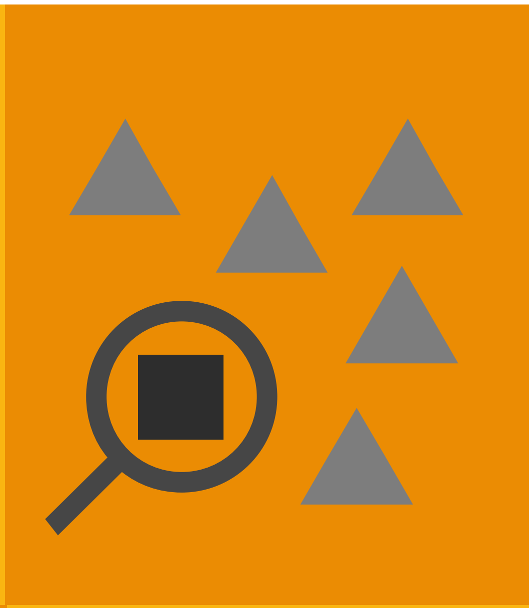
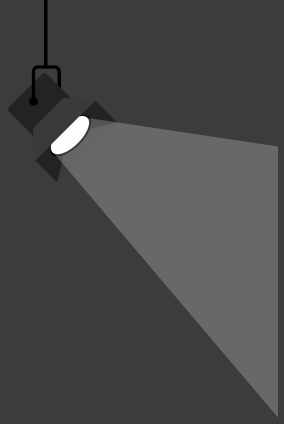
EMEA AML Survey 2024

Spotlight on Effectiveness

Extended Executive Summary





Introduction

When it comes to the fight against financial crime, technological progress is a double-edged sword. On the one hand, it boosts crime prevention and detection capabilities, but on the other, it also bolsters bad actors' arsenals. We are seeing financial criminals become increasingly sophisticated; efforts to prevent money laundering, terrorist financing, and the proliferation of weapons of mass destruction (abbreviated as 'AML' in this report) must rise to the challenge.

Taking Things Seriously

Today we already have a very mature AML regulatory ecosystem in most EMEA regions, which will likely be strengthened by financial institutions and regulators' current focus on effectiveness. Regulatory authorities are adopting a much more 'hands-on' approach, requiring policies and regulations – no matter how well crafted – to be practically effective and actively enforced. For example, the upcoming EU AML Package will establish an EU-wide AML Regulation and a new AML authority (AMLA) tasked with supervising the largest financial entities in the EU.

Regulators, policymakers, and even investors and other stakeholders, want to see what companies are doing to combat financial crime. AML has come into the public spotlight after a few large scandals at major financial institutions erupted, ranging from non-compliance to money laundering issues. Our study, through its broad scope, looks into how the AML Framework is currently implemented across EMEA, how different territories are reacting to the upcoming regulations, especially the EU AML Package, and how financial actors across Europe, the Middle East and Africa are implementing the newest AML technology to overcome operational challenges.

The EMEA AML Survey 2024

Although technology can be a great catalyst for progress in AML capabilities, respondents have consistently mentioned that finding qualified AML professionals that can implement new technologies is extremely difficult. This is quite a remarkable finding, since most, if not all, recent business trends involve some form of technological hype. Obviously, technology is also a key issue for our respondents, but they consider the shortage of skilled staff to be a major stumbling block to AML progress despite all the great opportunities technology and Artificial Intelligence (AI) can offer; this tends to be underestimated in public discourse. AML expertise certainly continue to evolve, but finding qualified people remains a key determining factor for success. This problem is especially pronounced when it comes to upgrading AML teams' digital infrastructure, which requires highly-skilled staff to achieve the right output from new technological opportunities. Indeed, the quality of staff still seems to be the major prerequisite for strong compliance with modern AML standards and even the main determining factor for being able to leverage new technologies. Although it faces some headwinds, the financial sector is progressing and adapting its operations to the needs of the moment.

