



Thomson Reuters Regulatory Intelligence

2023 Cost of Compliance

Regulatory burden poses operational challenges
for compliance

Executive summary:

In an ever-changing environment of geopolitical unrest, economic instability, bank industry failures, sustainability challenges, concern over crypto-assets and other innovative types of technology, financial services firms must be able to rely on their compliance functions to steer them through the labyrinth of associated regulations.

Thomson Reuters Regulatory Intelligence's 14th annual survey on the cost of compliance explores the challenges that compliance officers face in 2023 as well as the depth of problems encountered.

Limited resources and a diverse and expanding range of subject areas coupled with an expectation that there will be a greater volume of regulatory change, set against costs and difficulties recruiting staff, amplifies this challenge. Indeed, responses to this survey portrayed a sector dealing with greater responsibility alongside practical operational challenges that threaten to undermine efforts to provide the required level of compliance support.

Key findings

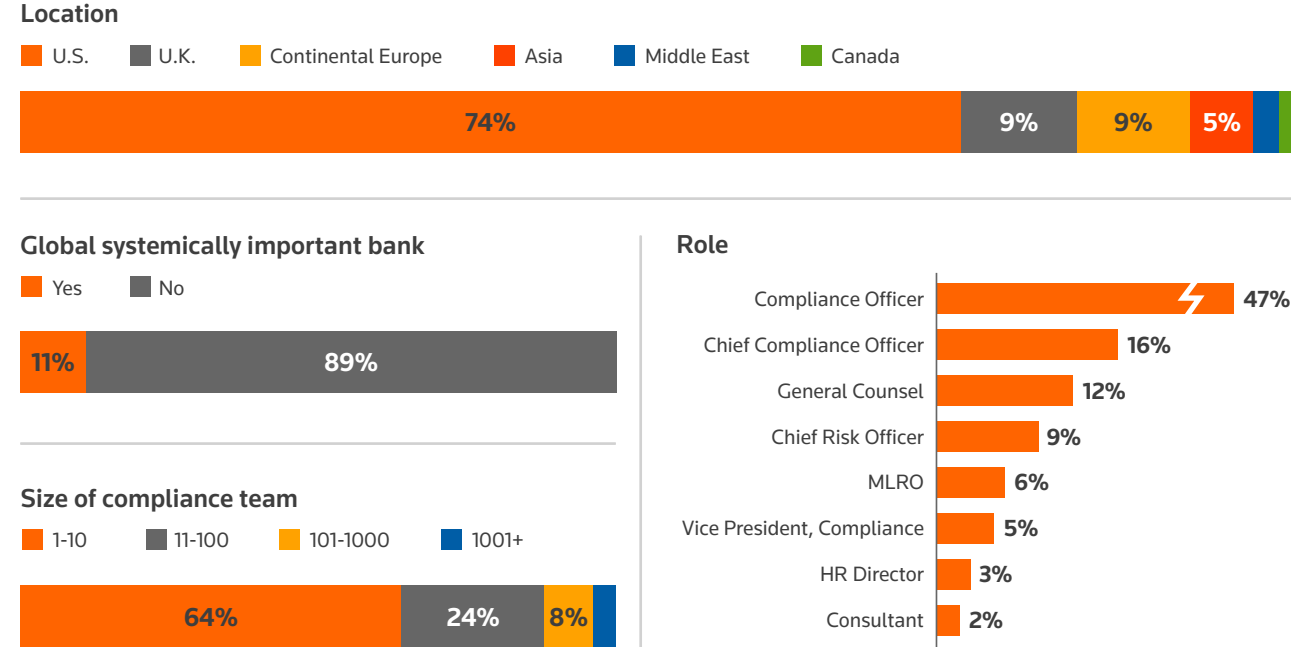
- The volume of regulatory change was expected to increase, and this was seen as a compliance challenge for both corporate boards and compliance officers.
- Managing cost pressures and balancing competitive and compliance demands were reported as challenges, yet 45% of survey respondents said they did not monitor the cost of compliance with regulations across their organizations.
- One-third of respondents said they expected compliance teams to grow; and the overall cost of compliance staff was expected to increase, despite staff turnover and budgets remaining at 2022 levels. Respondents also reported an increase in the number of firms using outsourced providers for their compliance functionality.
- Retaining skilled resources was seen as essential to be able to deliver on the growing range of practice areas with which compliance is involved.
- Low staff morale is emerging as a conduct risk for many firms, which may lead to more widespread non-compliance due to staff error or manipulation.

The findings are intended to help firms with planning and resourcing, while allowing them to benchmark their own approaches against those of the wider industry. The experiences of global systemically important banks (G-SIBs) are analyzed where such analysis can provide a sense of the stance taken by the world's largest financial services firms.

Methodology

The survey generated responses from more than 350 practitioners, representing G-SIBs, other banks, insurers, asset and wealth managers, regulators, broker-dealers, and payment services providers. This year’s survey covered the United States, the European Union, and the United Kingdom. There were a small number of responses from other jurisdictions (included in a Rest of the World category).

Figure 1: **Research demographics**



Source: Thomson Reuters 2023

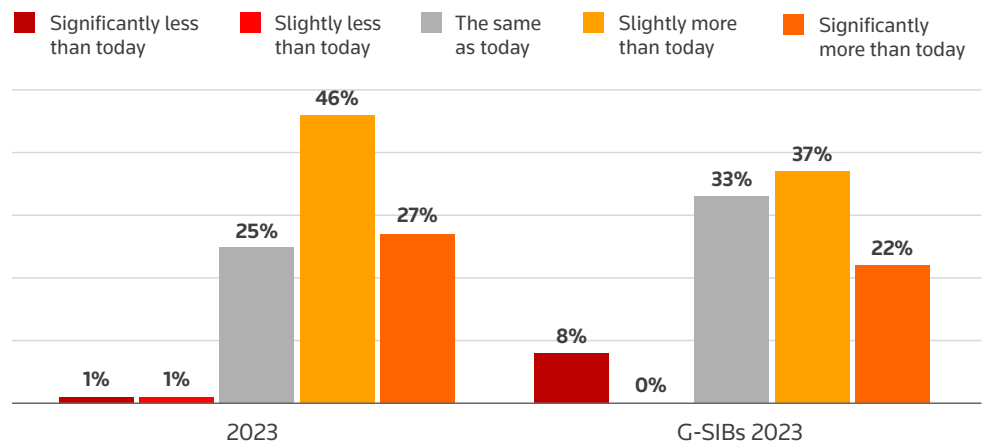
Workloads continue to grow

Increase in the amount of regulatory information published

In 2022, the number of regulatory events monitored by TRRI was 61,228, the third-highest annual total since 2008. This figure covered 1,374 regulators in 190 countries, equivalent to an average 234 daily alerts.

