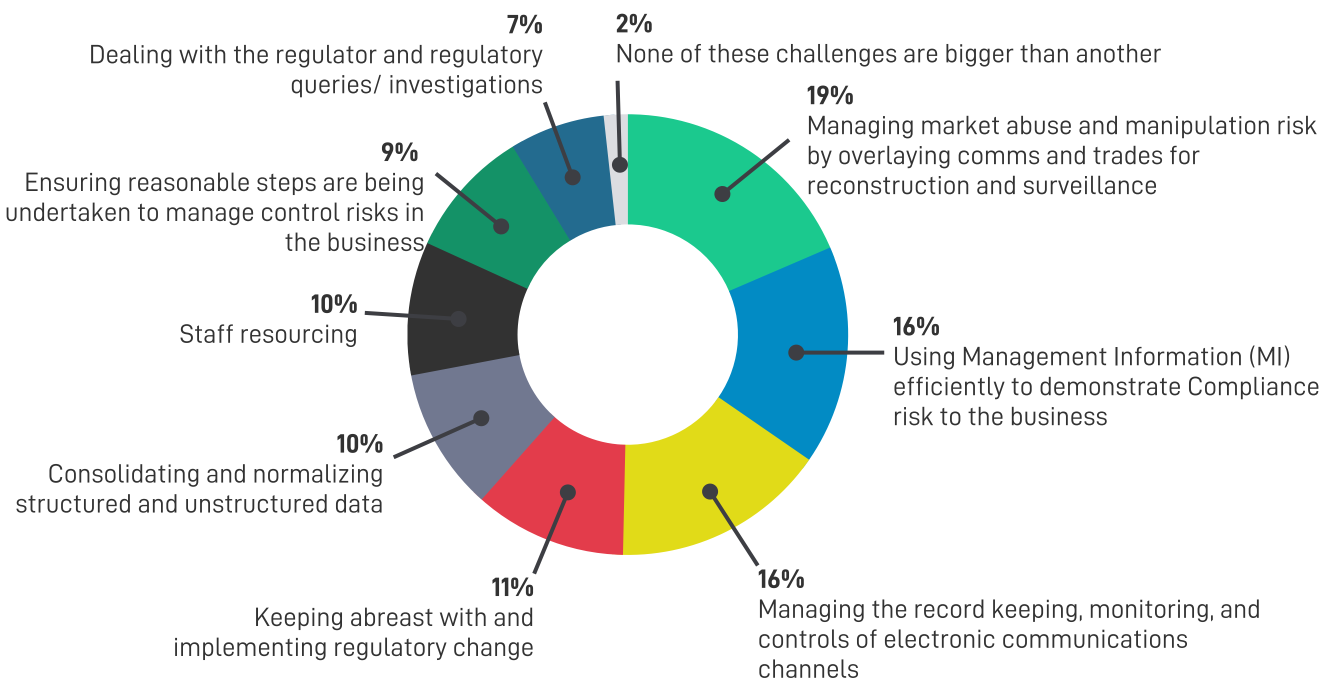
In 2022, the single biggest challenge was keeping abreast with regulatory change (selected by 20% of firms). In 2023, this was selected by 44% fewer firms. Later in this report, we learn that 76% of firms have experienced an increase in compliance costs over the last 12 months, which 38% of firms attribute to investments in technology. Perhaps these investments have made firms better technically adept to deal with regulatory change.

At the same time, regulators in both the UK and the US have increased their focus on market abuse and manipulation in the last 18 months, which could explain why managing market abuse and manipulation risk has emerged as the biggest challenge for 19% of firms.

Managing the record keeping, monitoring, and controls of electronic communications channels is the biggest challenge for 16%, which is hardly surprising given the communications crackdown of 2022. This figure increases to 19% when looking specifically at the US.

Ensuring reasonable steps are being undertaken to manage control risks in the business was selected by 43% fewer firms in 2023, from 16% of firms in 2022 to 9% in 2023.

Of the challenges you currently face in meeting your regulatory obligations, which is the biggest?



2023'S COMPLIANCE CHALLENGES

Biggest compliance challenges in 2023

UK firms struggle with data management while US firms grapple with market manipulation risk.

In the UK, 18% of firms view managing market abuse and manipulation risk or managing the record keeping, monitoring, and controls of electronic communications channels as their single biggest compliance challenge. This is in contrast to 2022 when the top challenge was keeping abreast with regulatory change.

All of these challenges, along with consolidating and normalizing structured and unstructured data, deal with the management of data – meaning that the top challenge experienced by 62% of UK firms is related to data management.

In the US, over 1-in-5 firms (23%) view managing market abuse and manipulation risk as their biggest challenge. This is 109% higher than the 11% in 2022. In 2022, the biggest challenge felt in the US was ensuring reasonable steps were being undertaken to manage control risks in the business, which was only selected by 9% of firms in 2023, compared to 23% in 2022.

Large firms struggle with using MI while smaller firms grapple with market manipulation risk.

Among firms with 500 employees or more, the biggest single challenge (selected by 19% of firms) is using MI. For smaller firms, this changes to managing market manipulation risk (selected by 20%).

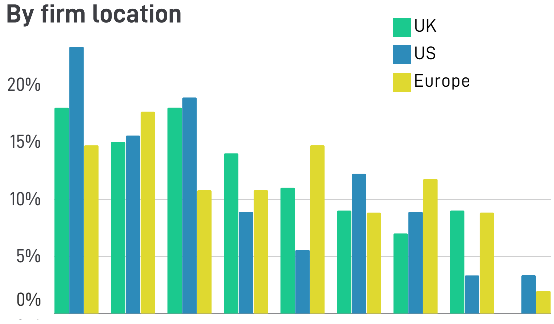
Asset managers struggle with market abuse.

The single biggest challenge among asset managers is managing market abuse and manipulation risk, selected by 17% of firms. This compares to 2022, where asset managers' biggest challenge was keeping abreast with regulatory change.

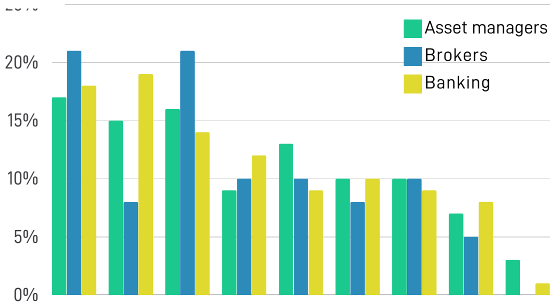
For brokers, the top challenge is tied between managing market abuse risk and managing controls of eComms, while using MI efficiently is the single biggest challenge for 19% of banks.

Of the challenges you currently face in meeting your regulatory obligations, which is the biggest?

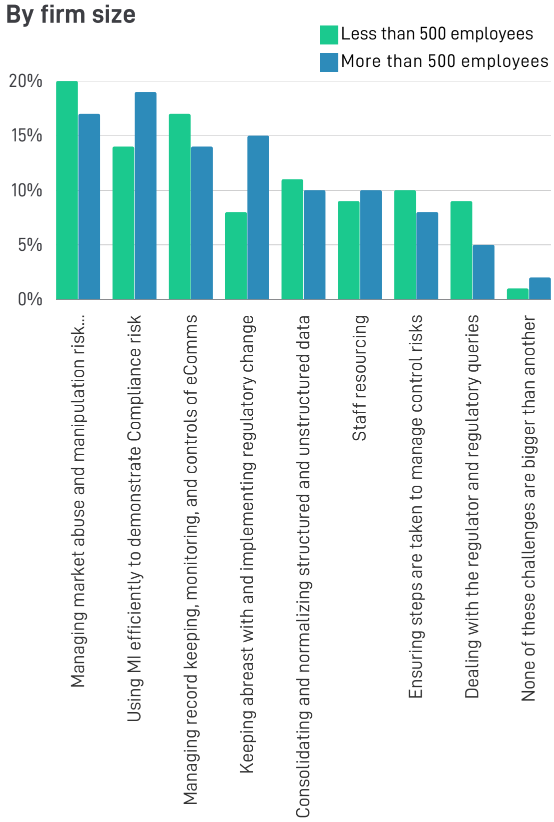
By firm location



By firm type



By firm size

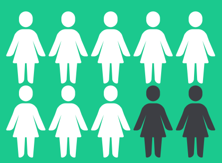


Compliance Priorities for the Year Ahead
Overview

- **Enhancing data quality is 2023's biggest compliance priority.**
- **Firms are investing in Communications and eComms surveillance.**
- **Beyond Comms Surveillance, US firms are prioritizing archiving while UK firms are focusing on regulatory reporting.**

KEY FINDINGS

22% of firms view enhancing data quality **as their top investment priority.**



77% of firms are investing in **Communications and eComms surveillance.**

COMPLIANCE PRIORITIES FOR THE YEAR AHEAD

Enhancing data quality is 2023's biggest compliance priority

22% of firms view enhancing data quality to improve the information being provided to the board and the executive committees as their top investment priority.

This compares to 2022, when the biggest priority was managing regulatory change and implementation of projects, selected by 34% of firms.

In the US and Europe, enhancing data quality remains the top priority, selected by a fifth (20%) and a fourth of firms (26%) respectively. However, in the UK, managing regulatory change and implementation of projects is the top priority, selected by nearly a third of firms (29%). This was the highest priority in the UK in 2022 as well.

