

Report

CROSS-BORDER COMPLIANCE SURVEY

April 2022



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Introduction

For the second year in a row, Apiax has carried out a survey to analyse how financial institutions ensure compliance when serving customers around the world. The main findings of the survey are summarised and presented in this 2022 Cross-Border Compliance Report.

The aim of this study is to understand the main challenges that financial firms face when conducting cross-border business, as well as the trends and priorities in the digitalisation area of cross-border compliance.

To get a more comprehensive picture of how compliance knowledge flows at financial institutions, this year's survey also explores how legal and compliance departments provide access to compliance knowledge across their organisations. We also look at how easy it is for teams who seek compliance knowledge (e.g. front-office advisors) to obtain and access regulatory information in their everyday activities.

Our 2022 survey shows that the biggest pain point in serving clients in multiple countries continues to be the difficulty of communicating compliance requirements to customer-facing employees in a simple and straightforward way. The need for clarification on cross-border compliance varies widely by business activity, with the provision of investment advisory solutions seen as the most challenging.

As the survey findings show, traditional text-based legal opinions, such as memos and country manuals, are still the most common way for financial institutions to obtain regulatory knowledge. However, this percentage has dropped from 81% in 2021 to 53% this year.

Financial institutions now seem to have clearly recognised the value of digital compliance tools. The survey results show that 42% of respondents now use a digital compliance solution, up from just 9% last year.

Survey participants

The 2022 Cross-Border Compliance Report presents the results of Apiax's 2022 Cross-Border Compliance Survey and compares them to the results of the 2021 survey. A total of 71 respondents from the financial services industry (2021 and 2022 surveys combined) shared their thoughts on how they handle compliance issues when serving clients in multiple countries.

In the 2022 survey, 79% of the total 28 participants hold a senior position (executive director, VP or similar) and work in wealth management, private banking, asset management or investment management.

Here's how the survey participants in 2022 differ by size:

- 12% of companies have up to 100 employees
- 31% of companies have 101–2,000 employees
- 46% of companies have 2,021–10,000 employees
- 11% of companies have more than 10,000 employees.

Financial firms from around the world participated in the survey, with 63% of respondents based in Switzerland, 17% in Singapore, 8% in the United Kingdom, 8% in Hong Kong and 4% in Germany.

Summary of the survey results

Serving clients across borders

Financial services remains a deeply internationalised sector: 90% of this year's survey participants say that the firm they work for serves clients in multiple countries.

Their coverage is frequently very wide: 61% of survey respondents serve clients in more than 20 countries, while 29% cover up to 20 countries. This is broadly comparable to our 2021 results.

Further, 25% of survey respondents pursue their business actively (active offering), while 54% provide services and products in multiple countries only when requested to do so by clients (passive offering), and 21% say that their offering combines active and passive approaches.

A high volume of enquiries creates a heavy burden for compliance teams

We wanted to find out how much effort legal and compliance departments put into providing cross-border compliance information to stakeholders in the organisation.

More than a third (38%) of respondents working in legal and compliance get more than 20 cross-border compliance requests (on average) per month.

The answer, in short, is: 38% of respondents whose job it is to provide cross-border regulatory information (i.e. legal and compliance) receive, on average, more than 20 cross-border compliance requests from their client-facing colleagues per month, while 33% receive 5–20 requests and 24% receive only up to 5 requests per month.

Compliance challenges continue to be more acute for certain activities

The need for clarification on cross-border compliance varies widely depending on the business activity. This year's survey respondents say that the most challenging areas are offering investment advisory solutions (12%) and offering securities or bank accounts (11%). Also burdensome are social contacts with clients (9%), distributing independent investment research (9%) and distributing funds to investors and distribution partners (9%).

Main pain points when providing services to clients abroad

The biggest pain point in serving foreign clients continues to be the difficulty of communicating compliance requirements to customer-facing employees so that they may be readily understood. This problem is shared by 45% of this year's participants, compared to 35% in 2021. Firms also feel real pain from the lack of digital tools with which check and compare regulatory requirements in different countries (13%) and the same proportion believe that they spend too much time keeping track of regulatory updates (13%).

