WorkFusion

The Hidden Costs and Risks of Poor Employee Experience in AML and KYC Operations

As regulations on banks and financial institutions continue to increase and expand, compliance operations teams retain high numbers of analysts, many performing mundane yet mandatory tasks. The employee experience of these compliance analysts is often a lesser-recognized issue, but it creates a surprisingly large impact on the whole organization, bleeding costs and increasing risk.

Prologue

Patrick is a Financial Crime Analyst. He's been working at one of the larger banks in the United States for about 8 months. He loves the idea of his job: Spend all day, every day, fighting financial crime by examining data from the bank and other entities. It fits well with his Criminal Justice education. He thought that's what he signed up for in this anti–money laundering (AML) gig: conducting investigations of risky bank customers, making sure they are legit and their money is clean.

But now Patrick wants to look for a new job. Although his work includes hints of the financial crime-fighting he sought, he's bored with his actual day-to-day tasks. Occasionally, he does have an interesting investigation, but most of his time is focused on clearing false-positive name screening alerts. Variety might mean helping other teams with their backlog of news or payments screens. But these, too, are uninspiring. He appreciated his employer sponsoring his ACAMS classes, but another bank with an office close by is paying 15% higher salaries for the same work. He wants to like his job, but he is itching to find something different.

Across financial crime compliance operations, whether CIP verification, sanctions screening, or transaction monitoring, there are countless Patricks. This archetype represents a commonly perceived "necessarily evil": analysts performing mundane, repetitive, manual work. Banks too often justify hiring more people as the only solution. As regulations continue to increase and expand, financial institutions perpetuate this status quo by retaining high staff numbers, many performing low-value yet mandatory operations. Organizations are not only bleeding costs, but also increasing their risk — which is mostly hidden deep in the data, systems, and processes. Many, if not most, compliance leaders that we speak with agree that manual work increases their risks, both from poor control execution and not abiding by procedural requirements.

The employee experience of compliance analysts is one of these lesser-recognized issues. These analysts have to handle a huge quantity of manual work, thus making for a generally tedious employee experience. In turn, their perceptions and responses create a surprisingly large impact on the whole organization, resulting in costs and risks that are perceptible even if not apparent on the surface.

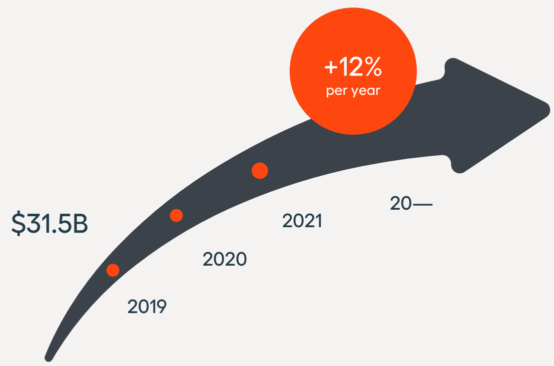
As we examine the manual workflows in AML and KYC — focusing on a common one, review of sanctions and PEP alerts — we will highlight some commonly missed costs and risks, and reveal alternatives that can offer immediate improvement.

Manual AML operations: mundane work leads to high attrition

Financial institutions' need to comply with AML and KYC regulations and guidelines has created a proliferation of systems and sources that contain complex caches of documents and data — all aiming to satisfy demands from internal compliance teams and external regulators, and also provide an audit trail.
Ten years ago, technology was basic and rules-based. Systems have become quite advanced, yet analysts are still the key asset.