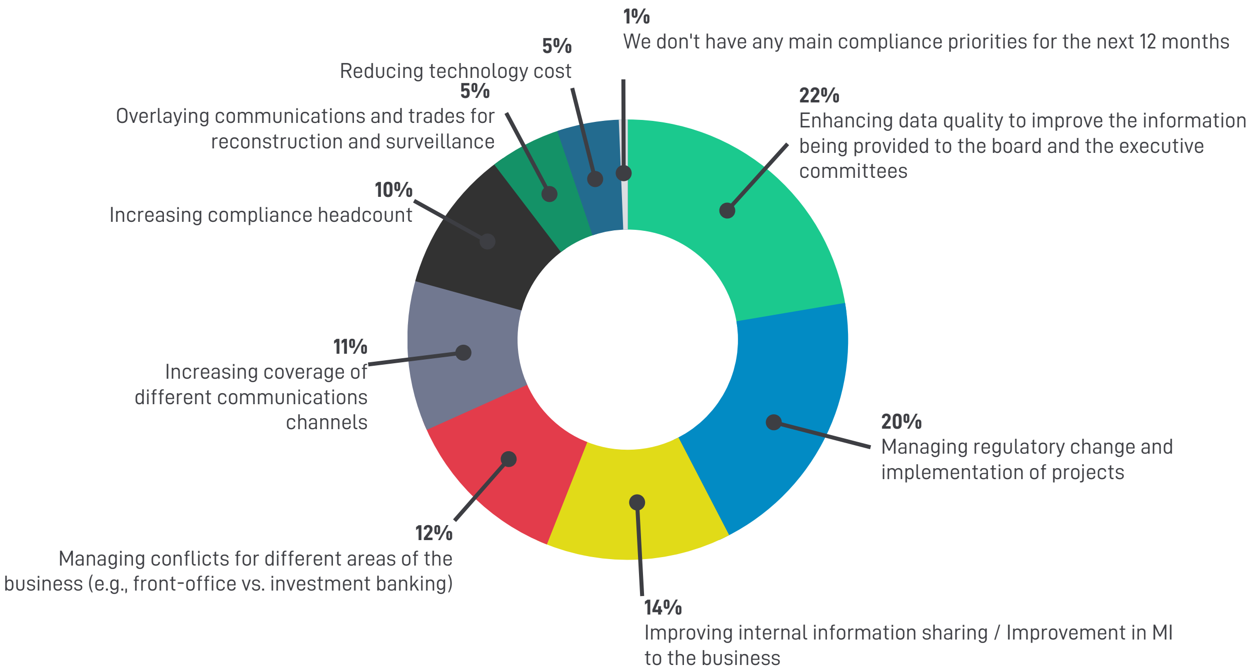
Only 5% of firms view reducing technology costs as a priority - indicating a readiness to maintain spend or invest in technology to strengthen compliance operations.

Despite the communications crackdown of the past 18 months, only 11% of firms view increasing the coverage of different communications channels as their top priority. That's not necessarily to say that it isn't a priority, it may simply be a case of other priorities being higher on the list.

A quarter of all asset managers are prioritizing how to manage regulatory change, compared to 45% in 2022. One-fifth are focusing on managing conflicts in different areas of the business. This was only a priority for 5% of asset managers in 2022.

Enhancing data quality is the top priority for just over 1-in-5 brokers (21%). This increases to just under 1-in-3 (30%) for banks. This echoes the results from 2022, where data quality was a top priority for 25% of brokers and 33% of banks.

In the next 12 months, what will be your main Compliance priority, if anything?



COMPLIANCE PRIORITIES FOR THE YEAR AHEAD

77% of firms are investing in communications and eComms surveillance

In 2022, regulatory reporting was the most common investment priority for firms. Unsurprisingly, this has been overtaken by communications or eComms surveillance in 2023.

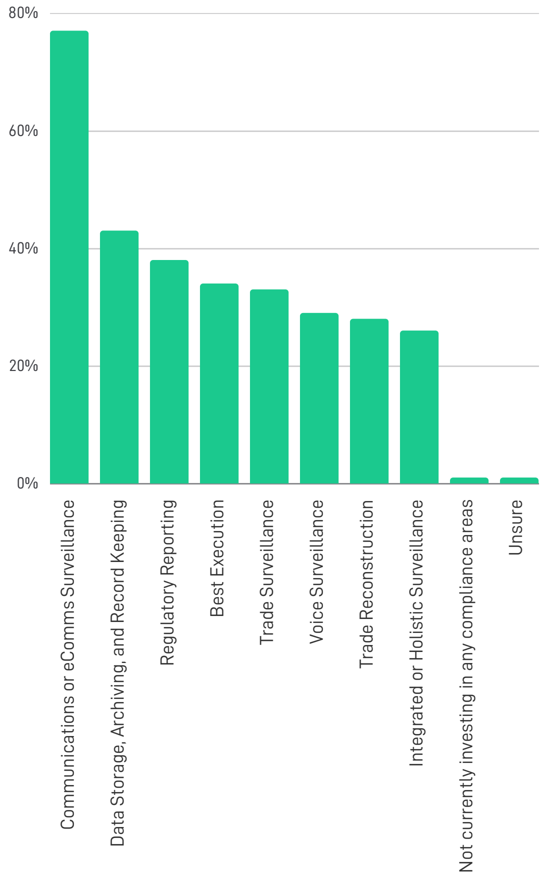
77% of firms are investing in communications or eComms surveillance in 2023, and 25% of firms view this as their top investment priority. This compares to 2022, where only 41% of firms prioritized communications surveillance.

This is likely in response to the intense regulatory focus on communications compliance in 2022 and is closely linked to the second-highest investment area, record keeping and archiving, which was selected by 43% of firms.

Integrated surveillance has had a 100% year-on-year increase, selected as an investment area by 26% in 2023 compared to 13% in 2022, and 10% of firms view it as their top investment priority.

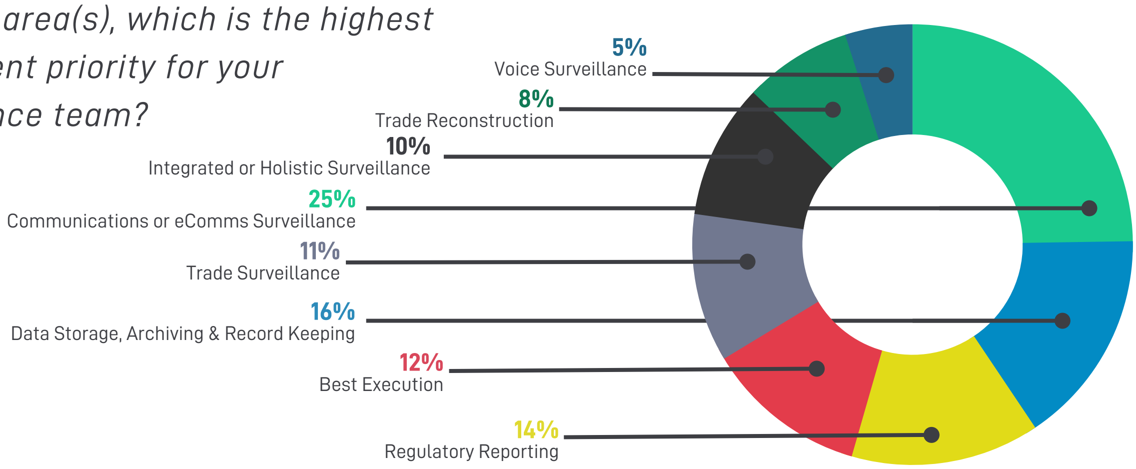
This is a promising sign that the industry is changing its views on the practice. For a long time, there has been a belief that integrated (or holistic) surveillance can solve key challenges associated with supervision. However, adoption has remained low. In today's landscape, there are powerful solutions that enable financial firms to consolidate trades and communications surveillance tools in a single platform for global rules - and it is great that financial firms are increasingly making this a priority.

What area(s) is your firm investing in from a compliance perspective, if any? (Select all that apply)



*Percentages do not add up to 100% due to multiple responses

Of these area(s), which is the highest investment priority for your compliance team?



COMPLIANCE PRIORITIES FOR THE YEAR AHEAD

Beyond communications surveillance, US firms are prioritizing archiving while UK firms focus on regulatory reporting

86% of US firms are investing in communications surveillance, and 50% are investing in data storage, archiving, and record keeping. This is likely in direct response to the heightened focus on communications compliance by US regulators, where we have seen record-high fines for compliance breaches in the last 18 months.

In Europe, 37% of firms are investing in trade surveillance.

In the UK, 78% are investing in communications surveillance and 47% in regulatory reporting.

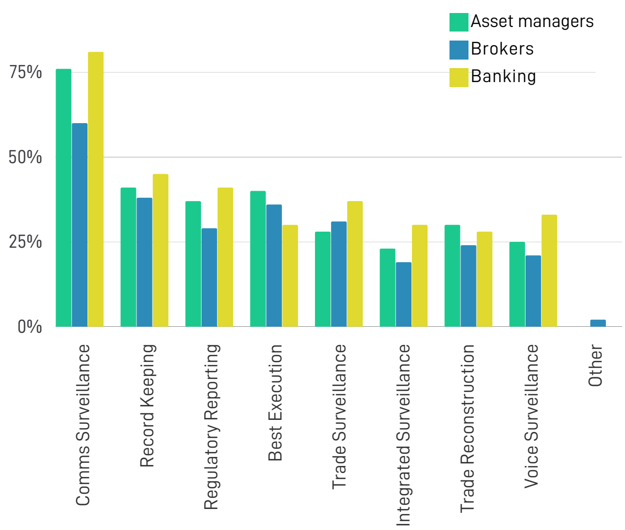
In 2022, the FCA confirmed the removal of RTS27/28 reporting requirements, which could be why regulatory reporting is no longer the top priority like it was in 2022.