'Regulatory restrictions are difficult to understand for client-facing employees' remains No. 1 challenge for financial firms this year.

Facing a multi-jurisdictional scenario

Serving clients on a cross-border basis frequently creates complex multi-jurisdictional scenarios. How these are addressed – particularly decisions over which rules to apply and when – is a key focus of our study.

An example of a complex cross-border scenario would be when a bank has a prospective client in view who is a German national but resident in the UK and currently visiting a branch in Switzerland.

Similar to our 2021 survey findings, we saw great variation in compliance practices for these complex multi-jurisdictional situations: 35% of survey respondents aggregate the respective rules dynamically depending on the specific client interaction. Moreover, 40% of respondents simply pile on the full range of single country rules that *might* apply (meaning: the rules of the country where the client is located currently, those of the relationship manager's location and, on top, the country-specific restrictions indicated by the client's nationality and/or domicile country).

More than a third of survey respondents take a narrower (and likely riskier) approach with 15% of respondents reporting that they apply only the rules pertaining to where the client is at that point and another 10% saying they that consider only the country requirements for where the relationship manager is located at the point in time.

Availability and accessibility of compliance knowledge

Easy availability and accessibility of compliance knowledge remains a major challenge for financial firms. To obtain a fuller picture of how information flows through institutions, this year's survey asked for the perspectives of both those who are providing the information on cross-border compliance (i.e. legal and compliance) and the personnel seeking this information on a daily basis (e.g front-office advisors).

Out of those in a position of providing compliance information to stakeholders in the company, 33% claim that they are in the happy position of having a platform that embeds compliance requirements directly into the software used by front office teams. More than half (53%) say that they disseminate knowledge through online documents such as policies and manuals. A small but significant minority of 14% say that they answer compliance questions via email or phone.

Three-quarters (75%) of client-facing employees still obtain information on cross-border compliance via phone or email.

Strikingly, however, 75% of those on the other side of the equation say that their *only* way to obtain information on cross-border compliance is to get in touch with their compliance team or external consultant via phone or email. The remaining 25% check the requirements using pre-approved documentation (such as policies and paper manuals) provided via the company's intranet.

Time spent on resolving cross-border questions

This year's survey also examined how much time different teams dedicate to resolving cross-border compliance questions, and shows a comparison of how much time (on average) the back office (i.e. legal and compliance) spends versus the front office.

Almost a third (29%) of respondents in legal and compliance say that they need only 'around' 5 minutes to clarify cross-border questions; just over half (52%) say that they need up to 30 minutes to resolve an issue; 14% of respondents take up to an hour; and 5% require even longer.

It takes the majority of legal and compliance teams up to 30 minutes on average to resolve a cross-border compliance question.

In the front office, 50% say that they usually need up to 30 minutes to get their compliance issues resolved; 25% of client-facing respondents typically spend up to an hour searching for clarifications; and another 25% require even more time.

Based on the survey results, our calculations show that the average legal and compliance team member spends 10 hours (or more than 1 full working day) per month resolving cross-border compliance issues.

How regulatory knowledge is sourced and obtained

External law firms remain the main source of regulatory knowledge, with our 2022 survey results painting a similar picture to those from 2021 in this regard. Although 24% of respondents have the benefit of in-house legal counsel, 52% say that external legal counsel is their main source of regulatory knowledge, and 19% rely on consulting firms (i.e. the big four and others) when sourcing legal opinions.

Traditional text-based legal opinions, such as memos or country manuals, are still the most common way for financial institutions to obtain regulatory knowledge with 53% of our 2022 survey participants obtaining regulatory knowledge in this format. However, this represents a *dramatic* fall from 81% in 2021.

Financial firms are moving away from traditional text-based legal opinions to sourcing regulatory content in a digital format.

In another striking development, 42% of survey respondents are now leveraging a digital compliance solution, up from just 9% last year.