According to LexisNexis, the cost of AML compliance programs was $31.5B in North America in 2019 alone, expected to increase 12% per year.[1] Much of the cost comes from manual approaches to ensuring compliance — but it's just not money well spent. When talking with customers, we at WorkFusion still hear concerns that, despite layers of manual review in place, 10% of errors (material and non-material) are not identified until a formal review, including compliance testing, internal audit, or an exam. Our research finds 95% of AML-related consent orders for financial institutions from the OCC and Federal Reserve require improvements in customer-screening procedures.[2]

Cost of AML compliance programs, North America



Source: LexisNexis

Analysts tend to leave their post within 12 months due to non-engaging work

Example: manual work in Name Screening Alert Review

For Name Screening Alert Reviews, Level 1 (L1) analysts must review alerts identified by screening software, clear irrelevant false positives, perform light research, and escalate any results which appear to have associated risk.

Reasons for clearing an alert may include:

1. Account holder's name is similar to a sanctioned person's, but clearly different
2. Applicant has a name matching a sanctioned individual's, but their birth dates are years apart
3. An executive of a business account has the same last name and birthday as a politically exposed person (PEP), but is a citizen or resident of a different country
4. Financial institution does not have the same definition of PEP as raised in alert

Screening software can be tuned to reduce the number of alerts, which could mean unfortunately missing something. Thus, the systems are often set to not skip anything and rely on people to review flags. That creates work which is not engaging: simply comparing tables of data, or maybe going to a third-party source to perform an extra bit of research.

The tedious nature of these tasks can be frustrating. Because although there are some instances that do require examination, and even a few investigations that do identify adverse entities, these are rare compared to the huge number of false positives. So, here we have banks and financial services firms with maxed-out staffs laboring at an intense pace on uninteresting tasks, after a non-trivial learning curve during onboarding. So it's not too surprising that the firms also see a high attrition rate for those same analysts after a short tenure! AML/KYC programs typically require 2–3 months of onboarding for each analyst, which is then, too often, followed by a disheartened departure within 12 months. This shows how mundane work not only creates a painful workday for analysts but creates troublesome hidden costs and risks for organizations.

Exploring hidden costs and risks

AML and KYC operations have obvious costs for any financial institution, but what's hidden from the conversation?

Calculating hidden costs

Yes, obviously people must be compensated for their time to perform the work. But managers may not realize how costs to the organization extrapolate out — eventually totaling as much as four times their salaries! Let's break it down:

Per person cost is at least 3x salary: Salary is just the start. MIT professor Joe Hadzima[3] has analyzed this, providing rules-of-thumb as a planning model. First, multiply a salary by x1.25 for tax and benefits per employee. Typical cost planning often stops here, but there is more to consider. After loading in the tax and benefits, multiply that figure by x1.75 for offices and other workplace costs, and another x1.25 for management and admin costs. These figures may be easy to skip, but real estate for increased staff levels can be a real concern[4] and there are costs for management, human resources, and other administrative items.

For AML operational teams, there is even more to consider, as QC is a major wildcard. Whether an L1 analyst has 10% of their work reviewed, or all of it (as in a full maker-checker, 4-eye-check scenario), there must be a certain level of review on top of the first pass at the work. Conservatively, with these multipliers, the actual employee cost to the company is least 3x their salary.

High attrition wastes onboarding expense and effort. Because analysts tend to churn within 12 months and the onboarding time tends to take 3 months to achieve full productivity, each analyst gets paid for 12 months of employment but only provides 9 months of full productivity — not to mention an estimated $4,000 in annual recruiting costs[5] to replace each person. Overall, this results in a new employee costing over 14% more than a retained employee.

Revolving-door capacity planning: Further adding to cost is question of team capacity. If there's continual fluctuation of employee status (cycling through a 3-month onboarding ramp-up, full productivity, then departure), management may proactively solve for inefficiency. In such an environment, a 10 FTE team continually hiring would need to over-staff, raising staffing levels up to 13 people in some months, on average about 15% more employee cost than a consistent team.