However, the reporting landscape is still complex post-Brexit, and there are upcoming regulatory changes like the EMIR Refit, which will continue to challenge firms.

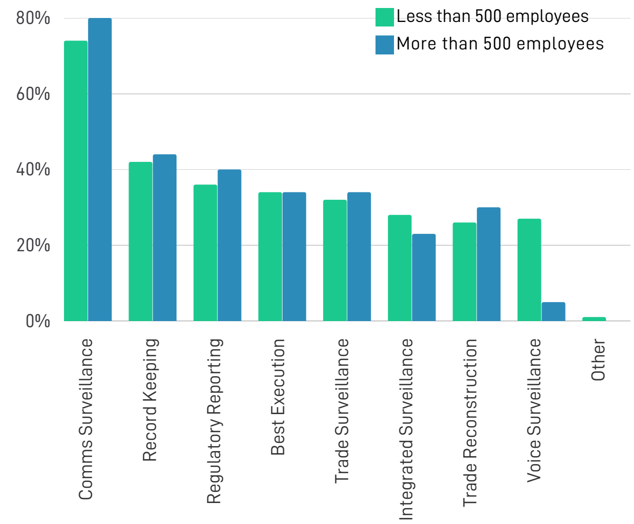
What area(s) is your firm investing in from a compliance perspective, if any? (Select all that apply)

By firm location

By firm type



By firm size



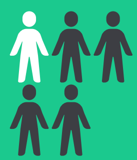
*Percentages do not add up to 100 due to multiple responses

Investment and Expenditure
Overview

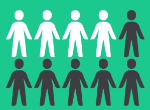
- Compliance costs are on the rise.
- Investment in technology is the main driver of increased costs.
- RegTech investment skyrocketed in 2022.
- RegTech investment set to rise in 2023.
- Compliance is responsible for a significant part of expenditure.

KEY FINDINGS

76% of firms say compliance costs have **increased in the last year.**



18% of firms spent more than **£2m/$2.6m on RegTech in 2022.**



38% believe investment in technology **is driving up these costs.**

73% of firms expect to invest more **in RegTech in the next 12 months.**

Compliance is responsible for **31% of expenditure.**

INVESTMENT AND EXPENDITURE

Compliance costs are on the rise

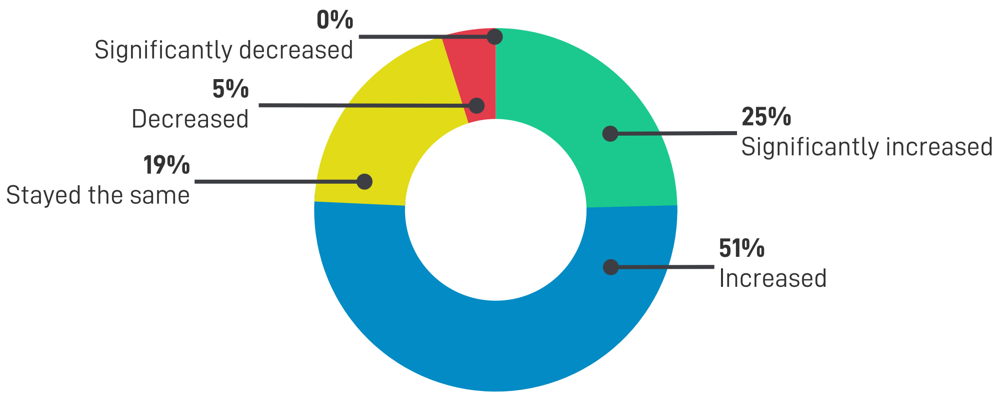
76% say costs have increased in the last year.

The clear message is that compliance costs are rising, with 1-in-4 respondents saying that compliance expenditure has significantly increased over the past year, with just 5% saying it has decreased.

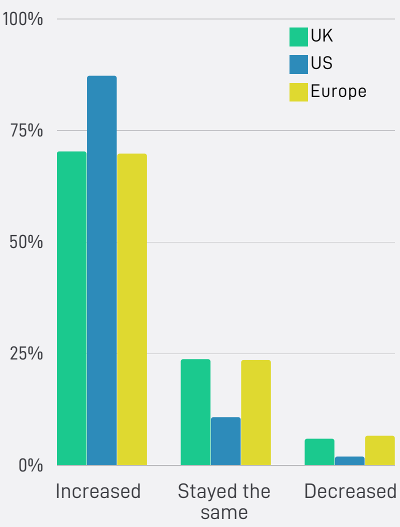
The impact is slightly higher for larger firms, with 78% reporting increased costs.

Compliance costs among US-based firms have risen the most, with 87% of respondents reporting increases in this area. This compares to 70% for whom compliance costs have increased in the UK and Europe. Banks have experienced the largest cost increases, with 81% reporting higher costs. This is followed by asset managers at 72% and brokers at 67%.

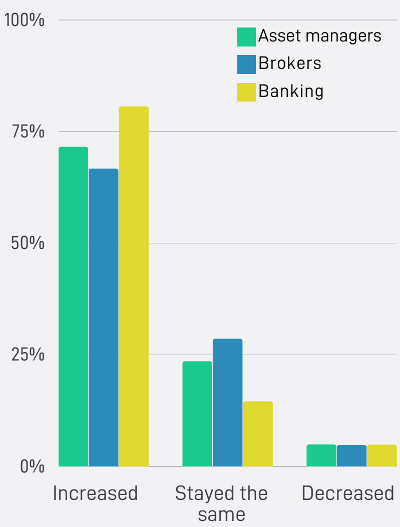
How has your firm's compliance expenditure changed over the last year?



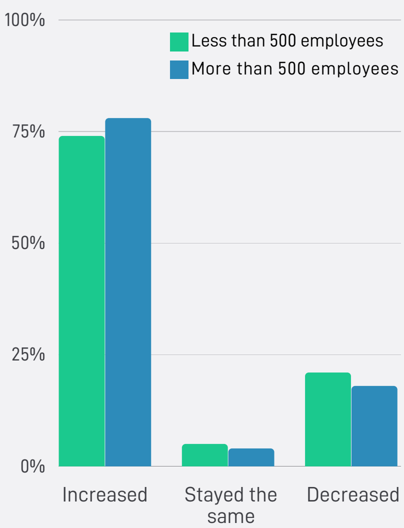
By firm location



By firm type



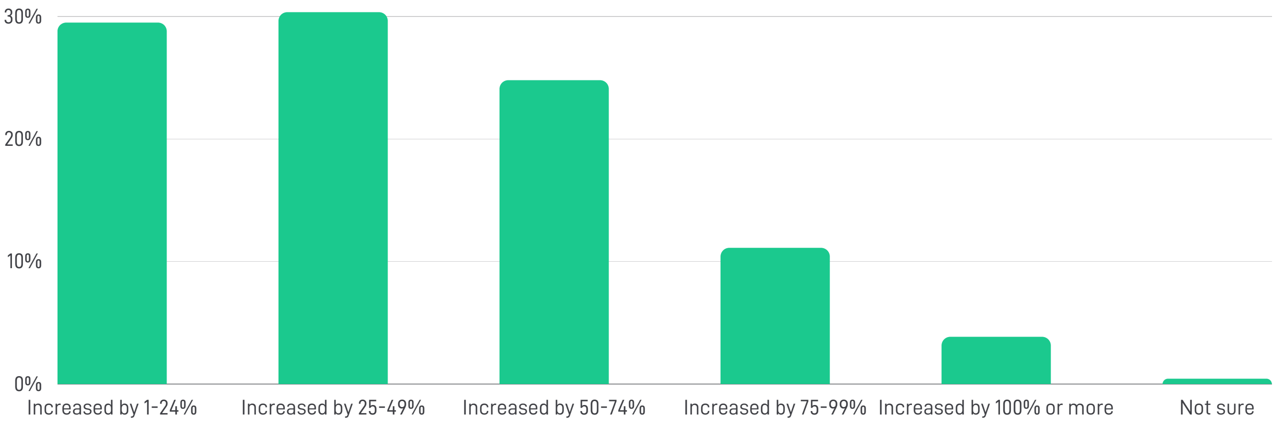
By firm size



INVESTMENT AND EXPENDITURE

Compliance costs are on the rise

As you said that your firm's compliance expenditure has increased in the last year, by how much has it increased?



Compliance costs have increased by an average of 44% in the last year.