Compliance digitisation efforts

Our survey respondents remain divided on the adoption of digital compliance solutions. On the one hand, almost two-thirds of firms are going digital, with 46% seeking to digitise their policies in-house and 19% looking at external solutions. In contrast, 19% of survey respondents still say that their company has not made any effort to develop or implement such a solution and 15% are unsure as to what their company's direction of travel is.

Priorities for 2022

The efficient dissemination of regulatory knowledge is well known to be among financial institutions' biggest challenges, and the majority have clear ambitions in this regard: 38% of respondents say that their firm's priority for the year ahead is to fully embed cross-border restrictions into existing processes and tools; 13% are seeking to provide client-facing employees with easy access to regulatory restrictions, such as through a mobile app; 8% of respondents want to implement policy management tools; and another 8% want to look into e-learning solutions.

Uncertainty is not uncommon, however: a third of survey participants admit that they are not entirely sure in which direction their companies want to steer the digitalisation of compliance in the future.

Full survey results

Figure 1: Serving clients across borders

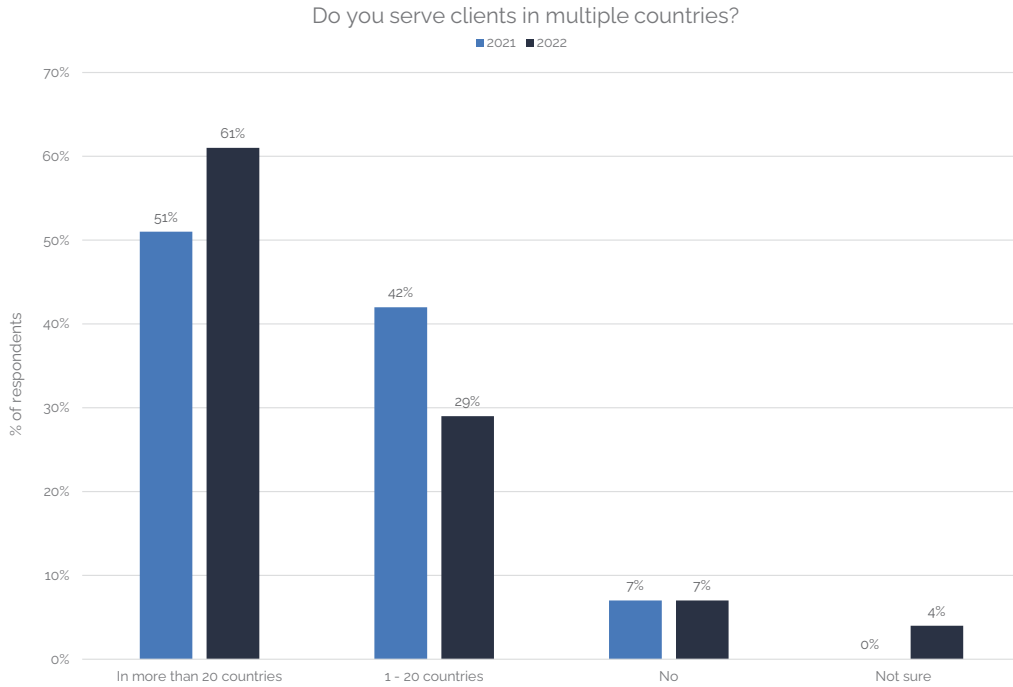


Figure 1 shows in how many different countries survey respondents are serving clients. The 2022 results show that 61% serve clients in more than 20 countries, 29 % serve clients in 1-20 countries and 7% do not conduct cross-border business.