Per person cost is at least 3x salary

Salary: $50,000

x 1.25 for taxes and benefits

x 1.75 for workplace costs

x 1.25 for management & admin

x 1.10 for QA

$150,391 == 3x salary

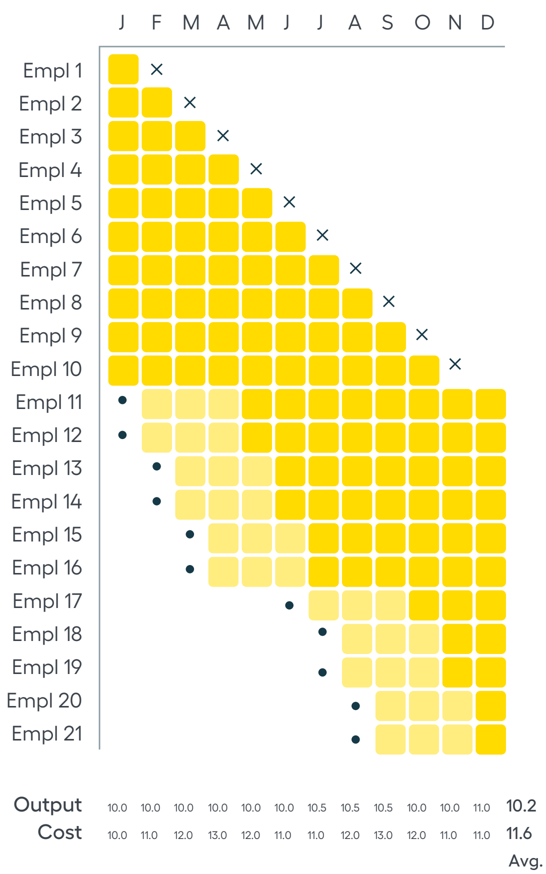
Alternatively, a reactive, hopeful approach may be to cap the team at 10 FTEs and simply react to each employee departure as it occurs. But although this plan may appear thrifty, it risks a frequent dip to 60–70% capacity and is reliant on temporary solutions like hiring external contractors, borrowing hours from other teams in the bank, or even pulling in management personnel to help — all with much higher pay rates than the typical analyst. Proactive, reactive, or in-between, there are extra costs to that revolving door, even at an illustrative premium of 30–40%.

Productivity Level of High Attrition Workforce

Team staffing levels for high attrition workforce (team of 10)

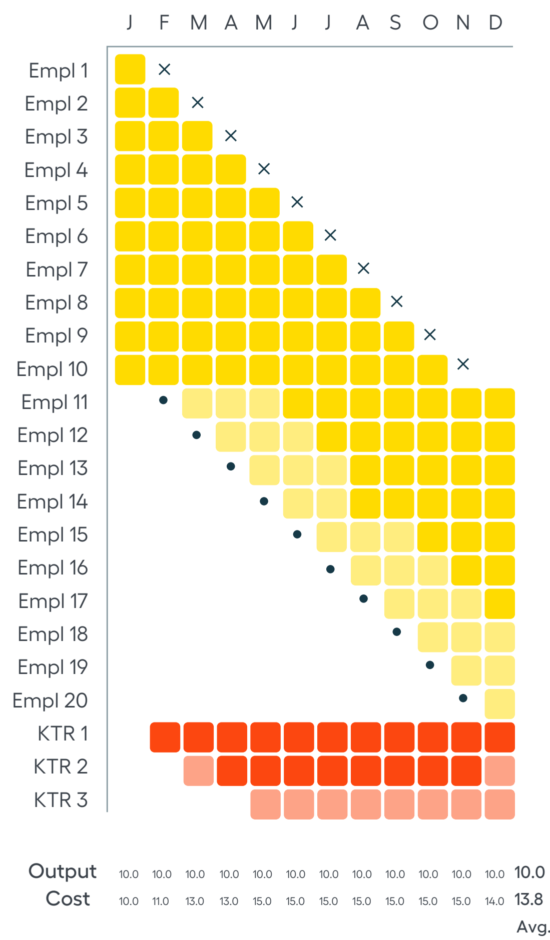
Proactive Scenario

Hiring in anticipation of team member exits



Reactive Scenario

Hiring after exits; external resources to supplement



Legend

- Full productivity
- Ramp-up productivity (50% average)
- • Hiring
- × Departure
- External resource (2x cost)
- External resource (2x cost, 50% time)

