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Sanctions, money laundering, and tech regulations top the list of concerns for financial executives in 2023

Article

The news: Sanctions compliance, money laundering crackdowns, and technology regulations are on the minds of financial executives for 2023, according to ComplyAdvantage's annual report, The State of Financial Crime.

The report surveyed 800 C-suite and senior compliance decision-makers in the US, Canada, UK, French, Germany, Netherlands, Singapore, Hong Kong, and Australia.

Economic uncertainty is changing attitudes toward risk: Geopolitical tensions, a cost-of-living crisis, and a looming recession are just a few of the reasons behind financial heads doubling down on their risk mitigation efforts in 2023.

- 99% of respondents said that they are **re-evaluating their risk appetite due to the uncertain economic environment**.
- **More than half (59%) said they are preparing for a dramatic increase in financial crime,** and a similar percentage (58%) said they will be hiring additional risk personnel to assist with compliance.

A defining moment for sanctions compliance: The conflict in Ukraine has put the use of sanctions at the forefront of many global financial institutions' priorities.

- **46% of those surveyed said Russia** is the geopolitical hotspot their firm is most concerned about.
- 53% of respondents said their firm changed their business model due to the war in Ukraine.
- 50% said they implemented a freeze on Russian assets.
- 44% said they shut down their onboarding processes in Russia.

The implementation of sanctions compliance processes will lead the way for responding to similar future crises. **Mounting concerns around an Iran nuclear deal, increased missile tests in North Korea, and political tensions in China** might result in the need for stronger sanctions compliance, and banks must be prepared to implement related changes quickly.

Criminals use new technology to launder money: Related to sanctions compliance, anti-money laundering controls are vital to keep up with new methods that bad actors use to hide illegal profits. New technologies, such as digital currencies and blockchain-based transactions, are ripe with criminal activities that go undetected as financial institutions face hurdles implementing the appropriate controls.

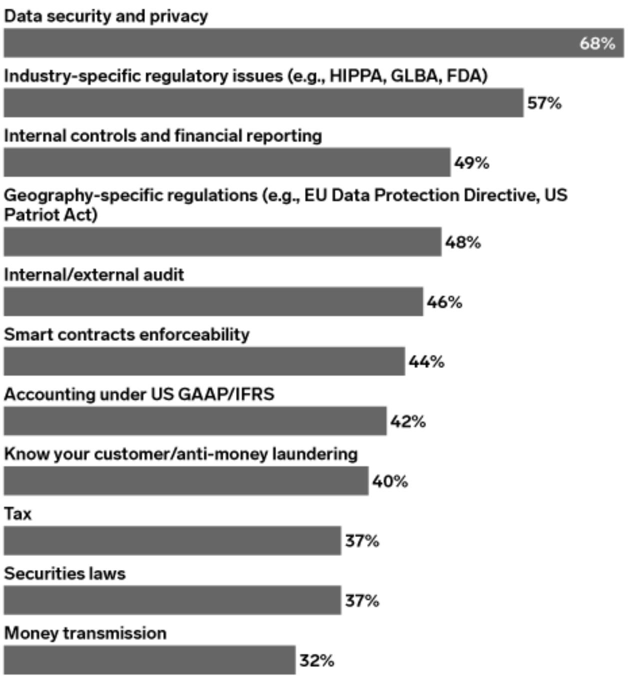
- When asked which area of their organization they were most focused on improving related to anti-money laundering (AML) compliance, **45% of survey respondents said supply chain risk, 43% said virtual asset risk monitoring, and 40% said fraud detection**.

Financial regulators are expected to increase enforcement of AML compliance and crack down on financial institutions that fail to implement proper controls. But the survey revealed that fines aren't enough to promote compliance.

- **79% of respondents said that their firms choose to make AML violations and incur related fines as a cost of doing business.** That's up from 61% in 2020.
- Respondents provided some opinions on how to hold firms more accountable regarding AML compliance. Thirty-eight percent said "personal liability for the C-suite" must be strengthened, while 40% said "larger fines for AML violations."

Areas of Regulation Most in Need of Change to Facilitate Adoption of Blockchain and Digital Assets According to Financial Services Executives Worldwide, April 2021

% of respondents



Note: n=1,280; respondents could select more than one
Source: Deloitte, "2021 Global Blockchain Survey," Aug 19, 2021

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Technology transforms, but needs to be regulated: Financial institutions have recently embarked on major digital transformations, many of which were accelerated by the pandemic. But the new technology and partnerships that power these transformations require regulations, frameworks, and guidelines to ensure consumer and business safety.

- When asked **what is one of the biggest compliance pain points, 53% of firms said cybersecurity, 39% said updating legacy systems to digital, and 34% said third-party risk management.**

Digital assets are also breaking into the mainstream, but the recent fallout of the crypto markets is highlighting the need for a framework regarding digital asset development and use.

- Of those surveyed, **59% said they are seeking to obtain their own crypto licenses**, while 40% said they are planning to find a partner or integrate another firm to obtain a license.

- **60% of firms said they plan to use crypto for payment methods,** 55% plan to offer an exchange or trading services, and 47% said they plan to play a custodial role or offer a wallet service.

The big takeaway: Quickly changing economic conditions and continuously developing technologies are pushing financial institutions to increase their vigilance over financial crimes. Regulators will always play a role in ensuring banks remain compliant with rules designed to protect consumers and promote a safe financial system—but sometimes regulations will be slow to adapt to the ever-evolving environment. Financial institutions must take the initiative in preventing financial crime to ensure their risk controls are effective.

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