Figure 2: Ways in which clients are served

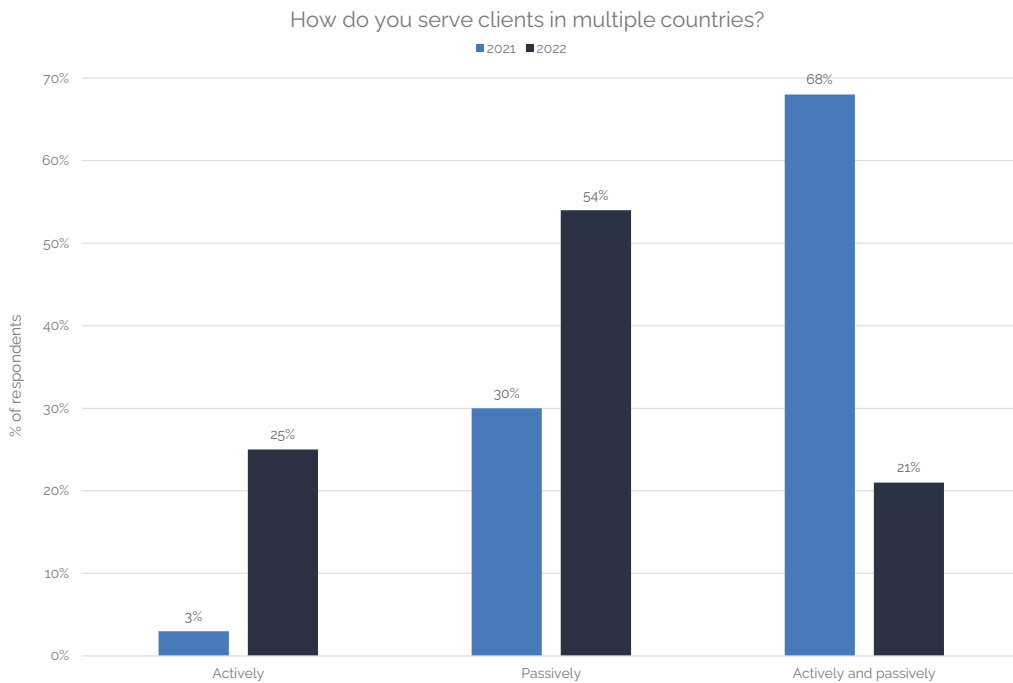


Figure 2 shows how financial services are provided in multiple countries. Of the 2022 survey participants, 25% say that the company they work for actively provides services and products in multiple countries, and 52% provide their services on a cross-border basis only based on a client request (passive offering). A further 21 % do a combination of active and passive offering.