Hidden cost summary: To pull these factors together, assume an analyst is based in the United States with a salary of $50,000. Multiply by 3 for the salary and QC multiplier. Then add $4,000 of recruiting cost to replace each team member and multiply that by another 1.14 for onboarding costs. Finally, multiply by another 1.15 for the minimum of 15% overstaffing needs. The result? That average $50,000 salary turned into over $200,000 of cost per employee — more than 4x their gross pay.

High attrition employee cost is 4x salary

Salary	$50,000
x 3 for employee cost	$150,000
+ 4k for hiring cost of replacement	$154,000
x 1.14 for onboarding ramp-up costs	$175,560
x 1.15 for overstaffing	$201,894
	4.04 of Salary

> 4x for high attrition employee cost

Identifying hidden risks

Within AML, what may be more important than the hard costs is the level of risk within the operation itself. While human brains offer significant cognitive and analytical abilities, adding more people to any process creates more risk.

Quality risk: People are human. To state the obvious, people are human. With their high cognitive capability comes unreliably precise outputs. According to WorkFusion research and customer experience, fully manual compliance processes can yield errors around 10% of the time. We all know that people, being human, perform at different levels at different times of the day and have non-work responsibilities and emotions that may distract them from the work at hand. An error 1 out of 10 times — whether due to lack of knowledge, lack of time, lack of focus, or just occasional distractions — is not poor performance, but a very human one. Exacerbating the quality issue — especially in high attrition teams — is the experience level of staff: New employees aren't as productive and make more errors than experienced counterparts. Regardless, this must be managed where it remains a part of the daily work.

Reliability risk: Fuzzy short-term outlook. Due to high attrition, it is very difficult to maintain consistency of capacity and output. Because the team's size and its ability to produce output is in flux, planning growth or enhancing satisfaction is challenging. Further, documentation is typically outdated, leading to people adapting to the current state of affairs, then departing before standardization is possible. This makes it difficult to plan the short term, let alone scale to the long term.

Agility risk: Less ability to plan. The difficulty of just completing known business demands makes responding to unplanned events nearly impossible. An unplanned government memorandum or other remediation event can cause near-chaos for a compliance team. Any delay in the process causes a backlog, and adding to those already large work queues only creates more risk as people are asked to work faster and/or third-party teams are asked to execute rushed requests.

Hidden risks of manual AML & KYC

Example: manual work in Name Screening Alert Review

Let's return to Name Screening Alert Review. To analyze the costs, we'll keep the math simple by assuming a 10-person team based in the U.S. If each person has an average salary of $50,000, the cost for salaries is a simple $500,000. But per previous, our salary cost multiplier is 3x, meaning the steady-state cost of this 10-person team is really $1,500,000.

But this work suffers from a high attrition rate, and that 10-person team will not stay together the entire year — actually, they are more likely to turn over entirely within the year. Recruiting 10 people costs another $40,000, but adding that cost to the 3 months' waiting for each analyst to reach full productivity puts the total at $1,755,600. As that initial team of 10 incrementally departs the organization and new team members arrive, maintaining a consistent level of output requires an additional 30% capacity, arriving at a total of $2,018,940.

So the full sum of that 10-person team, each making $50,000 on average, costs the organization not $500,000, but over 4x that each year. And these are just the hard costs! Remember the risks: 10% of the work completed has an underlying error. People are working inconsistently. Management hopes to avoid any unplanned events (despite their inevitability).

Clearly there is a need to do things better. Not just reducing costs, but reducing or removing mundane work to reduce the risk, too.