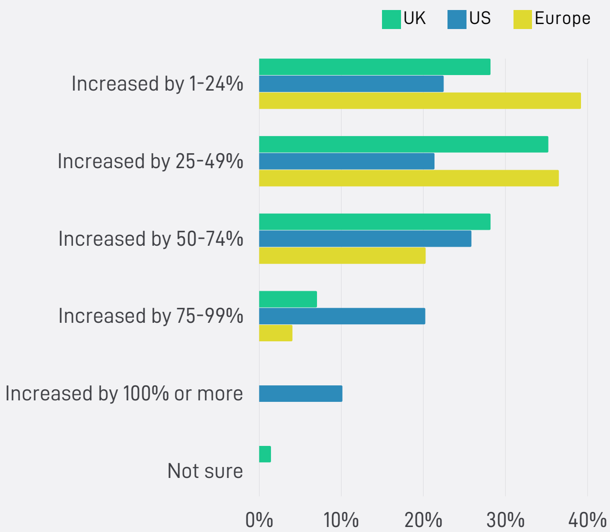
Compliance expenditure has increased by more than 50% for 2-in-5 firms, of which 4% of firms have seen expenditure double.

30% have seen an increase of between 25% and 49%.

In the US, 1-in-3 firms (30%) saw an increase of more than 75%. In the UK, this figure drops to 7%, and 4% in Europe. In fact, in the UK and Europe, no firm saw expenditure double.

There is little difference between business type and size segments.

By firm location



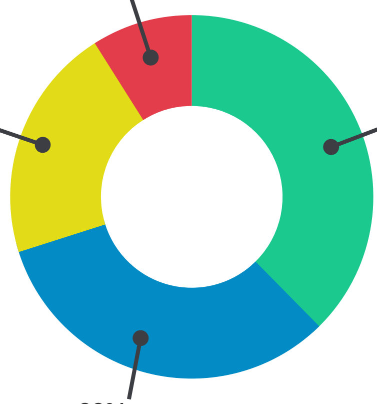
INVESTMENT AND EXPENDITURE

Investment in technology is the main driver of increased costs

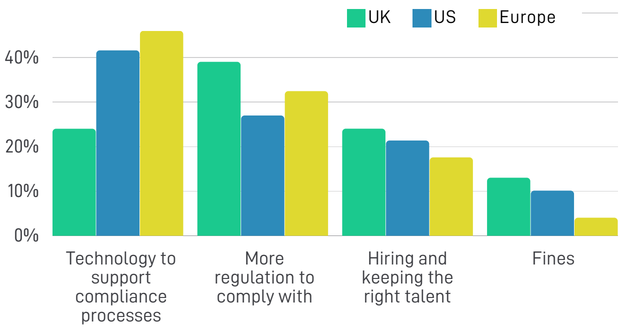
Nearly 2-in-5 firms (38%) believe investment in technology is driving up these costs.

This is closely followed by more regulations to deal with, selected by 32% of firms. Factors like the increased regulatory scrutiny we saw in 2022 are clearly having an impact – with firms investing in new systems to keep up.

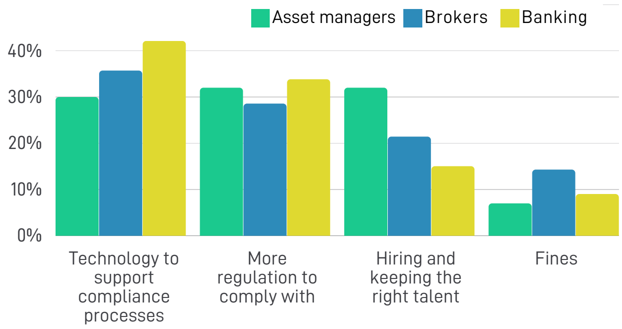
As you said that your firm's compliance expenditure has increased in the last year, in your opinion, what do you think is the main factor driving up these compliance costs?



By firm location



By firm type



In Europe, nearly 50% of firms believe technology is the main driver, followed by more regulation to comply with at 33%. The story is the same in the US, whereas more regulation to comply with is seen as the main driver in the UK, selected by 39% of firms. This could be a reflection of the complexities presented to British firms in the post-Brexit landscape.

1-in-3 asset managers view hiring and retaining talent or more regulation to comply with as the driver for the increased costs. However, for the sell-side (banks and brokers), investment in technology is the main driver. Results are consistent across businesses of different sizes.

INVESTMENT AND EXPENDITURE

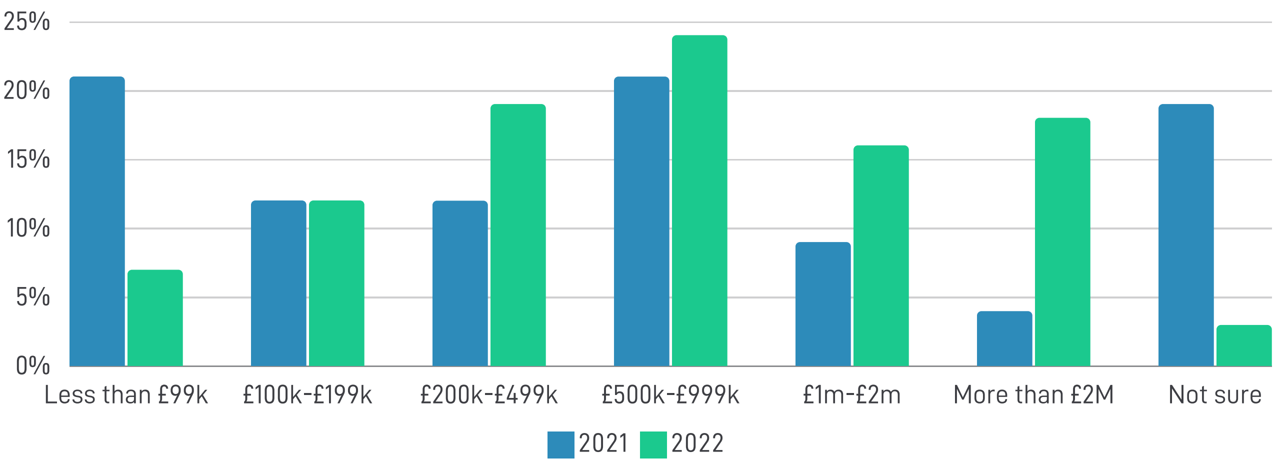
RegTech investment skyrocketed in 2022

Nearly 1-in-5 firms (18%) spent more than £2m/$2.6m on RegTech in 2022.

Firms spent more on RegTech in 2022 compared to the year before, with 18% of firms spending more than £2m/$2.6m, compared to 4% spending the same amount in 2021. The average investment in RegTech across all firms was £895,191 in 2022.

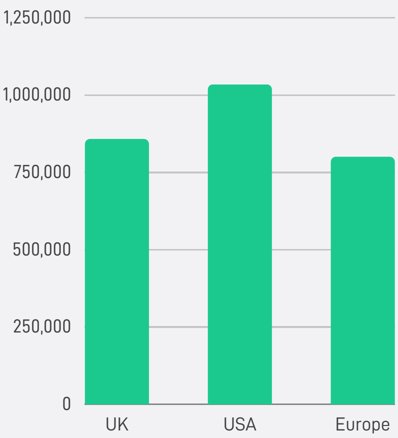
In the US and UK, 20-25% of firms spent more than £2m/$2.6. This compares to less than 10% of firms in Europe. Banks spent more on RegTech than asset managers and brokers. Unsurprisingly, larger firms also spent more than their smaller counterparts.

How much did your firm spend on compliance and regulatory technology (RegTech) in the last 12 months?

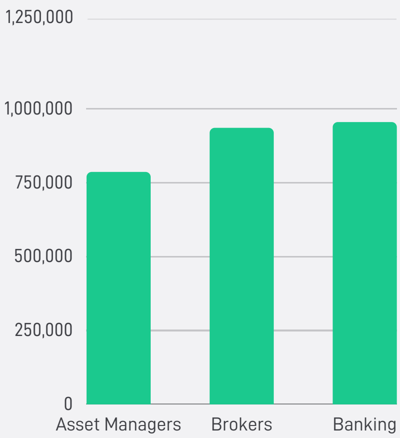


Average RegTech spend in 2022 (in £)

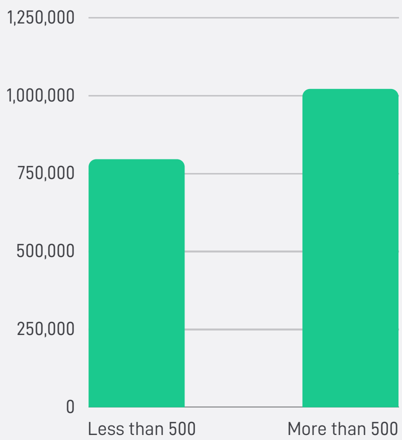
By firm location



By firm type

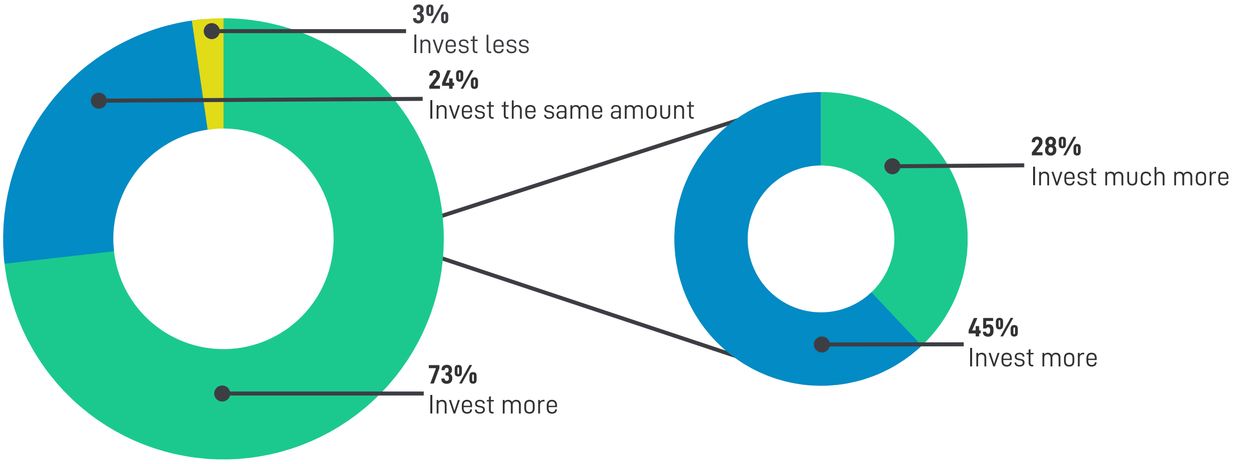


By firm size



RegTech investment set to rise in 2023

How much more or less do you expect to invest in RegTech in the next 12 months?