Figure 3: Business activities in need of cross-border compliance clarifications

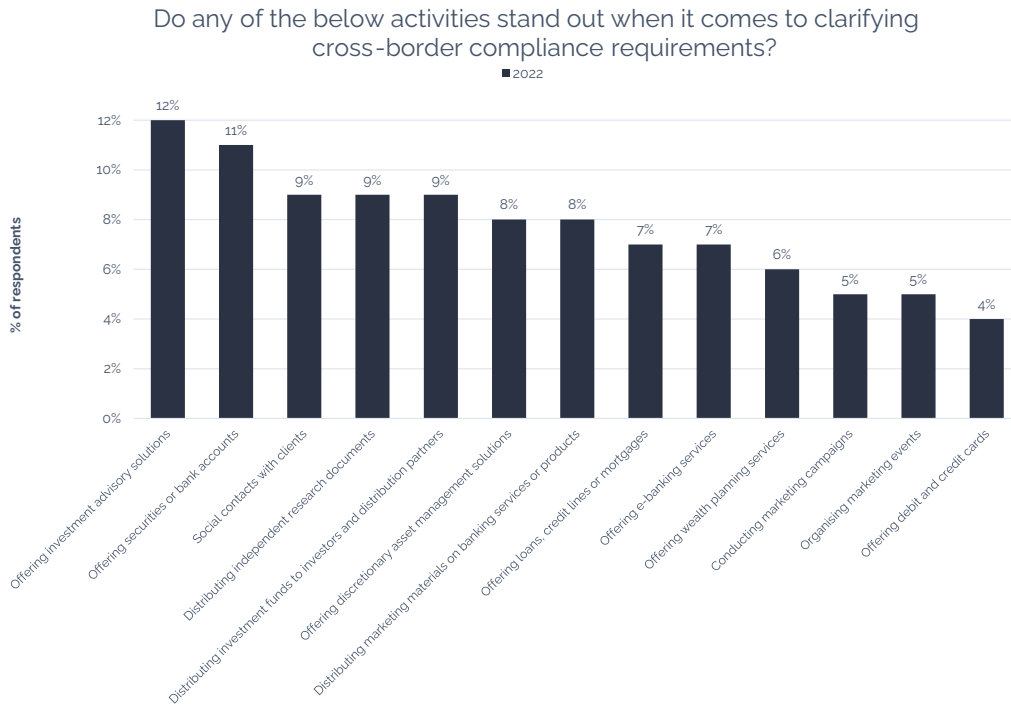


Figure 3 shows which of the business activities poses the greatest challenge when clarifying compliance requirements. For 12% of survey respondents it is offering investment advisory solutions. For 11% offering securities or bank accounts is the most challenging activity. The remaining 3 of the top 5 challenges are social contacts with clients (9%), distributing independent investment research (9%) and distributing funds to investors and distribution partners (9%).

Figure 4: Main challenges in cross-border compliance

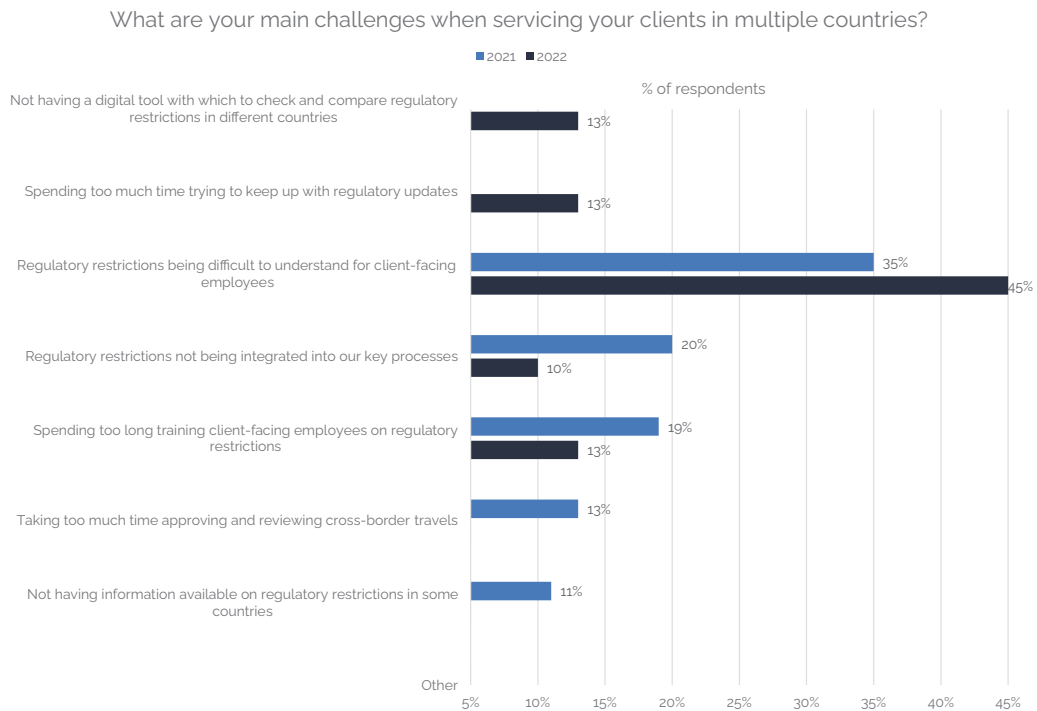


Figure 4 presents the main challenges when offering services and products to clients abroad. By far the biggest challenge is that regulatory restrictions are difficult to understand for employees with customer contact as stated by 45% of 2022 survey respondents.