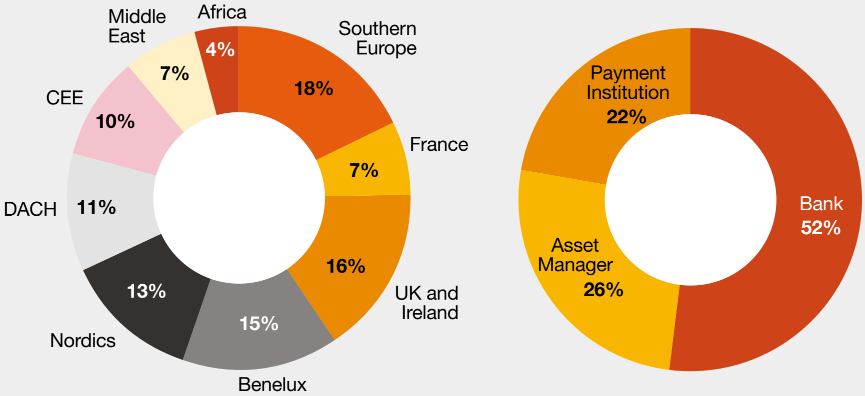
Our sample

This study is based on a survey of 396 financial institutions in 40 countries. Our methodology ensures that the information we received is of the highest quality and relevance and provides the most insightful overview possible of the EMEA region. The survey has been overseen by an editorial board of international leading PwC anti-financial crime experts who have provided their interpretations of the results in order to ensure a high-quality report.

To collect feedback for our survey, we leveraged PwC's leading Anti-Financial Crime Network in the EMEA region, as well as a professional survey company, to target specific and relevant respondents in each territory. These included major asset managers, banks, and payment institutions, most of whom were interviewed personally. This dedicated approach ensured that we covered a wide range of areas and financial institutions.

Our respondents are divided into nine major regions and three industries within the financial sector. Over half (52%) of respondents are banks, which have historically been the focus of AML regulations and are more used to being in the spotlight of AML news and events. Our Banks respondents also include 52% of all Global Systemically Important Banks (G-SIBs) and 59% of Global Systemically Important Institutions (G-SIIs). Asset managers represent 26% of respondents, while payment institutions make up a further 22%.

Region and industry of all survey respondents



Note: The percentage may not add up to 100% due to rounding. The UK and Ireland region includes the UK, The Republic of Ireland, the Isle of Man, and the British Channel Islands as separate respondents.

Source: PwC Global AWM & ESG Research Centre

The Robots Are Not Taking Over (Yet)

Finding skilled staff is the most important factor for effective AML compliance. Without experienced staff, carrying out day-to-day processes and updating technologies and AML methodologies is extremely difficult and may not provide the right output and quality. As a result, despite the enormous potential that revolutionary technologies like AI hold, they cannot be implemented adequately without sophisticated and experienced human staff that know how to navigate the world of AML with its many risk-based areas of professional judgement and principles.

Among survey respondents, 28% indicated upskilling as the most effective AML control, while over one-third stated that the lack of skilled resources constitutes one of the main impediments to increasing the use of new technologies in their AML operations. The lack of qualified staff leads to a vicious cycle whereby firms struggle to carry out their AML processes in an effective manner, let alone implement technology-enabled solutions.

The Financial Sector Wants Pragmatic Regulations

Respondents are split on regulatory effectiveness. In the EMEA region as a whole, 53% of respondents believe that current or upcoming AML regulations are helpful, leaving a significant portion (47%) who think otherwise. Among the latter, they tend to think that the rules lack uniformity across countries and industries (18%), that there is a lack of practical industry guidance (12%), that the rules favour form over substance (8%), that the rules are not sufficiently detailed (6%), or a combination of multiple factors (3%). As for the EU, a little over half (54%) of respondents in the EU welcome the upcoming AML Package and believe current regulations are sufficiently clear and fit for purpose. Given that the final texts of the package were only released in mid-February 2024, the financial sector is still familiarising itself with the new standards. There is a market expectation that the EU will solve the practical challenges of AML across borders and industries.