73% of firms expect to invest more in RegTech in the next 12 months, compared to 44% in 2022.

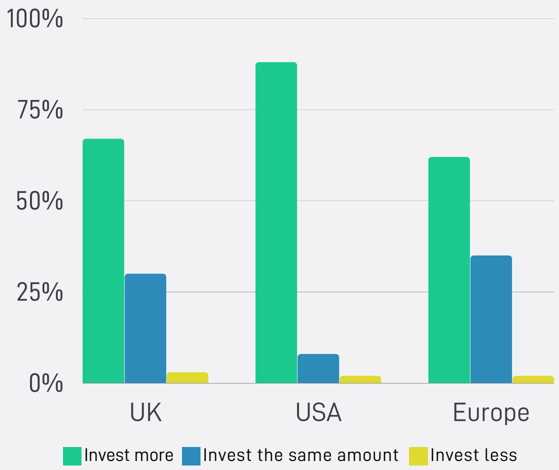
45% of firms expect to spend more on RegTech in the next 12 months, with an additional 28% saying they will invest much more. 24% of firms expect to invest the same amount, compared to 41% in 2022.

Investment levels are consistent across business types and firm size.

However, these do change based on firm location. In the US, 88% of firms expect to invest more, while this figure drops to 67% in the UK and 62% in Europe.

In the US, we also see that the proportion of firms that will invest the same amount is much lower.

How much more or less do you expect to invest in RegTech in the next 12 months?



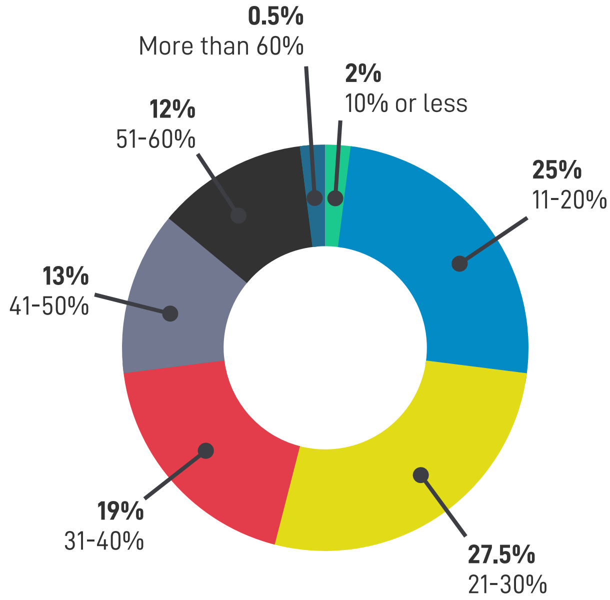
INVESTMENT AND EXPENDITURE

Compliance is responsible for a significant part of expenditure

Compliance is responsible for 31% of firms' overall expenditure.

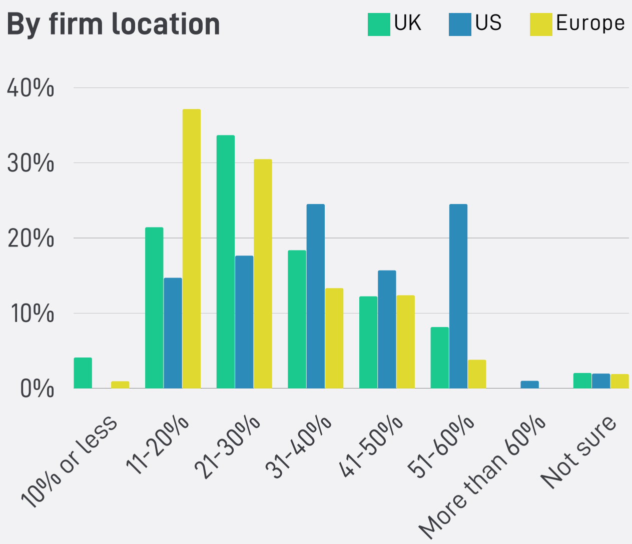
For 27% of firms, between 21% and 30% of their total expenditure is spent on compliance, and on average across all financial firms, compliance is responsible for 31% of expenditure.

What percentage of your firm's total expenditure is spent on compliance?



Compliance spending as a proportion of overall expenditure is higher in the US.

Among US firms, compliance spending as a proportion of overall expenditure is higher than in the UK and Europe. On average, compliance is responsible for 38% of expenditure, compared to 29% in the UK and 27% in Europe.

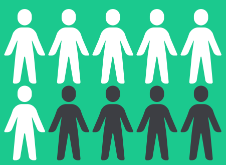


Dealing with the Regulator
Overview

- **Firms are more optimistic in 2023.**
- **Regulators are easier to deal with.**

KEY FINDINGS

83% believe financial services firms are in a good position to **handle more stringent regulations over the next five years.**



60% of firms believe regulators are easier to deal with **compared to 5 years ago.**

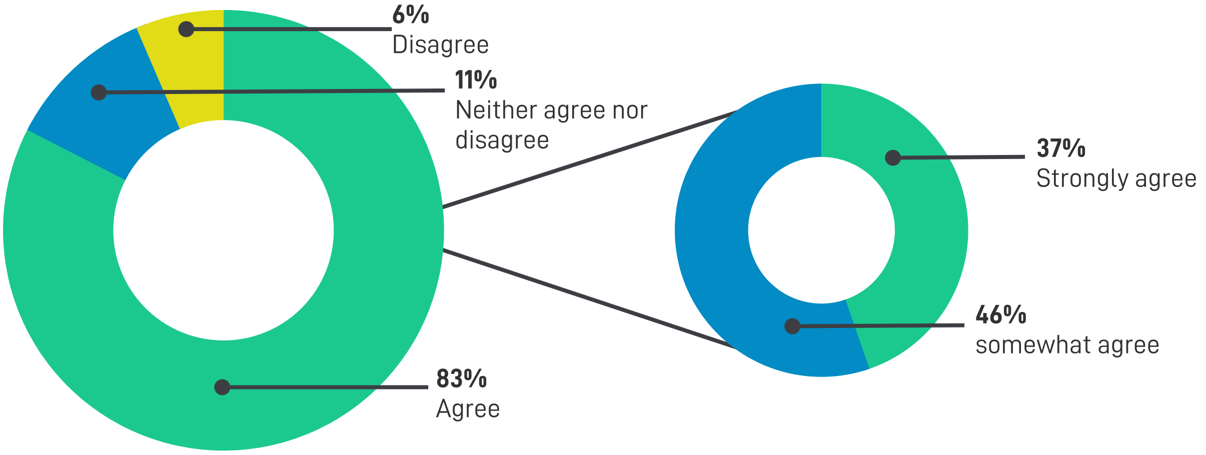
DEALING WITH THE REGULATOR

Firms are more optimistic in 2023

83% believe financial services firms are in a good position to handle more stringent regulations over the next five years – up from 75% in 2022.

Only 6% disagree, compared to 25% in 2022, signaling more positive attitudes towards regulatory change.

To what extent do you agree or disagree with the following statement? Financial firms are equipped to handle more stringent regulatory rules over the next 5 years.



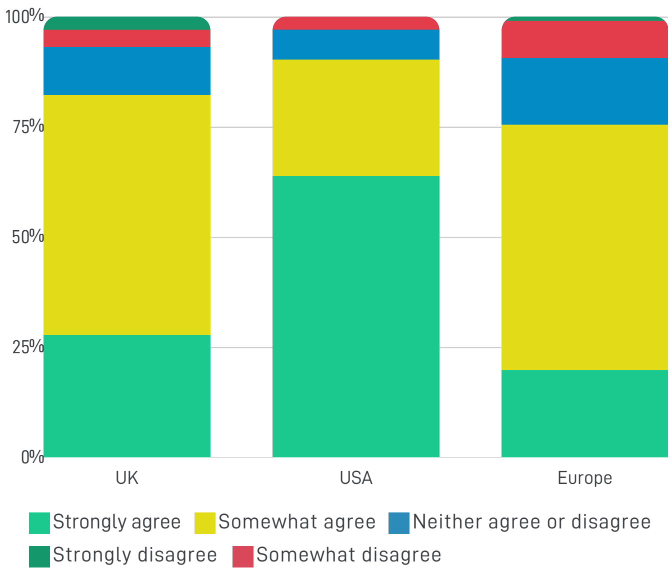
Some are more optimistic than others.

