

McLagan Presents

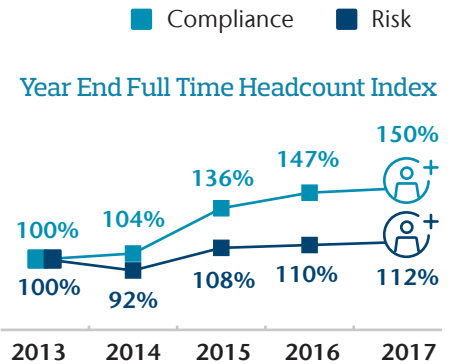
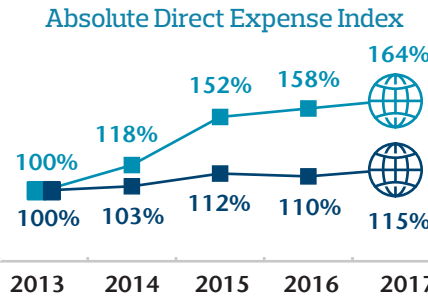
How Can Banks Compare their Risk & Compliance Cost Base to the Market?

Risk and compliance functions have seen significant change and investment in recent years. **Given the investment across these functions, how can banks understand the industry landscape to allow them to assess their own risk and compliance cost base and strategy?** Our unique proprietary dataset—Gauge—reveals some interesting trends across the banking industry.

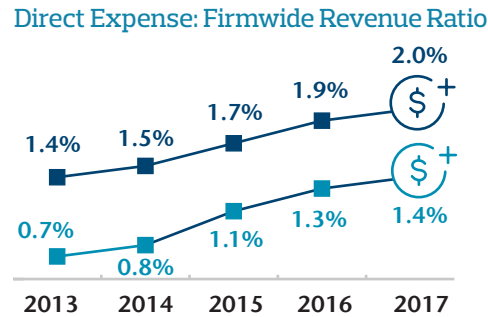
Recent Trends in Risk and Compliance Investment



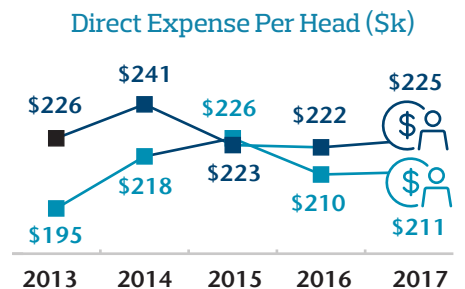
Compliance function expense has increased by 64% since 2013, showing the impact of investment in AML and KYC monitoring.



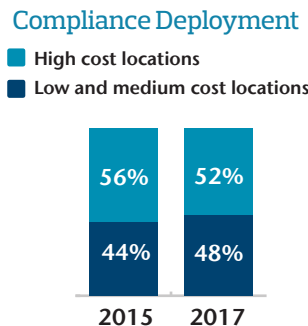
The impact of an expanding cost base on the efficiency ratio is highlighted by the change in the direct expense: firmwide revenue ratio, which has increased across both risk and compliance by 1.4% since 2013. This amounts to a **\$350 million increase in risk and compliance** spend for the average top 50 bank.



Since 2015, **direct expense per FTE head has increased in risk and decreased in compliance** due to a shift in headcount deployment from higher to lower cost locations, reductions in contractors, and tactical savings for non-compensation expenses.



Compliance remains an area where technology and automation can have an impact. Although most firms report increases in headcount and expense base, the total cost per FTE compliance head reduced by 7% between 2015 and 2017 (see direct expense per head trend graph). **We expect automation and deployment strategy to be key levers in driving down both the overall cost of compliance and cost per head.**



Industry Outlook



Cost pressures will remain

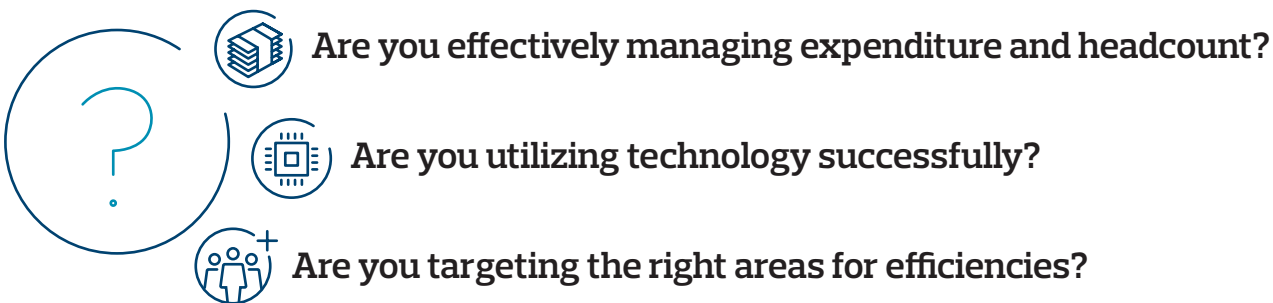
- We expect cost to continue to increase.
- Regulatory and mandatory initiatives, such as Brexit and FRTB, will continue to drive the need for investment.
- Operating models will evolve as front office quant risk groups move into group risk, and regulatory focus on the three lines of defense intensifies.
- Firms will have to maintain technology investment to deal with increasingly complex compliance issues.

Extracting greater returns on investment

- Firms will need to balance risk and compliance investment demands with pressures from the market to reduce cost as we near the end of economic cycle.
- Several firms have made external cost commitments to the markets, and therefore, any investment will need to yield long term efficiency benefits.
- Smart investments will require a deep understanding of the expense and headcount base, drivers of inefficiencies, and the levers that can help extract cost efficiencies.

Gauge: measure and interrogate your risk and compliance function performance data

The general ledger and headcount submissions we receive each year from major banks make our proprietary dataset unique in the industry. This allows us to help clients answer the strategic challenges they face with fact-based, data-driven insights. We help business leaders answer questions like:



With the Gauge benchmarking offering, firms have the flexibility to compare themselves against their chosen peers, giving them the data they need to deliver actionable results to improve overall efficiency and performance. Our proprietary software helps map each participant's data into a common framework.

To learn more about the trends and outlook for risk and compliance in the banking sector and how to assess your performance, please contact info@mclagan.com or your McLagan relationship manager.

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