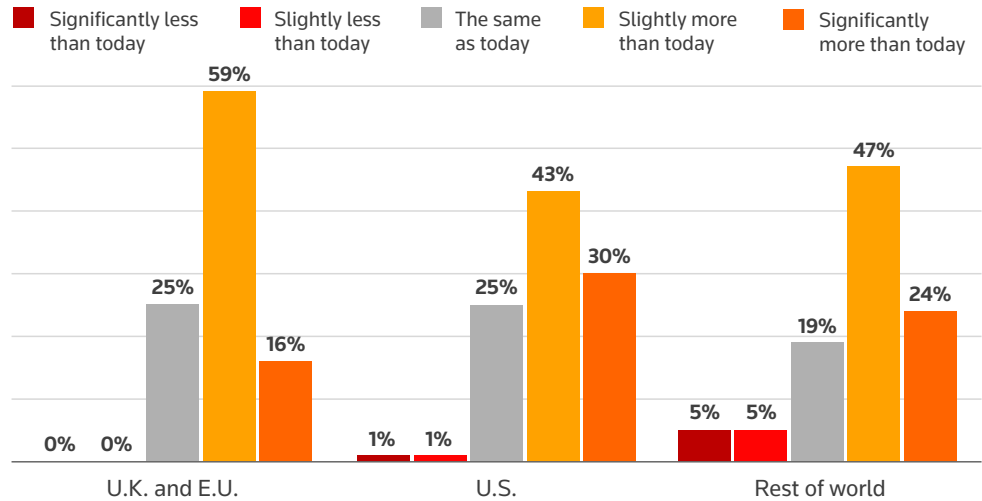
Nearly three-quarters of respondents to this year's survey (73%) said they expected an increase in regulatory activity (46% slightly more, 27% significantly more), compared with 74% who said that the previous year (50% slightly more, 24% significantly more). This was reflected in the regional breakdown, where more than 70% of respondents in each area predicted that the amount of regulatory information published would increase in 2023.

Figure 2: **Global: Over the next 12 months, I expect the amount of regulatory information published by regulators and exchanges to be...**



Source: Thomson Reuters 2023

Figure 3: **Regional breakdown: Over the next 12 months, I expect the amount of regulatory information published by regulators and exchanges to be...**



Source: Thomson Reuters 2023

Figure 4: **The greatest compliance challenges in 2023 are...**

The top five themes for individuals		The top five themes for the board	
Volume and implementation of regulatory change			Balancing cost pressures
Balancing budgets and resources			Keeping up with regulatory change
Retaining skilled resources			Increased regulatory scrutiny
Growing regulatory expectations			Cyber risk
Availability of skilled resources			Retaining skilled resources

Source: Thomson Reuters 2023

Volume of regulatory change dominates the list of compliance challenges, according to survey respondents.

Regulatory change was mentioned frequently in responses from both board members and compliance officers. Keeping up with the volume and implementation of regulatory change and managing growing regulatory expectations featured prominently in many respondents' responses.

The cost pressures created by the economic climate also were cited among the top compliance challenges mentioned this year by both board members and compliance

officers. Board members cited the need to balance cost pressures with available finances as the biggest compliance challenge; while compliance officers saw balancing their budgets and resources as a key challenge. The availability and retention of key skilled resources, an essential part of the success of a compliance function, was also listed as a challenge.

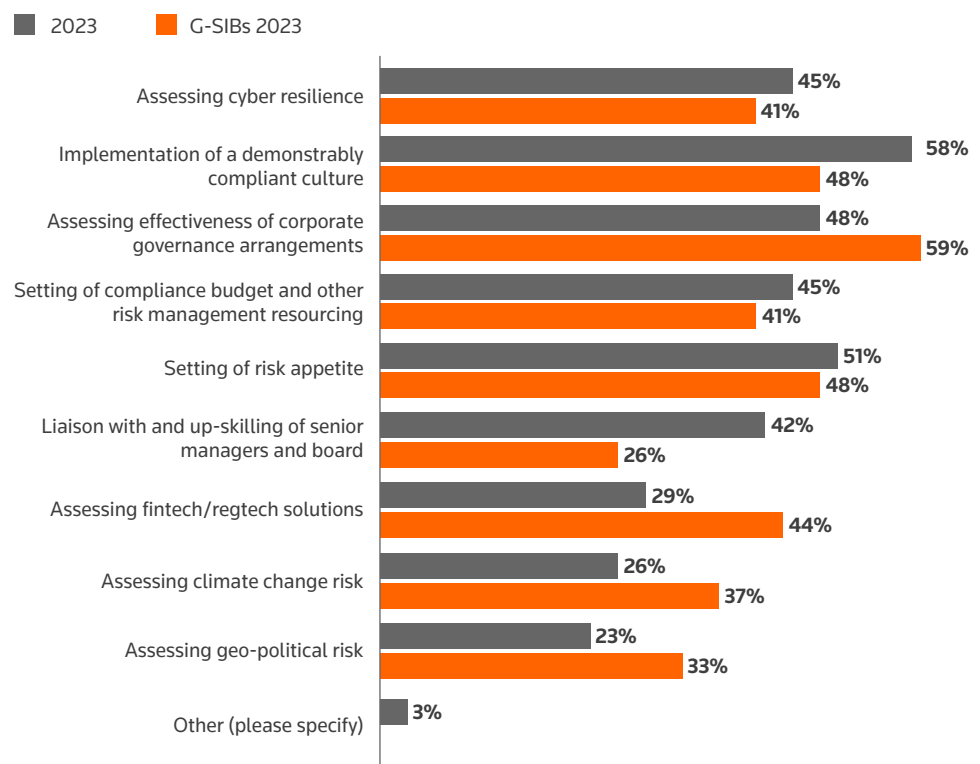
Diverse range of activities

Problems created by the volume of regulatory change are compounded by the range of subject areas with which compliance is now involved. Respondents reported that the top three areas of involvement were the implementation of a demonstrably compliant culture, the setting of risk appetite and assessing the effectiveness of corporate governance arrangements.

The compliance function's involvement in technology also featured, as did the need to liaise with and up-skill board members. The need to assess cyber-resilience and fintech solutions reflected the more widespread use of automated solutions both as part of regulatory initiatives within many firms and to help manage the compliance function's own procedures.

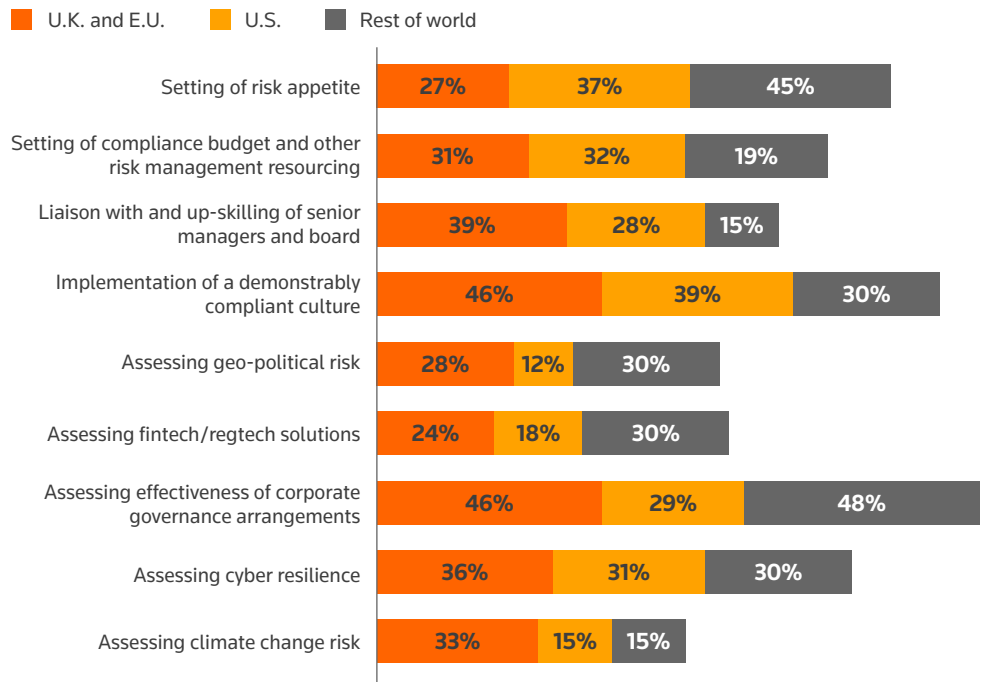
Keeping up to date with regulatory responsibilities is a prime objective for board members, and many jurisdictions have formalized this requirement in regulations for senior management. It is good practice for compliance officers to be able to update board members on the regulatory landscape and particular requirements that affect their areas of responsibility.