90% of financial firms in the US agree that they are well equipped to handle more stringent regulatory rules over the next 5 years, of which 64% strongly agree.

Attitudes in the UK are similar, although the percentage of firms that strongly agree is 28%. In Europe, nearly 10% of firms don't believe they are well equipped to handle more stringent rules in the next 5 years.

This compares to 7% in the UK and 3% in the US. Results across different business types and sizes are consistent.

To what extent do you agree or disagree with the following statement? Financial firms are equipped to handle more stringent regulatory rules over the next 5 years.



DEALING WITH THE REGULATOR

Regulators are easier to deal with

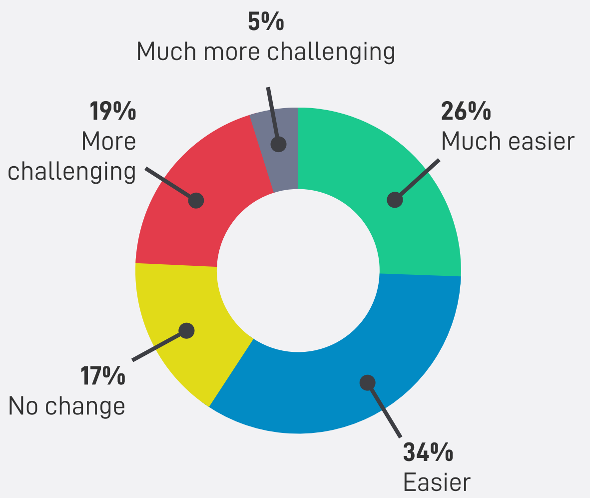
60% of firms believe regulators are easier to deal with compared to 5 years ago.

60% of firms believe the regulator (FCA, SEC, FINRA, CFTC, AMF, BaFin, or AFM) is easier to deal with in 2023 compared to 5 years ago. This is up from 48% in 2022. In fact, 26% of firms believe the regulator is much easier to deal with.

However, this is not the case across the board, as nearly a quarter of all firms (24%) believe that dealing with the regulator is more challenging. Nonetheless, this is still a decrease compared to 2022 when the percentage was 42%.

These positive attitudes towards the regulator could have to do with technological advancements, which are making compliance processes more streamlined and straightforward. Equally, it could be down to more concise and clearer communication from regulators.

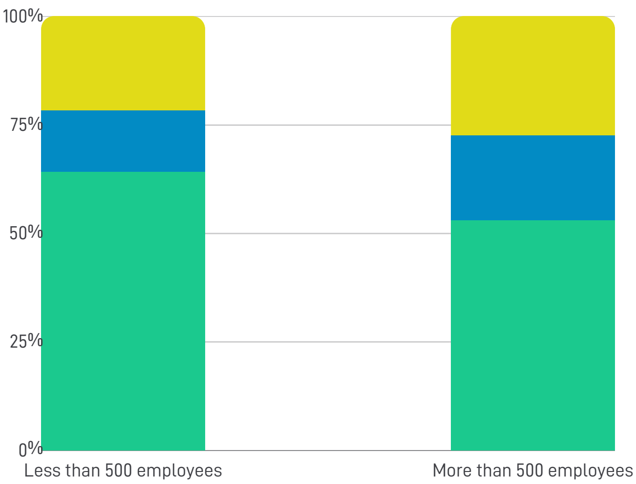
In your opinion, is dealing with the regulator (FCA/SEC/FINRA/CFTC/AMF/BaFin/AFM) easier or more challenging compared to five years ago?

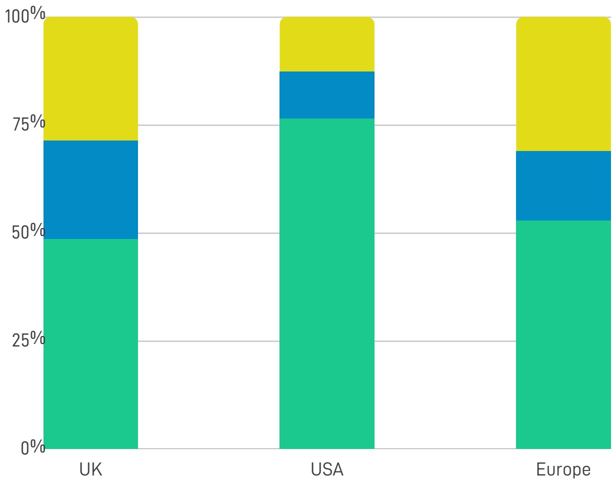


The story becomes more mixed when looking at the size or location of a firm.

27% of larger firms find it more challenging to deal with the regulator compared to 22% of small firms.

At the same time, it is interesting to see that over 76% of US firms find the regulator easier to deal with, compared to about half of firms in the UK and Europe.





Easier No change Challenging

Artificial Intelligence and Machine Learning
Overview

- **Investment in Machine Learning (ML) has skyrocketed.**
- **Full adoption is highest in the US, and lowest in Europe.**

KEY FINDINGS

47% of firms are now fully invested **in ML for compliance.**

68% of firms in the US have **fully implemented ML in compliance.**

ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING

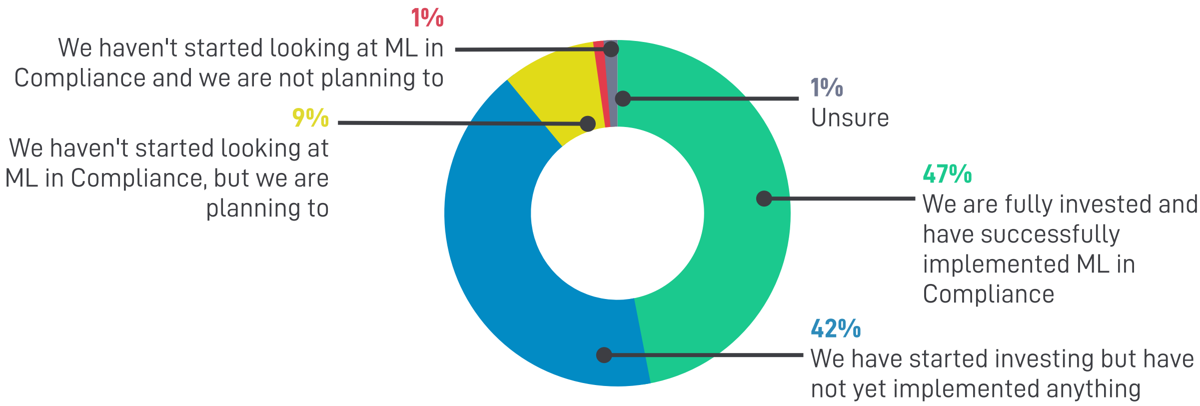
Investment in Machine Learning (ML) has skyrocketed

47% of firms are now fully invested in AI/ML for compliance.

This is up from 31% in 2022. The percentage of firms that are investing in Machine Learning (ML) for compliance (but haven't yet fully implemented ML) is also much higher compared to last year, now at 42%, compared to 25% in 2022.

While investment is high, we don't know how or to what degree ML has been implemented, and this is very much a journey rather than a quick win. Only 9% haven't started looking at ML in compliance, and of that total, only 1% is not planning on doing so.

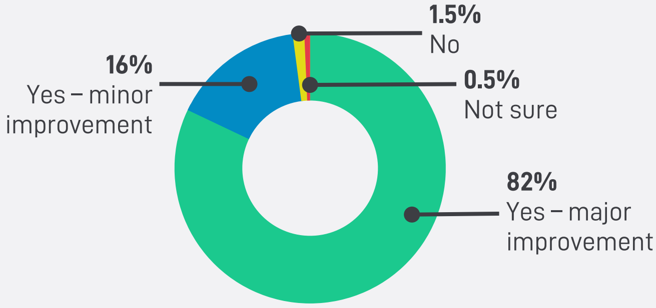
Have you implemented any ML capabilities to improve compliance processes?



98% have seen an improvement since investing in AI or ML.

Those that have implemented AI or ML are reaping the benefits – 82% of those who said they had invested in this area agreed they have seen a major improvement in their compliance processes, with 16% saying they have seen minor improvement.

Since investing in ML, have you seen any improvement in your compliance processes?



Full adoption is highest in the US, and lowest in Europe

In the US, 68% of firms have fully implemented ML in compliance.

This figure drops to 44% in the UK, and 29% in Europe. However, in Europe, nearly 56% of firms have started investing. This brings the total percentage of firms that have invested in ML for compliance to 85%. In the UK, this figure is higher, at 87%, and it is higher again if we look at the US, where 95% of firms are invested or have implemented ML in compliance. The proportion of firms that haven't invested in ML but are planning to is the highest in Europe.

Banks are leading the way when it comes to ML deployment.