Financial institutions' differing viewpoints seem to be connected to the extent to which regulators have historically focused on their business. Banks are the most sceptical of current regulations, with less than half (44%) believing them to be helpful to prevent money laundering and terrorist financing. Conversely, payment institutions have the most optimistic outlook on current regulations, with 67% believing them to be fully effective while asset managers (57%) stand in the middle. Ultimately, more precise regulations often translate into greater AML implementation efforts.

Among the numerous AML-related challenges faced by EMEA financial institutions, the increase in regulatory pressure came to the forefront, with over one-third of respondents (38%) citing it as the most challenging issue, while 34% also highlighted how regulations complicated operational processes. On a more practical level, challenges pertaining to data management and quality (34%), automation of manual or fragmented processes (33%) and updating KYC documentation (33%) were also highlighted. Nonetheless, when it comes to regulatory changes that would improve AML effectiveness, the majority of respondents (69%) believe that having the same standard across countries or industries would significantly help, followed by streamlined regulatory reporting (44%) and having a supranational AML regulator (43%).

Operations: The Human Factor Comes First

Having experienced staff continues to be one of the main determining factors of AML teams' ability to improve and leverage technology to its full potential. Upskilling is therefore likely to be a major investment driver in the coming years. Expertise and experience are becoming even more important than before since they are more necessary than ever to leverage technology's full potential. Increasing effectiveness via digital tools or upgrading existing tools are also key investment drivers, particularly when it comes to AI.

Over half of our respondents (51%) have seen their AML compliance costs rise by more than 10% over the last two years, with banks (62%) seeing the biggest increase among respondent categories. On average, AML costs have increased by 14%. Staff increases and investments into new digital tools have been the main cost drivers. Indeed, half of our respondents are planning on increasing their AML staff by 10%, while 45% are planning on increasing it by at least 20%, while 55% will invest more than 10% of their AML budget in digital tools over the coming two years.

In addition to having skilled staff, respondents tend to view transaction monitoring and screening as the most effective AML controls. However, they also tend to agree that customer due diligence (CDD) onboarding and CDD periodic review are the least effective AML controls, with 30% and 41% of respondents respectively highlighting them as the 2nd weakest and weakest controls. This view is largely misguided, as it is a common mistake to see CDD as a mechanical task rather than an integral part of AML. In fact, CDD is the foundation of effective AML, since it is the crucial point at the beginning of the AML process where institutions build a fundamental understanding of their customer. Without proper CDD, later AML controls will be more difficult to execute. Effective CDD depends on many factors and can be very complex depending on risk level, counterparty type, and product.

Technology: Are New Digital Tools the Answer?

Emerging markets in the Middle East and Africa are the most likely to invest in new technologies for AML. In fact, 96% of firms in the Middle East and 86% of firms in Africa are planning on spending more than 10% of their AML budget on digital tools in the coming two years. On the other hand, financial institutions in the UK & Ireland, DACH and Benelux regions are very reluctant to implement new technology. In the latter, 13% have no plans to invest in digital tools in the near future – the highest figure among all regions. This is due to the fact that more established financial centres tend to have (more mature) legacy systems in place, which are costly to replace.

Data quality is a major concern across the AML space. Many core systems in use are not very new, which is hindering progress on data quality improvements and the implementation of newer technologies, such as AI. In fact, 45% of respondents indicated data quality as the main impediment to increasing the use of new technologies. This is the case regardless of industry, whereas recent entrants in each industry had a head-start with newer technology.

While all regions are considering implementing AI solutions to their AML operations, financial institutions in the Nordics (94%), Africa (93%) and the Middle East (93%) are the most enthusiastic. Transaction monitoring and screening are the main AML functions respondents are planning to use AI for, highlighted by 79% and 59% of respondents, respectively. However, adopting AI solutions is not all smooth sailing. Over half of respondents (55%) are concerned that the maturity of their AML processes is a constraint to AI adoption, while 52% are concerned about data-sharing with external providers. In addition, there are also concerns over AI algorithms' 'black box' decision-making approach. While many respondents are still at an early stage in this field, they tend to have ambitious objectives which could be reached through clearer guidance that would accelerate AI adoption.

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