Solving hidden costs and risks

How can leaders solve these hidden costs and risks, not to mention the surface costs already being discussed? Continuing classic methods that focus on the people, processes, and technology is one way. Or, an alternative can transform the work, particularly the low-level and mundane elements.

Classic approaches: improve the people, processes, and technology

Conventional paths tend to focus on a people or systems perspective: enhancing the people and the processes they execute or implementing and improving IT tools facilitating the processes.

People-focused improvement: Improving people could mean increasing the quality of individuals, such as training team members to perform better or raising hiring standards. It also includes strengthening the overall performance of the team, with enhanced quality control (QC) and quality assurance (QA) layering, or process reengineering, using existing tools. To increase the speed and capacity of the team, perhaps scale up the number of FTEs. An advantage of people-focused options is they are less disruptive and keep business moving. They also can be seen as enabling business as usual, and retaining that mundane work, with all its down sides.

Technology-focused improvement: Improving technology could be reconsidering the existing tools in place, such as adding more fuzzy logic or business rules. Or purchasing point solutions from external vendors and having internal teams build custom tools. An advantage would be tangible and measurable shifts. But as people must pull together the individual systems, the expected value may not appear, especially if work is merely shifted from Ops teams to more-expensive tech teams (like data scientists).

High attrition employee cost is 4x salary

Average salary	$50,000
Team	10
Team salary	$500,000
x 3 for salary cost	$1,500,000
+ 4k for hiring cost of replacements	$1,540,000
x 1.14 for onboarding ramp-up costs	$1,755,600
x 1.15 for overstaffing for productivity	$2,018,940
	4.04 of salary

> 4x for high attrition employee cost

Process-focused improvement: Improving a process unites people and technology to optimize the steps that people perform, eliminate steps, or apply tools. In recent years, automation has attempted to take this further: A desktop utility like attended Robotic Process Automation (RPA) can perform steps just as a person would, as long as those steps are fully defined. Simply focusing on better execution of steps may be a good, quick solution, but achieving actual value may require more.

Sometimes, you need a completely fresh approach.

Another way: transforming the work of the operation

A different way to approach improvement is transforming the work — especially low-level, mundane work that burdens AML & KYC operations.

Rather than focus just on the three classic elements of people, processes, and technology, transformation of work adds a fourth factor: data, and looks across all four elements holistically.

This can mean data like key performance indicators (KPIs) in analytics dashboards, yes. More importantly, it means: data that rests in the technology, data that is sourced and

Transform the work by asking

1. What is the work people perform?
2. What is the data they need & produce?
3. How are systems used?

manipulated as part of the process, and data that people use to perform actions and make decisions. Access to all this data, along with people, processes, and tools, allows for a transformation of work. Where process improvement initiatives may have asked, “What are the steps people perform with each system?” the work transformation approach asks, “What is the work that people perform? What is the data they need and produce, and how are systems used?”

Focusing on the work to be done allows teams to focus directly on the manual aspects driving substantial cost and risk, as well as apply new technologies that leverage data, such as Intelligent Automation. They can look holistically at the work people should really be doing: the high-value, cognitive tasks — not the rote mouse-click and keystroke steps a machine can do, or the low-level tasks a machine can learn.

Transforming the work helps eliminate the hidden costs and risks. First, by enhancing the employee experience, the key issue of attrition in the workforce is vastly reduced. Lower staff turnover means reduced hiring and onboarding costs, as well as more consistency and reliability. Leveraging Intelligent Automation to accomplish this also helps increase capacity without incurring more salaries, and automation performs with consistent precision and agility throughout each day.

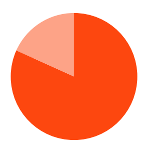
Example: transforming the work of Name Screening Alert Review

An Intelligent Automation approach helps transform the work within AML, such as with Name Screening Alert Review. Much of the analysts’ work involves rote comparisons — exact and similar matches — of data points like gender, birth date, and country of citizenship. The data points that analysts review are sourced from multiple locations: the data that triggered the review, the data the bank has available to be compared against (e.g., sanctions lists), supplemental data acquired from third-party systems, and historic data from similar alerts. Intelligent Automation transforms the work by not just incorporating rules for rote comparisons but by also collecting data from additional internal and external sources, enabling requests for additional information direct from customers, and (most importantly) leveraging machine learning which was trained on all of the data available.