Figure 5: Rule aggregation in multi-country scenarios

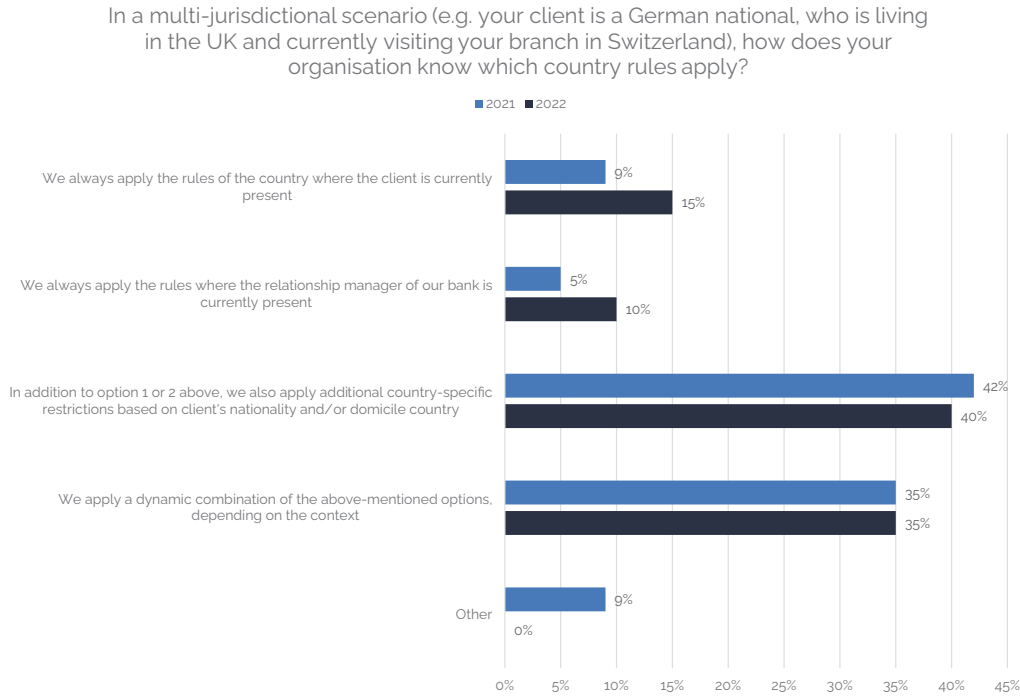


Figure 5 presents a multi-jurisdictional scenario where a client's activity involves a number of different jurisdictions. We asked the 2022 survey participants how their company would usually address this kind of scenario: 40% say that they would combine the rules of the country where the client is currently present, with the rules of the country where the relationship manager is currently present, as well as the country-specific restrictions from the client's nationality and/or domicile country; 35% would aggregate the respective rules dynamically, depending on the specific client interaction; 15% would apply only the rules of where the client is currently present; while another 10% would apply only the rules of the country where the relationship manager is currently located.