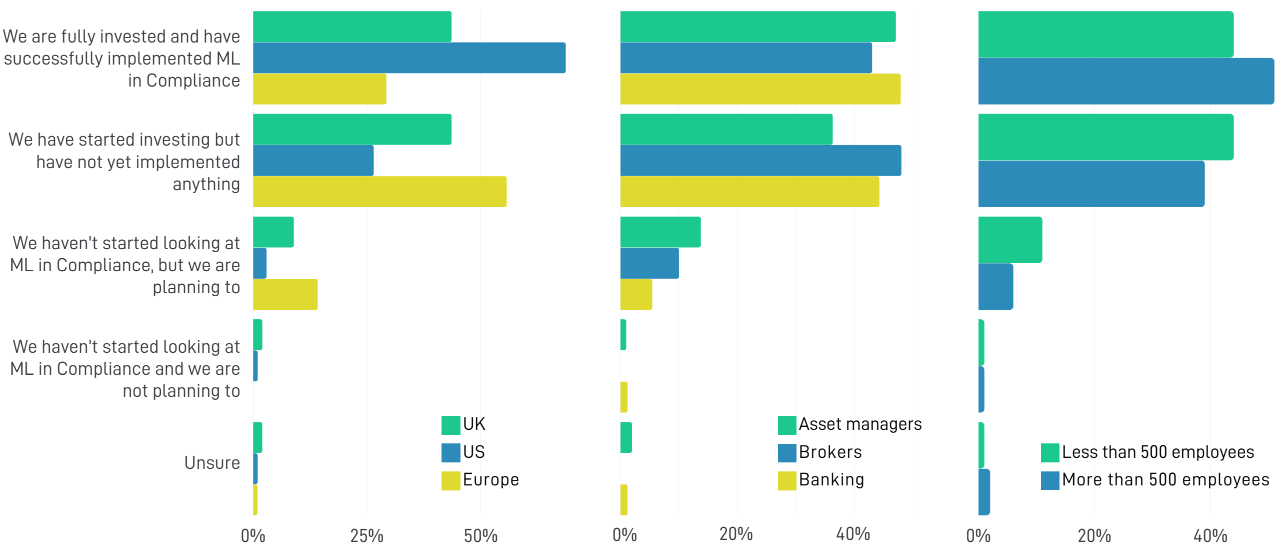
Banks are leading the way, with 92% having either fully implemented or started projects to implement ML in compliance. Market practitioners at SteelEye believe this is hardly a surprise given the volume of data required to be surveilled by banks.

Brokers follow closely at 91%, although it is worth noting that a smaller percentage of brokers have fully implemented ML (only 43%, compared to 48% among banks and 47% among asset managers). 83% of asset managers have invested in ML for compliance.

Smaller firms are catching up.

Large firms are, perhaps understandably, further along in that journey. 51% have already fully implemented ML in their compliance processes (up from 36% in 2022). However, smaller and medium-sized firms are catching up, and so far 44% have fully implemented ML in compliance. This is up from 29% in 2022.

Have you implemented any ML capabilities to improve compliance processes?

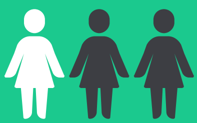


The Compliance Team of Today
Overview

- **Firms favor centralized management of compliance.**
- **Administrative and repetitive tasks dominate compliance professionals' work.**

KEY FINDINGS

59% of firms have a centralized management model **for compliance.**



29% of compliance staff carry out **administrative work and repetitive tasks.**

Firms favor centralized management of compliance

59% of firms have a centralized management model for compliance.

Nearly two-thirds of respondents (59%) maintain a centralized structure for compliance in which one team oversees all branches and regions that the company operates in. This compares to 56% in 2022. Meanwhile, the percentage of firms that have a partially centralized model has increased slightly from 32% to 34%.

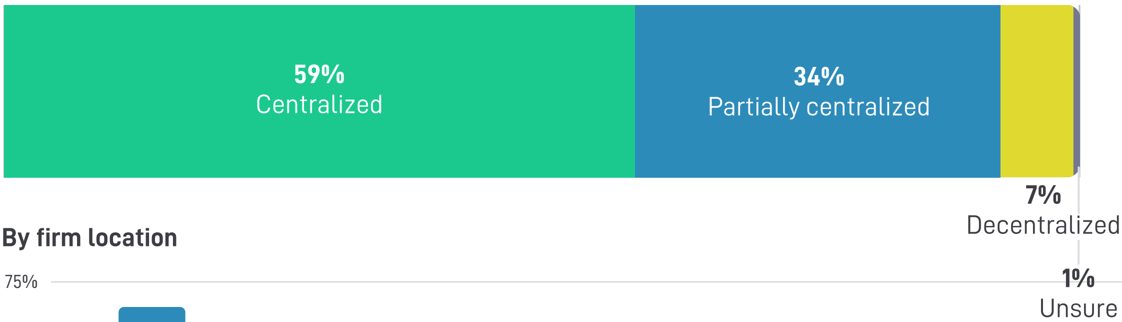
Just 7% of firms said they deploy a decentralized model where compliance is managed directly within individual jurisdictions. This is down from 12% in 2022.

Results are consistent across segments (business type, size, and location), although it seems American firms are more likely to have a centralized model compared to UK and European counterparts.

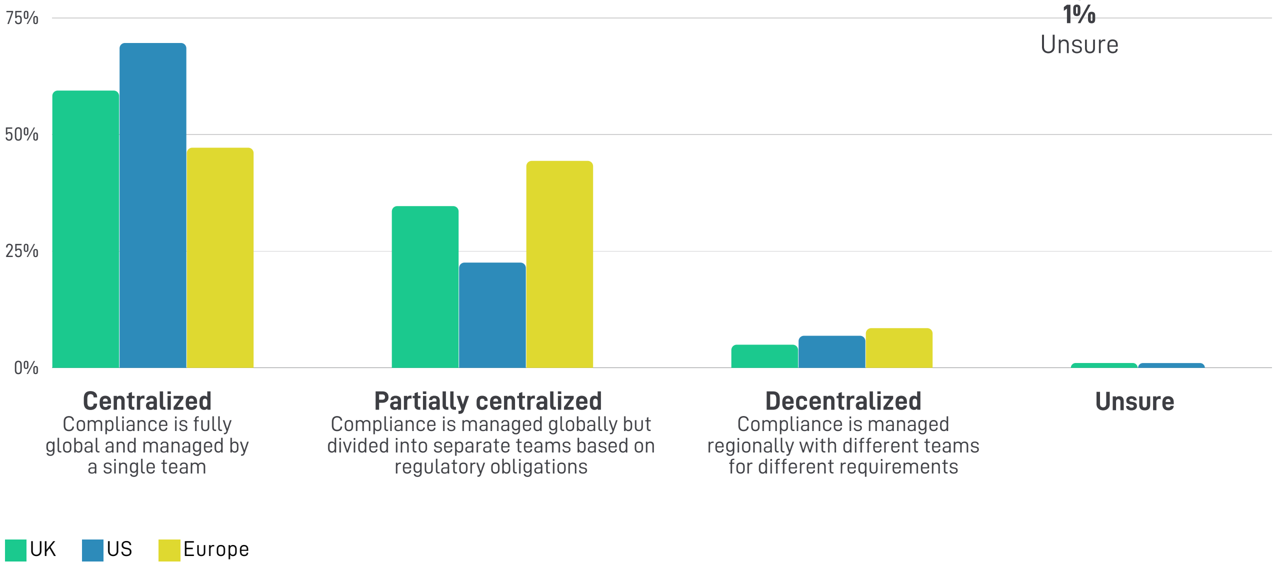
Centralizing compliance provides a high level of control and consistency with more comprehensive oversight. However, it does require these centralized teams to have a very broad knowledge base so that they can cater to regulatory nuance across different localities, which is why many teams historically have opted for a more decentralized model.

This can naturally lead to problems like data silos or duplicated data points. Centralization of the compliance function can enable businesses to be more strategic and allow for richer learning about operations. Nonetheless, this success hinges on a strong data foundation for the business as a whole, to extract the full value of these learnings.

How does your company manage Compliance?



By firm location



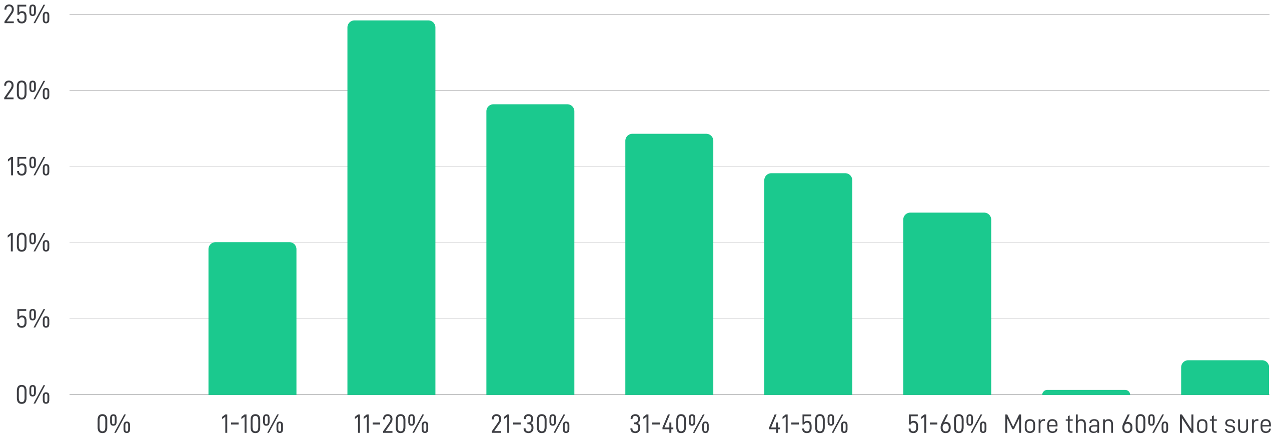
Administrative and repetitive tasks dominate compliance professionals' work

29% of compliance staff carry out administrative work and repetitive tasks.

