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Risk Management and Compliance Spending Will Increase in 2008: Survey

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Financial institutions and other companies will spend 7.4 percent more this year on compliance, risk management and corporate governance, according to a survey issued by AMR Research Inc.

American, German and Japanese companies will spend approximately \$32.1 billion on identifying and managing risk this year, or \$2.44 million per organization on average, according to Boston-based AMR. U.S. companies will bear the greatest costs on average, at \$3.11 million per organization, the report found.

Risk management will overtake financial governance as the top focus for companies. Some 32 percent of survey respondents in the United States cited the need to better manage business risk as the No. 1 driver in compliance technology spending.

The spending shift represents a growing awareness of how risks can affect a company's bottom line, AMR Research vice president John Hagerty said in a statement.

Technology-related risk management spending was identified as the largest relevant expense by 23 percent of respondents. Sarbanes-Oxley related spending ranked second, at 15 percent, and general risk management expenses third, at 14 percent, the report said.

Of the 420 companies interviewed for the survey, 61 were financial institutions. AMR Research did not question firms about anti-money laundering and counter-terrorism compliance costs, a spokesperson for the company said.

How AML-related costs factored into the overall compliance expenses for financial institutions remains unclear, but banks and other financial services firms are likely to spend more on AML technology this year,



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according to Salvatore LaScala, executive director at New York-based Daylight Forensic & Advisory LLC, a consultant.

“The spending on technology for AML compliance and other risk mitigating solutions is going to keep going up,” said LaScala, adding that the tough economic climate will likely motivate banks to spend on technology that promises to cut other costs.

Last July, consulting firm KPMG said that AML expenses for banks operating in North America had jumped 71 percent, the highest among six regions surveyed. The overall rise in expenses worldwide was 58 percent greater than predicted by KPMG in the company’s last poll, in 2004.

The increase was mostly the result of technology and transaction monitoring costs, followed by training expenses, Teresa Pesce, head of the KPMG’s Forensic AML service, said in a July interview.

In August, Boston-based consultancy Aite Group LLC said that 15 of 17 banks the firm surveyed in a study cited AML as their most important compliance issue, beating out data security and consumer privacy.

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