Figure 5: **Over the next 12 months I expect more compliance involvement in ...**



Source: Thomson Reuters 2023

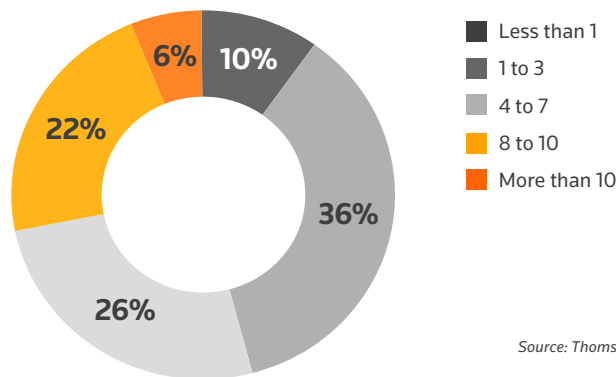
Figure 6: **Regional breakdown: Over the next 12 months, I expect more compliance involvement in ...**



Source: Thomson Reuters 2023

Reduction in time spent tracking regulations

Figure 7: **In an average week, how much time does your compliance team spend tracking and analyzing regulatory developments (in hours)?**



Source: Thomson Reuters 2023

Almost two-thirds (62%) of respondents reported that in an average week they spend between 1 and 7 hours tracking and analyzing regulatory developments. A total of 36% of respondents said they spend between 1 and 3 hours per week tracking and analyzing

regulatory developments. For G-SIBs, 48% of respondents said they spend between 8 and 10 hours, and 18% spend more than 10 hours, per week tracking and analyzing regulatory developments.

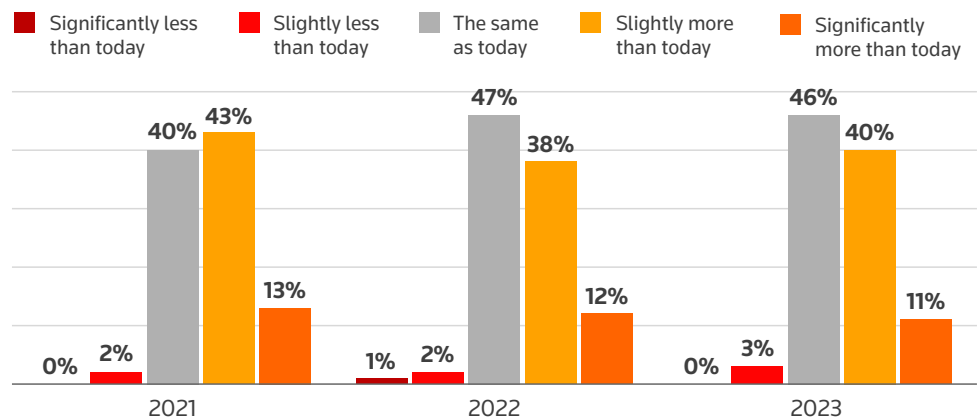
Last year, 73% of respondents said they spent between 1 and 7 hours, in an average week, tracking and analyzing regulatory developments (in 2022, 42% spent 1 to 3 hours, and 31% 4 to 7 hours). The reduction this year may be attributable to the more widespread use of regtech solutions for tracking regulations. (TRRI's *Fintech, RegTech, and the role of compliance in 2023* survey¹ reported that 50% of respondents had implemented a regtech solution or had done so in part – up from 38% in 2021.)

Regionally, 24% of compliance teams based in the United States and the Rest of the World spend between 8 and 10 hours a week tracking and analyzing regulatory developments. In the United Kingdom & the European Union, meanwhile, 31% of compliance teams spend between 4 and 7 hours a week tracking and analyzing regulatory developments.

Time spent liaising with regulators also expected to increase

The predicted increase in the volume of regulatory information and the broadening scope of the compliance officer's remit makes it unsurprising that respondents predicted an increase in the time they spend liaising with regulators.

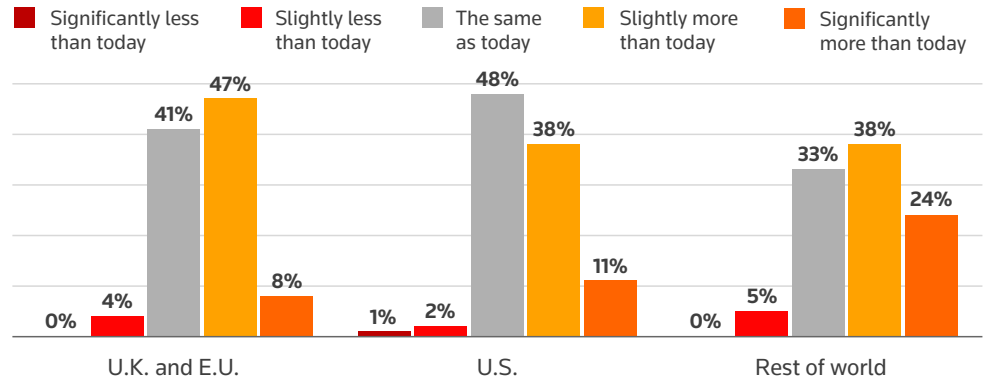
Figure 8: **Global: Over the next 12 months, I expect the time spent liaising and communicating with regulators and exchanges to be...**



Source: Thomson Reuters 2023

¹ *Fintech, RegTech, and the role of compliance in 2023*, Thomson Reuters Regulatory Intelligence, (January 4, 2023); available at <https://legal.thomsonreuters.com/en/insights/reports/fintech-regtech-and-role-of-compliance-in-2023/form>.

Figure 9: **Regional breakdown: Over the next 12 months, I expect the time spent liaising and communicating with regulators and exchanges to be...**



Source: Thomson Reuters 2023

In 2023, more than half of respondents (51%) said they expected the time spent liaising and communicating with regulators and exchanges to increase over the next 12 months (40% slightly more, 11% significantly more). In 2022, this was 50% (38% slightly more, 12% significantly more); and in 2021, it was 56% (43% slightly more, 13% significantly more).

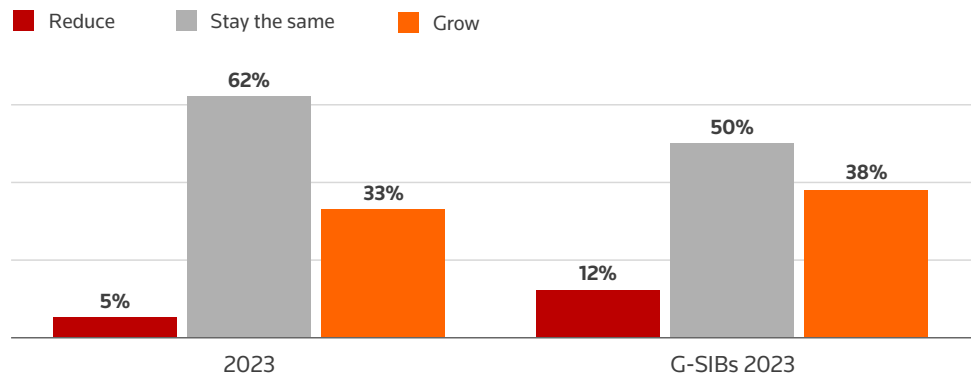
The top three reasons for the anticipated additional time were cited as *i*) an increase in information requests from regulators (66%); *ii*) the need to understand changing regulatory expectations (61%); and *iii*) more onerous regulatory and reporting requirements (57%).