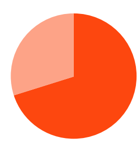
The first way to look at the impact of Intelligent Automation is the reduction of 60–80% of false positives identified by name screening tools, which reduces the level of manual effort from 50–70%. But there is more to the story when looking at hidden costs and risks.

As employee attrition is a key driving factor, by leveraging automation to make the work better, attrition reduces by approximately 50%. This longer-tenured staffing situation will directly reduce management, quality assurance, hiring, onboarding, and staffing, reducing the hidden costs by over 20%. For that team of 10 mentioned earlier, that means their $2 million employee cost would be more like $1.6 million. But the savings are actually more significant, as it is likely the team will not reduce headcount, but rather increase capacity. If that team of 10 is not performing to the output level of a team of 20, then rather than a $4 million employee cost if the scaling was done with people, the cost would still be $1.6 million — which saves $2.4 million, or 60%.

Transforming the work with Intelligent Automation



80%
False-positive reduction



70%
Reduction in manual work

And don’t forget the reduction in the hidden risks. People are still people, but automation has replaced a lot of the robotic work where errors are often introduced. Reliability has increased because automation takes on a consistent workload and standardization has been introduced for both the automated and remaining manual parts of the process. Finally, agility has increased as automation doesn’t sleep and people depart teams less frequently.

In summary, what this means is that a Name Screening Alert Review process that has its work transformed by Intelligent Automation will not only increase capacity at a reduced cost, but also reduce attrition to further cut cost and risk. Analysts are now free to focus less on false positives, less on data collection, and more on resolving alerts that cause true risk to the organization. Further, the automated cases are executed much more quickly, streamlining the experience for customers.

Epilogue

Automation creates positive change in employee experience

Let's return to Patrick, our Financial Crime Analyst who was about to start looking for a new job. Transforming his work might not only keep him happy but reduce those hidden costs and risks for the organization:

One day, when Patrick was just about to quit, his whole team was pulled into a meeting. The managers acknowledged that employee experience was suffering because the work was so unexciting. They saw things needed to change — that making jobs better would also make business sense. So, good news, they said: Automation was coming to help the team! The analysts' first reaction was to think, "I'm out of a job!?" The managers said no — headcount reduction was not the goal, but rather, new automation would assist the team. Patrick saw this as a positive sign and decided to put his job search on hold.

Two months later, Patrick has completely forgotten about looking for another job. His primary task is unchanged: review alerts and review risky entities. But now he's no longer spending most of his time on mouse clicks, keystrokes, and low-level thoughts. Those have been automated. He now can focus on true alerts that require investigation, and collaborate with peers to further streamline processes (including onboarding procedures). Furthermore, the business line took advantage of the new compliance capacity to push into new markets. Leadership has communicated that bonuses would reflect this major growth. This all is a lot more interesting and meaningful. It's changed his whole outlook on his role and experiences within the entire organization. And with the assistance from automation, those risky entities won't have a chance!

Analysts are able to focus on true alerts that require investigation

[1]LexisNexis: True Cost of Financial Crime Compliance Study, United States and Canada Edition, October 2020
[2]WorkFusion analysis
[3]How Much Does An Employee Cost? (Hadzima, MIT)
[4]Andrew Szabo at WorkFusion's AML Cost-Takeout Summit: "[At Scotiabank, we] were getting to the point where we were running out of seats in our buildings. We had to buy buildings to put people into to handle this work." (18:02)
[5]How to Calculate Cost-Per-Hire (Glassdoor)

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