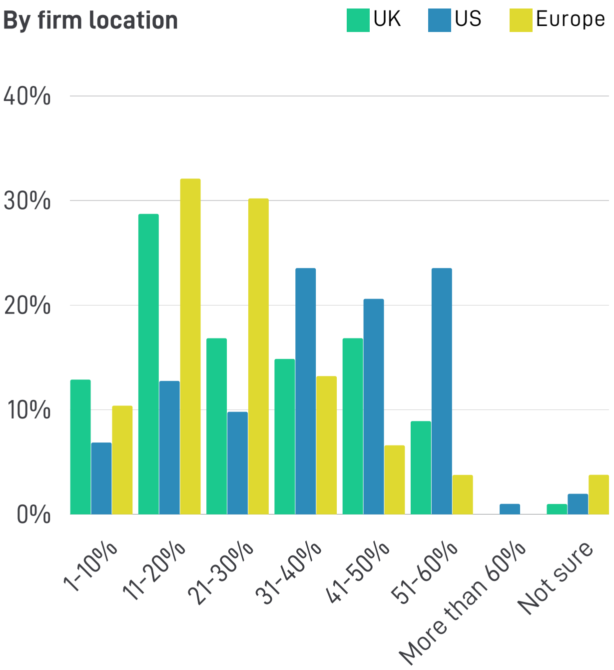
Despite the quick pace that technology has evolved, many compliance teams are still handling large quantities of repetitive tasks – often a product of some combination of outdated processes, untailored systems, and legacy technology.

In the US, nearly 45% of teams spend over 41% of their time on administrative/repetitive tasks. This drops to 26% in the UK and 10% in Europe. On average, US firms spend 37% of their time on manual or repetitive tasks. This drops to 28% in the UK and 24% in Europe.

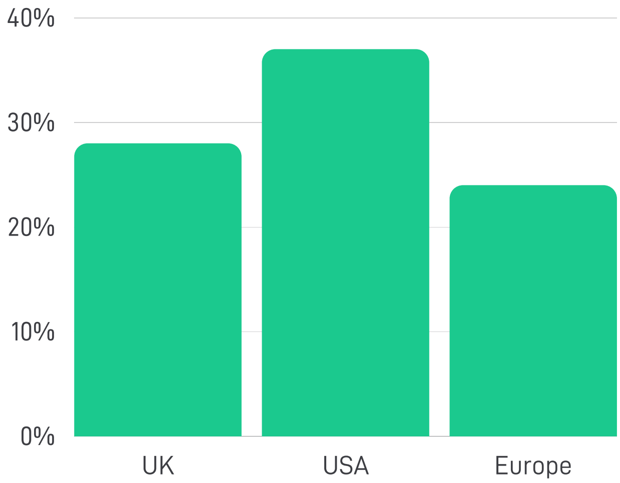
What percentage of your firm's Compliance staff undertake administrative/manual/repetitive tasks at your firm, if any?



By firm location



Average time spent on manual or repetitive tasks



Conclusion

The events of the last few years have had an unprecedented impact on the financial services industry and the control and risk departments that keep firms operational.

The war in Ukraine, increase in interest rates, and high inflation means that 45% of firms have scrapped certain technology projects. 43% of firms have had to make redundancies and layoffs, while 33% have seen budgets decrease.

2022's macro events and the volatile economic state of world economies are also causing concerns about excessive pressures on regulated staff, with nearly two-thirds (62%) of firms concerned about traders and portfolio managers taking more risks in the pursuit of performance in a recession environment.

In the face of this, compliance professionals are recognizing the need to invest in technology to combat increasing risks. In fact, 73% of firms expect to invest more in RegTech in the next 12 months, compared to 44% in 2022.

At the same time, firms across the board are grappling with a range of new challenges while the cost of compliance increases.

Nearly two-in-five firms (37%) view managing market abuse and manipulation risk as a challenge and 30% of firms struggle to manage the record keeping, monitoring, and controls of electronic communications channels.

In response, data shows us that 71% of firms are investing in eComms capture and monitoring and 77% rank communications and eComms surveillance as the top priority for the year ahead, up from 41% last year.

The pressure on compliance is higher than ever and so is the pressure on the industry to prove it has learned from past mistakes.

The results of this year's Compliance Health Check Report show that compliance professionals currently have a lot keeping them up at night. It cannot be denied that the current economic environment is creating undue pressure, whether that's worrying about traders taking excessive risk, heavier workloads due to redundancies, or managing the increased regulatory demand around communications monitoring.

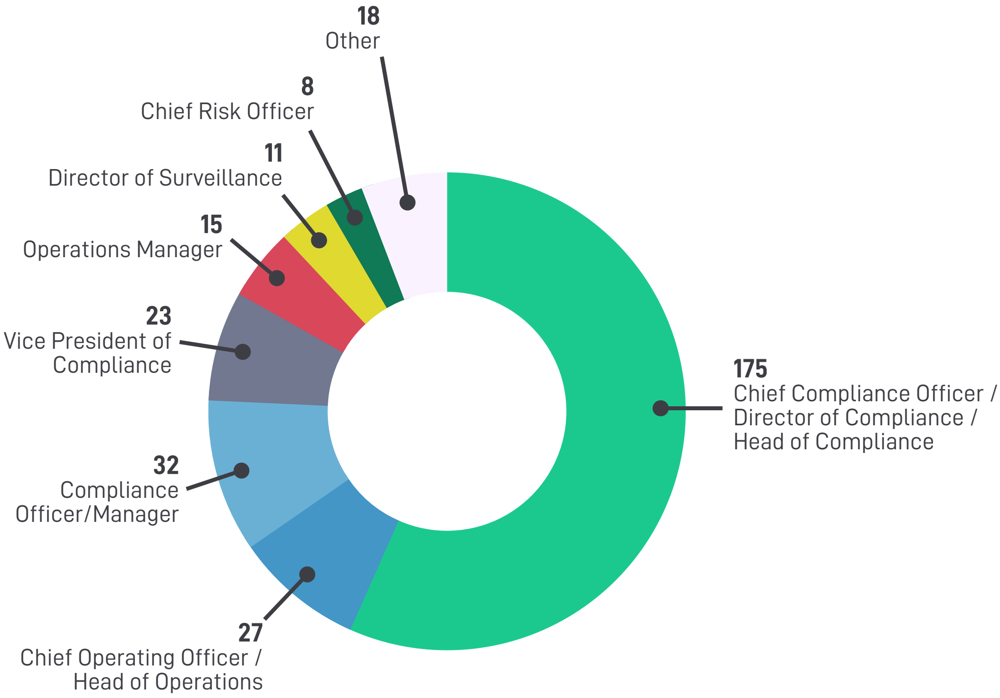
However, the report clearly shows that compliance teams are aware of the evolving risks and challenges they are faced with, and are taking proactive steps to futureproof their operations.

In a world of increasing uncertainty, the role of compliance is more important than ever. While this report shows that 2022 saw huge progress in the sophistication of compliance teams as a result of an increase in investment across the industry, investment will need to continue into 2023 to meet the mounting regulatory pressure that is expected in the fallout of the recent events.

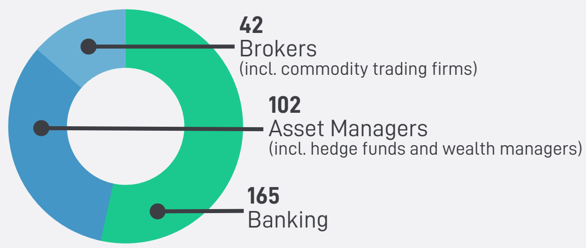
Methodology and Respondents

The research was conducted by Censuswide with 309 Senior Compliance Decision Makers within Financial Services Firms (aged 18+) between 07.02.2023 and 15.02.2023. Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles and are members of The British Polling Council.

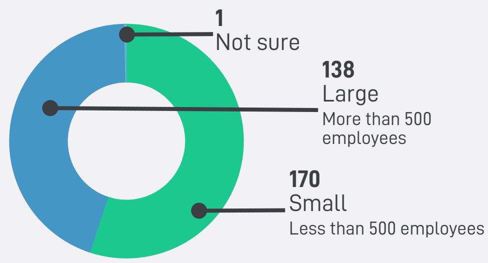
309
respondents



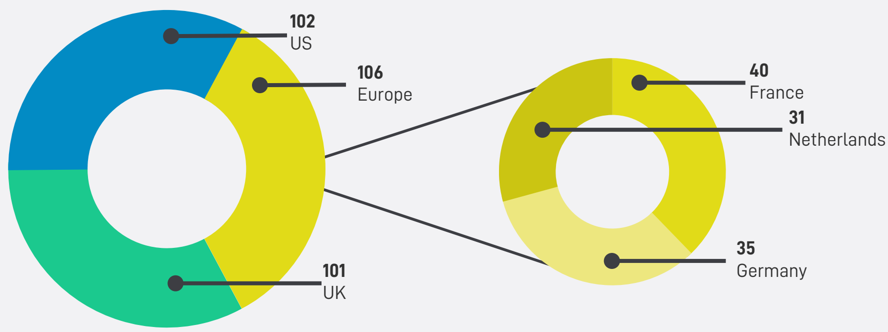
By firm type



By firm size



By firm location



SteelEye

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