Resourcing remains a challenge

Resourcing of compliance functions has been a feature of previous *Cost of Compliance* reports, and this year is no different. As the challenges and range of activities increase, it becomes harder for compliance officers to maintain an adequately resourced compliance function, as staff costs grow while budgets remain the same.

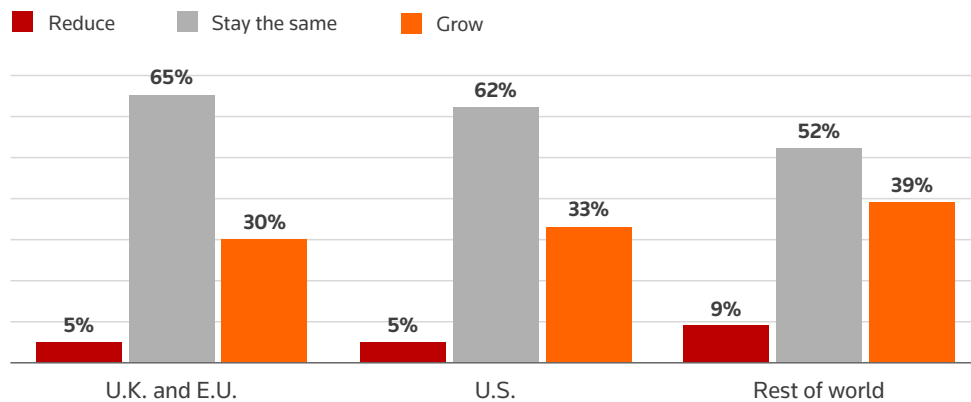
Compliance teams expected to grow for one-third of firms

Figure 10: **Global: Over the next 12 months, I expect the size of my compliance team to...**



Source: Thomson Reuters 2023

Figure 11: **Regional breakdown: Over the next 12 months, I expect the size of my compliance team to...**

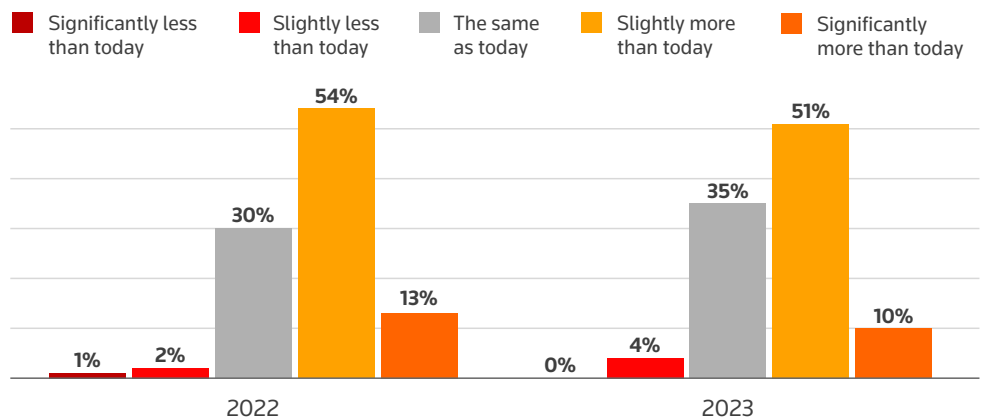


Source: Thomson Reuters 2023

Some 33% of respondents said they expected the size of their compliance teams to grow over the next 12 months, down slightly from 35% in 2022. Last year's anticipated growth (46%) among G-SIB respondents was not maintained this year, in which only 38% of respondents expected compliance teams to grow, with half (50%) expecting their team size to stay the same. Regionally, 65% of firms in the U.K. & E.U. and 62% of firms in the United States expect compliance teams to remain the same in the next 12 months.

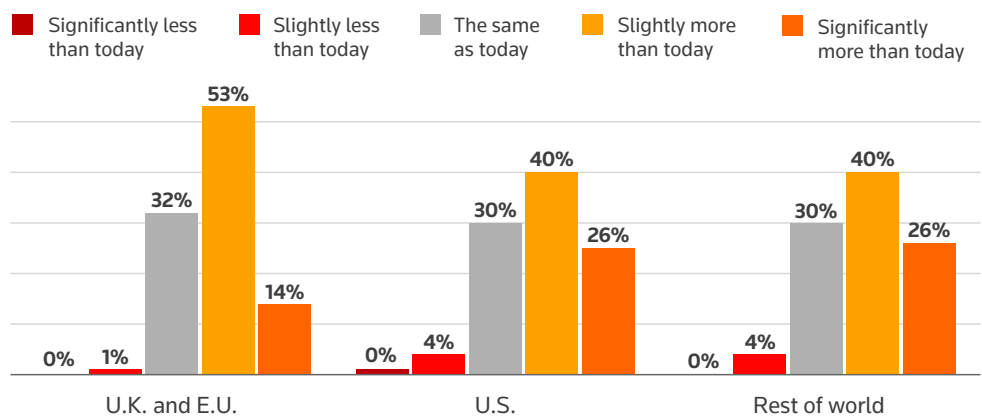
Cost of compliance staff to increase

Figure 12: **Global: Over the next 12 months, I expect the cost of senior compliance staff to be...**



Source: Thomson Reuters 2023

Figure 13: **Regional breakdown: Over the next 12 months, I expect the cost of senior compliance staff to be...**



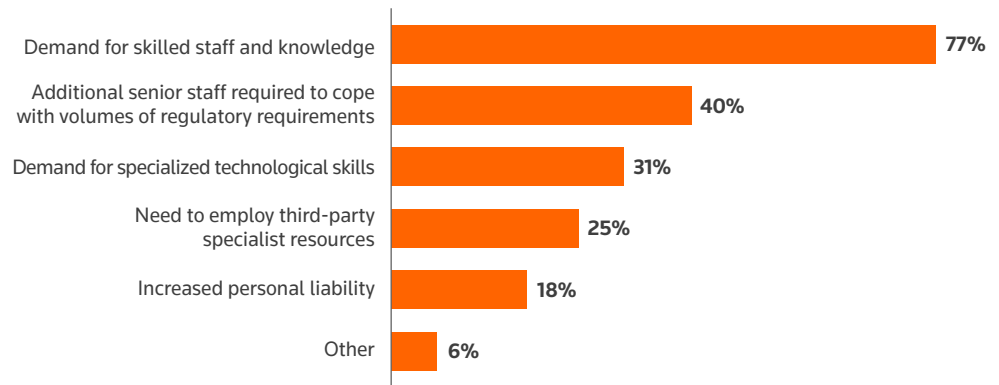
Source: Thomson Reuters 2023

The cost of senior compliance staff is expected to increase still further. A majority (61%) of respondents said they expected the cost of senior compliance officers to increase (51% slightly more than today, 10% significantly more), compared with 67% who said that in 2022

(54% slightly more than today, 13% significantly more). This trend continued in the regional breakdown, where 67% of respondents from the U.K. & E.U. said they expect an increase along with 66% in the United States.

The most common reason for this increase in costs was the need for skilled staff, while the second was the need to cope with the increasing volume of regulation.

Figure 14: **Reasons why cost of senior compliance staff is expected to increase over the next 12 months**



Source: Thomson Reuters 2023

Respondents identified subject matter expertise as the main skill required for an ideal compliance officer. This is due in part to the widening scope of subject matter areas with which compliance departments must be versed, requiring departments to seek expertise to provide the necessary assurance to boards that firms are adhering to the rules.

Many of these areas are common across industries, so that financial services firms will be competing for a smaller pool of candidates, making the recruitment of specialized expertise both difficult and expensive.

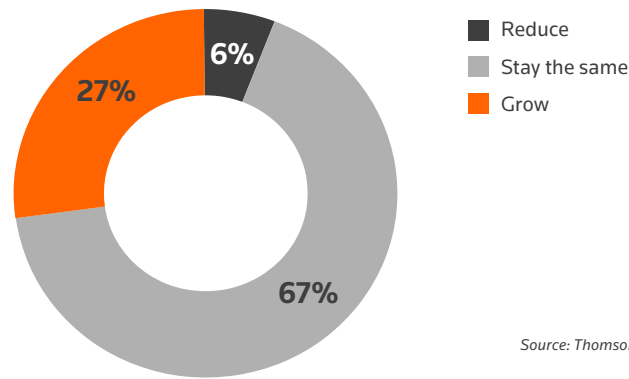
Figure 15: **What are the three skills required by a compliance officer in 2023?**



Turnover of staff to remain the same as previous years

One solution to maintaining the necessary level of expertise is for firms to retain existing expert staff, leading to more consistency and savings on recruitment costs. Most respondents to this year's survey predicted that staff turnover would remain roughly the same as last year.

Figure 16: **Over the next 12 months, I expect the turnover of senior compliance staff to...**

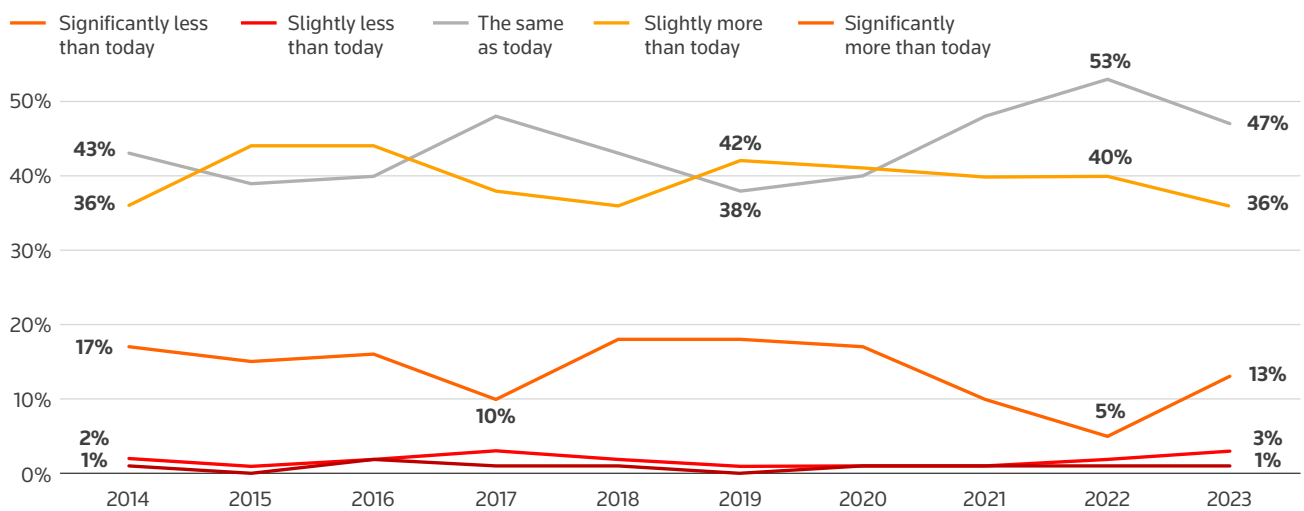


Source: Thomson Reuters 2023

Two-thirds (67%) of firms expect senior compliance staff turnover to stay the same in the next 12 months, following a similar trend as previous years (66% in 2022 and 68% in 2021).

Personal liability of compliance professionals to increase

Figure 17: **Over the next 12 months, I expect the personal liability of compliance professionals to be:**

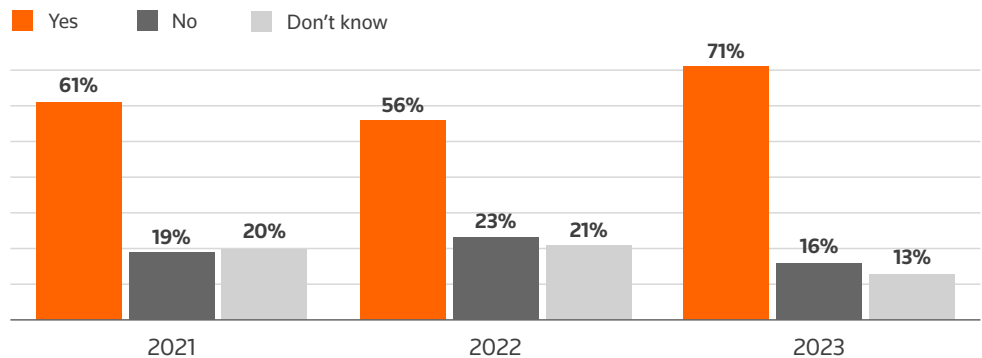


Source: Thomson Reuters 2023

In many jurisdictions, compliance officers can now be prosecuted personally if the company runs afoul of certain laws. This places more pressure on compliance officers to adhere to the laws and regulations and retain evidence of what they have done. Many professionals who are considering a career move into compliance may be dissuaded when they weigh the risks that firms face against the potential for being held accountable for those risks.

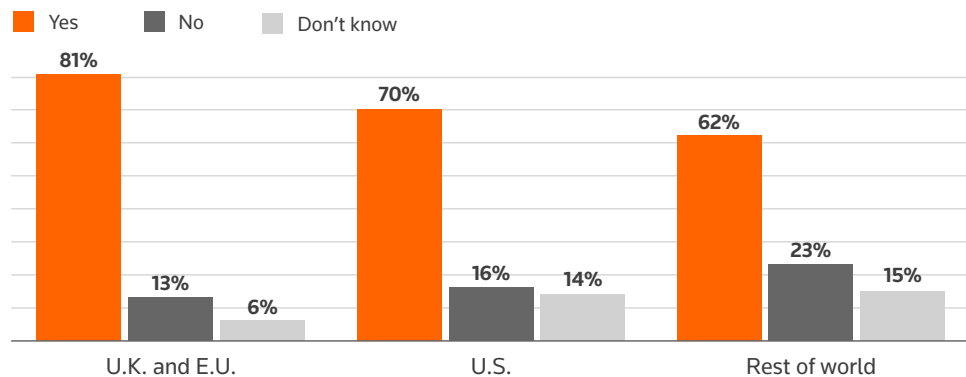
In this year's survey, nearly half (49%) of respondents reported that they expected compliance officers' liability to continue to grow (36% slightly and 13% significantly) in 2023. Respondents in the United States shared this concern, with 49% expecting compliance officers' liability to increase (37% slightly and 12% significantly).

Figure 18: **Global: Do you think that the regulatory focus on culture and/or conduct risk will increase the personal liability of senior managers?**



Source: Thomson Reuters 2023

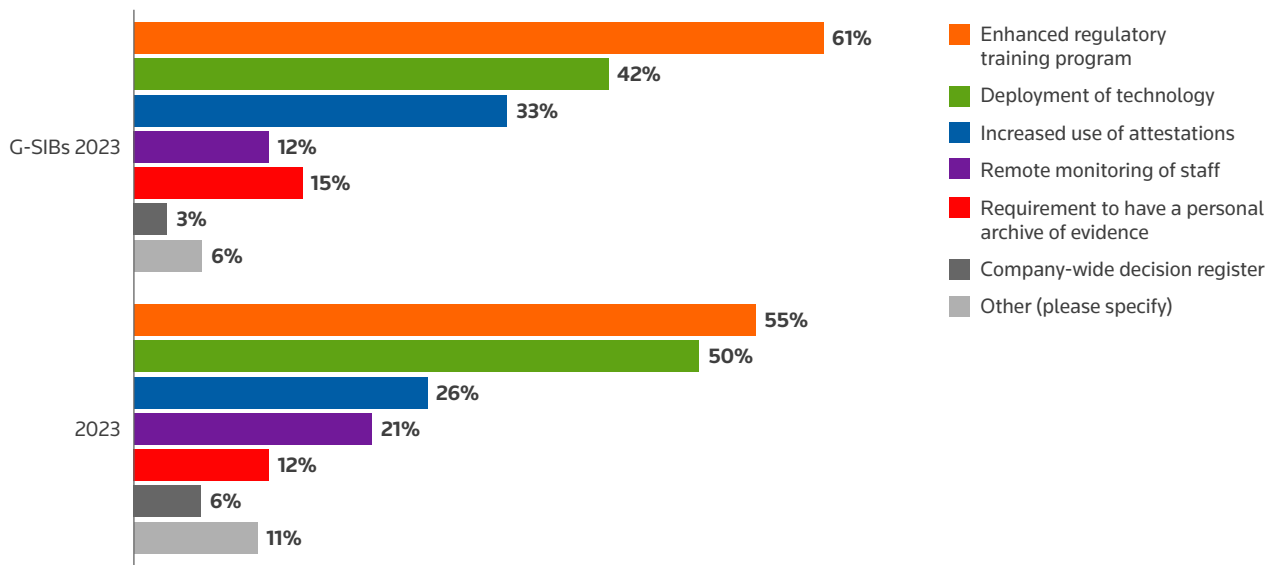
Figure 19: **Regional breakdown: Do you think that the regulatory focus on culture and/or conduct risk will increase the personal liability of senior managers?**



Source: Thomson Reuters 2023

Among senior managers there was a clear expectation that culture and conduct risk will remain a source of personal liability. In 2023, nearly three-quarters (71%) of respondents thought that the regulatory focus on culture and conduct risk will increase the personal liability of senior managers. This figure is almost as high as when this question was first introduced to the survey in 2020 (73%).

Figure 20: **What practical changes have taken place in your firm that affects the management of potential personal liability?**



Source: Thomson Reuters 2023

When it comes to managing personal liability, compliance officers not only have to manage their own liability but must also play an integral role in helping other senior executives manage theirs. In many jurisdictions, regulations mandate that executives in many different roles must keep-up to date with the regulations that affect their areas of responsibility.

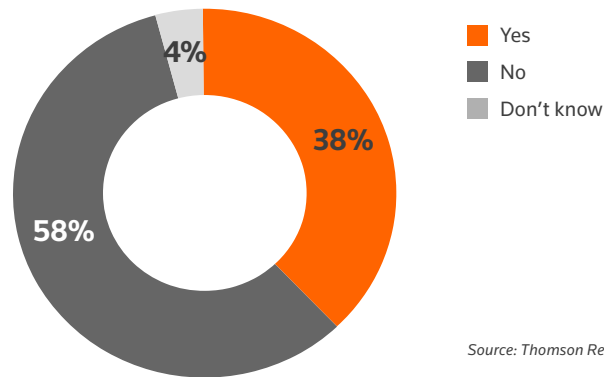
Compliance officers may be asked to provide briefings and other types of support to help senior executives. There are also other practical measures that both compliance officers and senior executives may use to help reduce their personal liability.

The top three practical changes that may affect the management of potential personal liability were identified as enhanced regulatory training programs (55%), deployment of technology (50%), and the more widespread use of attestations (26%).

Regionally, enhanced regulatory training programs were a priority among financial services firms based in the United States (42%) and the U.K. & E.U. (55%). The deployment of technology was a priority among firms based in the United States (44%), with firms in the U.K. & E.U. also focusing on the remote monitoring of staff (39%).

Use of outsourced providers has increased

Figure 21: **Do you outsource any or all of your compliance functionality?**



Source: Thomson Reuters 2023

The need for more skilled staff and the greater cost of recruiting them may have contributed to firms looking at outsourcing partnerships to satisfy this demand. More than one-third (38%) of compliance functions reported having outsourced some or all their compliance functionality, compared to 30% in 2022.

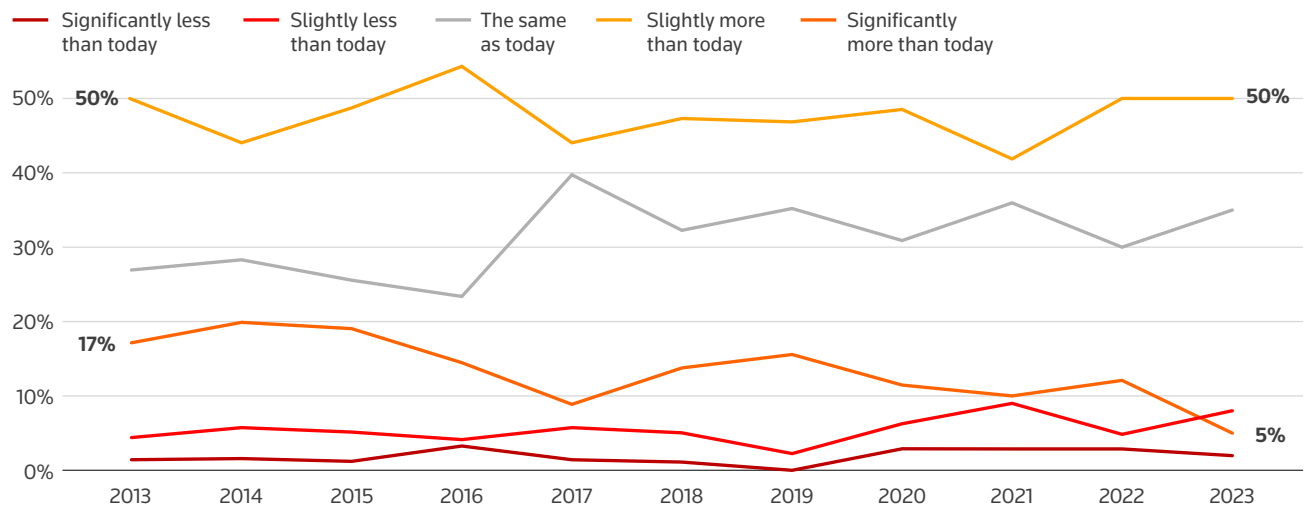
Respondents reported that the main drivers for outsourcing were the need to provide additional assurance (52%), the lack of in-house skills (42%), and cost (43%). G-SIBs attributed cost as the overwhelming (89%) driver for outsourcing.

Regionally, 43% of firms based in the United States said they outsourced part of or all their compliance functionality. In the U.S., a majority of respondents (55%) said they used outsourcing for providing additional assurance on compliance processes. In the United Kingdom and the European Union, cost was the biggest driver (55%).

Overall budgets to remain tight

Although respondents felt that their budgets would increase slightly in 2023, there was less optimism that budgets would increase significantly, and there was an increase in the percentage of those who felt that budgets would remain the same as 2022.

Figure 22: **Over the next 12 months, I expect the total compliance team budget to be...**



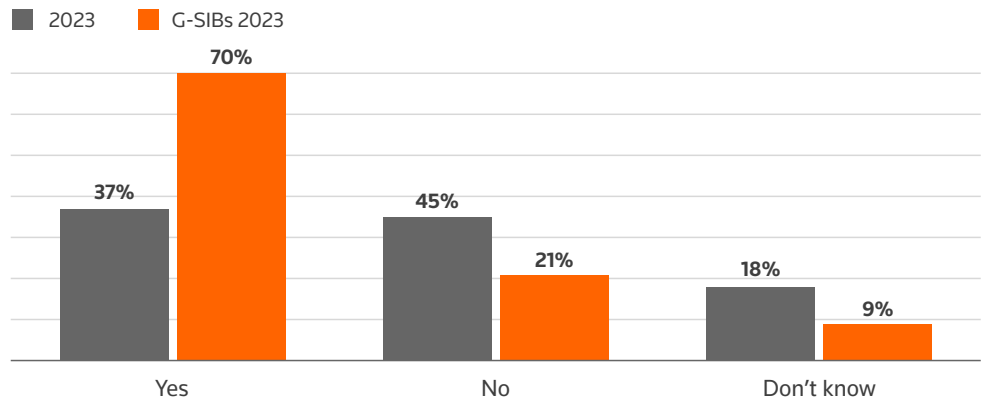
Source: Thomson Reuters 2023

In 2023, 55% of respondents expected an increase in budgets (50% slightly more, 5% significantly more) compared with 62% in 2022 (50% slightly more, 12% significantly more). Indeed, the percentage of respondents who felt their budgets would increase significantly has dropped over the past decade from 17% in 2013 to 5% in 2023. G-SIBs and respondents in the various regions echoed these findings.

Regionally, 57% of firms based in the United States expected their total compliance team budget to increase in the next 12 months, compared with 50% of firms in the Rest of the World and 48% in the U.K. & E.U.

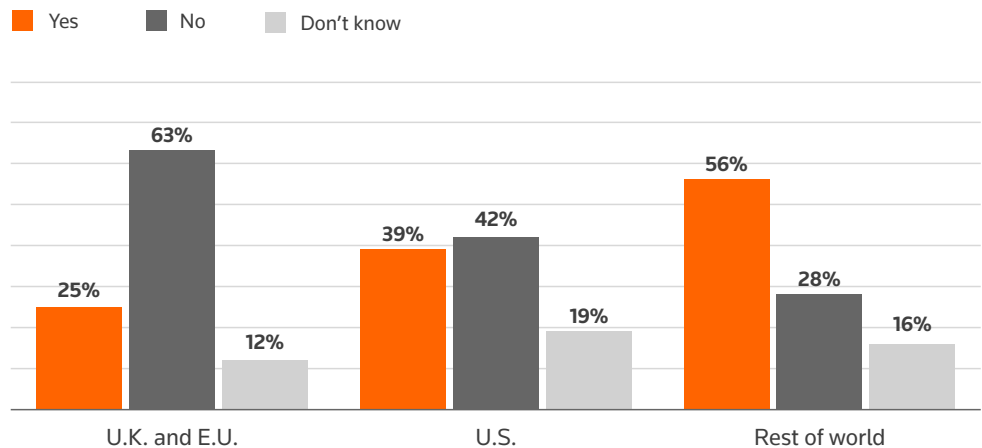
Compliance costs not monitored

Figure 23: **Global: Does your firm monitor the financial costs of compliance with regulations across the organization?**



Source: Thomson Reuters 2023

Figure 24: **Regional breakdown: Does your firm monitor the financial costs of compliance with regulations across the organization?**



Source: Thomson Reuters 2023

Given the financial implications of dealing with the challenges of greater regulation, budget limitations, and resourcing issues, it is perhaps surprising that a significant proportion of respondents did not monitor the financial costs of compliance with regulations across their firms.

Overall, 37% of respondents reported that they *did* monitor financial costs of compliance with regulation. This figure was 25% in the U.K. & E.U. and 39% in the United States. However, 45% of respondents said that they *did not* monitor costs of compliance with regulations across their firms.

It can be difficult to monitor the cost of compliance with regulation. There are many factors to consider, and there is no standard template to determine the scope of such costs. Data may be available in budget submissions and through payroll, which, when applied to a compliance department, may be easy to translate into the cost of compliance.

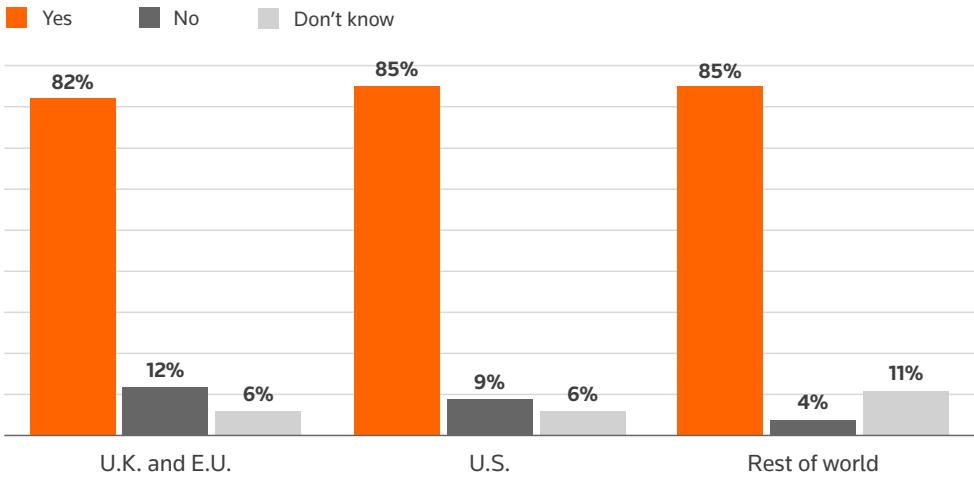
Yet, other costs are more difficult to determine, such as the proportion of operational staff time, consideration of complaint or claim costs, or even IT system costs specifically operated for compliance reasons. All of which may make the determination of compliance costs a time-consuming and subjective exercise.

Despite the challenges involved, the results of determining compliance costs can act as a useful benchmark for those firms that have attempted to quantify these costs, helping them to make that case to be provided with the required funding to support a strong compliance culture.

Strong compliance culture exists despite conduct and cultural challenges

Despite the challenges reported above, respondents felt their firms operated effective compliance cultures. In the United States, 85% of respondents considered their firm to operate an effective compliance culture, and in the U.K. & E.U., 82% respondents thought this.

Figure 25: **Regional breakdown: Do you consider that your firm operates an effective compliance culture?**



Source: Thomson Reuters 2023

Respondents predicted several culture and conduct risks that could challenge a firm's compliance culture, however.

Figure 26: **What is the single biggest culture or conduct risk your firm is facing?**



The need to balance competitive and compliance pressures reflects the difficult economic environment in which firms are working and the competing demands on compliance budgets.

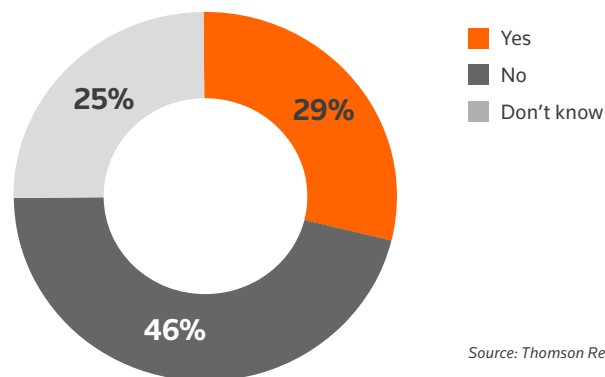
Respondents reported that staff morale was the fourth-biggest culture and conduct risk. For compliance officers, this may be the result of the consolidation of the challenges identified above. Heavier workloads — which may not be matched by a concomitant level of resources — may put additional pressure on staff, and this may have a detrimental effect on morale.

In the wider organization, lower staff morale may translate into a lack of diligence when performing tasks and a greater temptation to take short cuts, resulting in a lower level of compliance. When combined with the heightened threat of cyber-attacks — seen as the second-biggest culture and conduct risk — this may pose security problems for firms.

Disgruntled employees may feel less inclined to follow the rules, increasing the risk of data breaches, fraud, or other illegal activity. Firms need to ensure that internal controls are in place with regards to data, IT systems, and finances in order to prevent and detect any issues perpetrated by staff.

Fewer profitable business propositions being discarded

Figure 27: **Have you in the last 12 months discarded a potentially profitable business proposition due to culture and/or conduct risk concerns?**



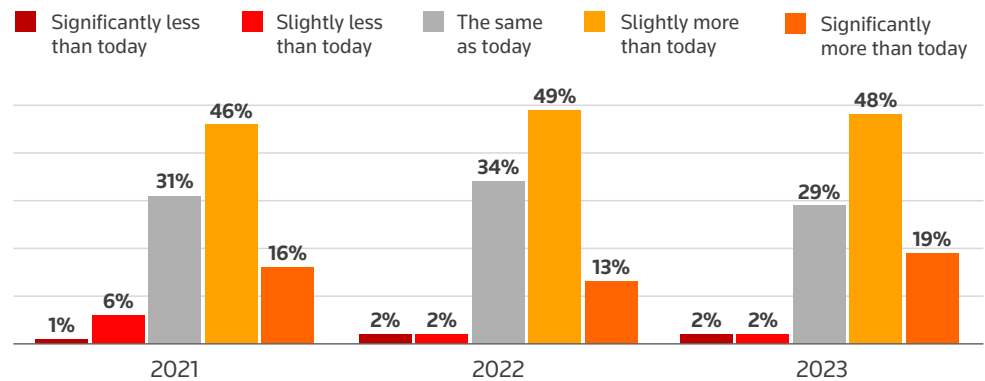
Some 29% of respondents reported having discarded a potentially profitable business proposition due to culture and conduct risk concerns. This past year, however, has seen a return to 2021 levels (46%) in the number of respondents reporting that they had not discarded a potentially profitable business proposition due to culture or conduct risk concerns, as compared with 50% in 2022. Only 21% of G-SIBs said they had not discarded a potentially profitable business proposition due to culture or conduct risk concerns (compared to 40% in 2022).

Regionally, nearly half of firms (48%) based in the United States said they had discarded a potentially profitable business decision due to culture or conduct risk concerns, compared

with just 35% of firms based in the Rest of the World. In the U.K. & E.U., 43% said they had discarded a potentially profitable business proposition.

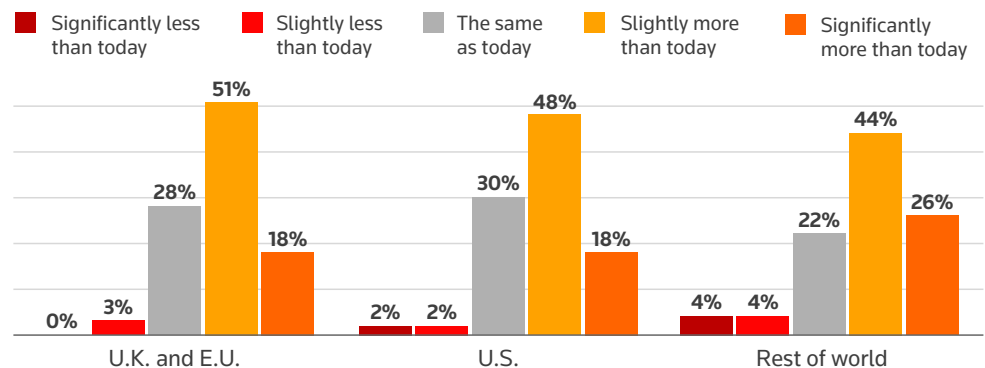
More time expected to be spent on conduct issues

Figure 28: **Global: Over the next 12 months, I expect the cost of time and resource devoted to conduct risk issues to be...**



Source: Thomson Reuters 2023

Figure 29: **Regional breakdown: Over the next 12 months, I expect the cost of time and resource devoted to conduct risk issues to be:**



Source: Thomson Reuters 2023

Although strong compliance cultures exist, respondents reported that they expect to see more resources devoted to conduct risk issues, with more than two-thirds (67%) of respondents saying they expect a higher cost to come with managing these issues over the next 12 months (48% slightly more, 19% significantly more).

Almost two-thirds of G-SIBs (64%) expected the cost and time devoted to conduct risk issues to increase in 2023, compared with 73% in 2022. Regionally, 66% of firms based in the United States and 69% of firms in the U.K. & E.U. expected the resources devoted to conduct risk issues to increase over the next 12 months.

Closing thoughts

Regulations are introduced for many reasons: to protect stakeholders, to stabilize firms and markets, to allocate responsibilities, to promote transparency, and to prevent nefarious practices. For regulations to achieve their aims, however, there needs to be agreement that those affected by the regulations will comply, and this often can be difficult. It requires strong leadership, behavioral change, governance, training, and a commitment of resources on the part of those regulated — and when these factors are absent, regulations are significantly harder to apply and thus less effective.

The gap between the volume and speed of regulatory change and firms' ability to comply goes to the heart of regulatory effectiveness. Unless firms have the means to comply with them, regulations are just the evidence in an enforcement case. Continual increases in the number of regulations thus only increase firms' exposure to compliance and regulatory risk.

The *2023 Cost of Compliance* survey explored this relationship between regulators and financial services firms and has highlighted a widening divide. The expectation is that regulatory change will grow in both volume and pace, yet the resources available to firms to manage that change will, at best, remain the same.

It is encouraging that respondents reported that they have strong compliance cultures already in place, as this will help them manage the compliance challenges ahead. However, firms must not allow themselves to think that their job is done. Cultures are like muscles — they need to be continuously exercised to operate effectively, and much of the required discipline will need to come from the compliance function.

A look into the future suggests that this pressure is unlikely to lessen. The survey asked respondents what they saw as the ideal characteristics of a future compliance function, and responses indicated that compliance should be seen as a strategic business partner that is resourced adequately.

Figure 30: **What does the ideal future of the compliance function look like?**

Clearer, unified guidance from regulators *Data- and* **Valued by senior management**
Adequately resourced *technology-driven*
 Agile **Strategic business partner**
Greater focus on ESG Independent **More automation of compliance activities** **Fully integrated throughout the business**
Embedded within company culture

The compliance function needs to play a central role in demonstrating that a firm has a strong compliance culture throughout the firm. To do this, compliance functions must have a suitably senior place in firms' management hierarchy and be seen as business partners rather than police.

A particular goal for many compliance officers is for firms to have an overarching compliance culture in which they actively advise the business on how goals can be achieved in an open and cooperative way. To achieve that, however, compliance functions need to be given the appropriate budgets, resources, and technology.

Regulators need to be aware of both sides of this relationship. They do not introduce new regulations lightly, and the balance between costs and benefits of new rules must be proven. Regulators must, however, be aware of the ramifications for firms of a constant stream of new regulation, and tailor their approach accordingly – otherwise it may be difficult for firms to meet their aims.

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