Figure 6 (a): Compliance knowledge availability and accessibility

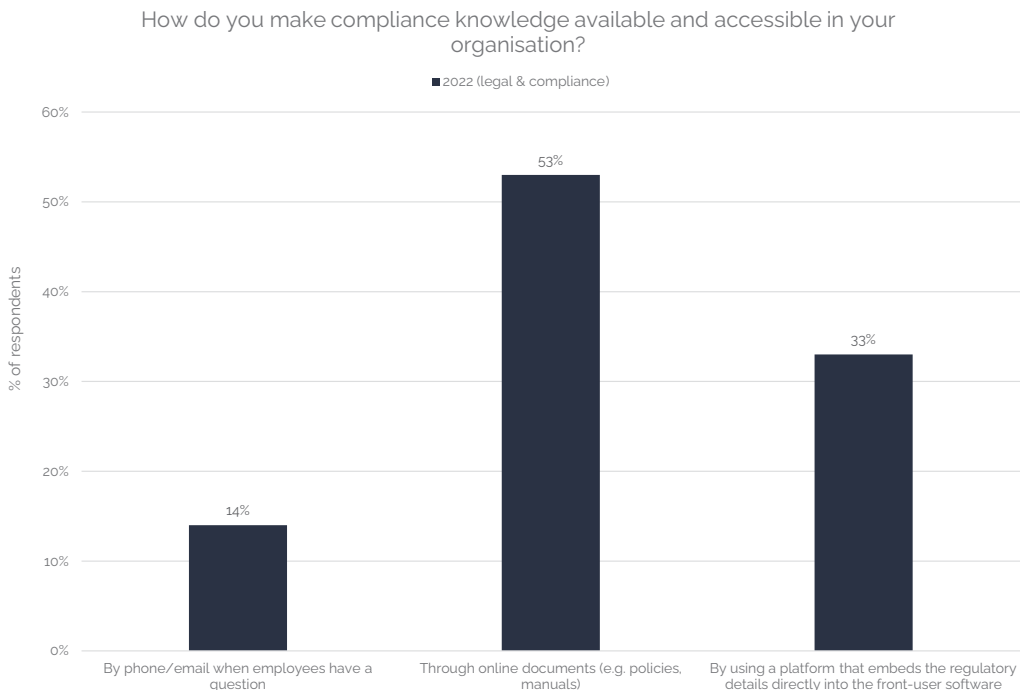


Figure 6 (a) shows how survey respondents providing information on cross-border compliance (i.e. legal and compliance) make the knowledge available and accessible for stakeholders. Of the 2022 survey respondents, 53% say that they make the knowledge available through online documents (such as policies and paper manuals), 33% of respondents embed it directly into the software and applications that stakeholders use and 14% provide answers by phone or email.

Figure 6 (b): Compliance knowledge availability and accessibility

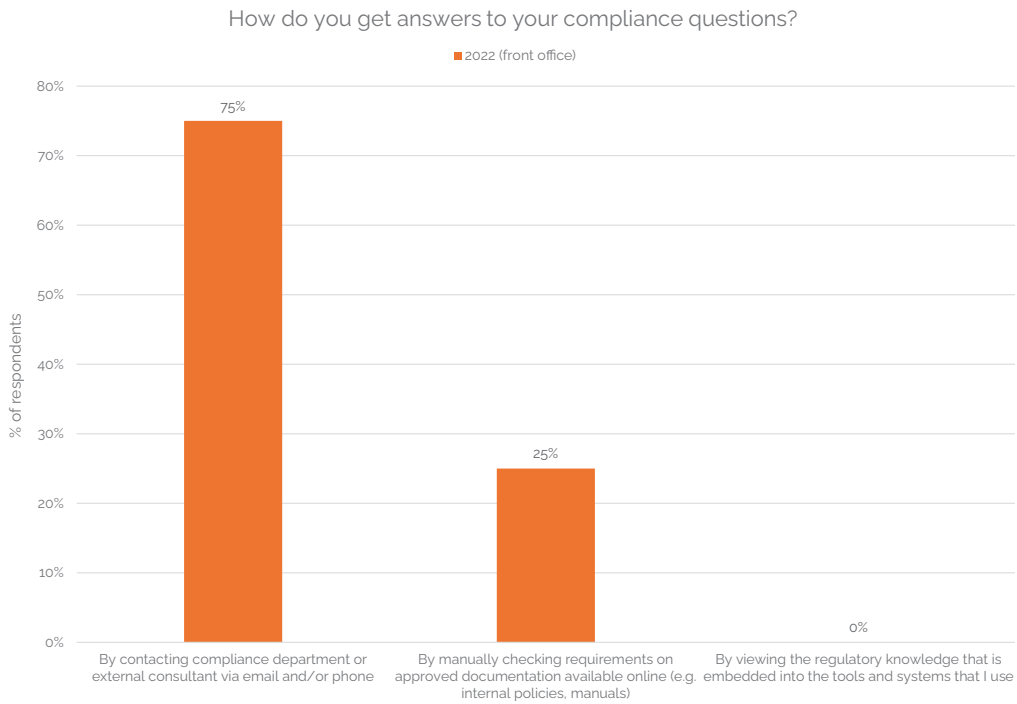


Figure 6 (b) shows how survey respondents seeking information on cross-border compliance (i.e. front office) get answers to their compliance questions. Of the 2022 survey respondents, 75% say that the only way to get the answers is to contact their compliance department or external consultant via phone or email, while 25% say that they manually check requirements on the approved documents that are available, such as internal policies and manuals.

Figure 7: Number of cross-border requests (on average) per month

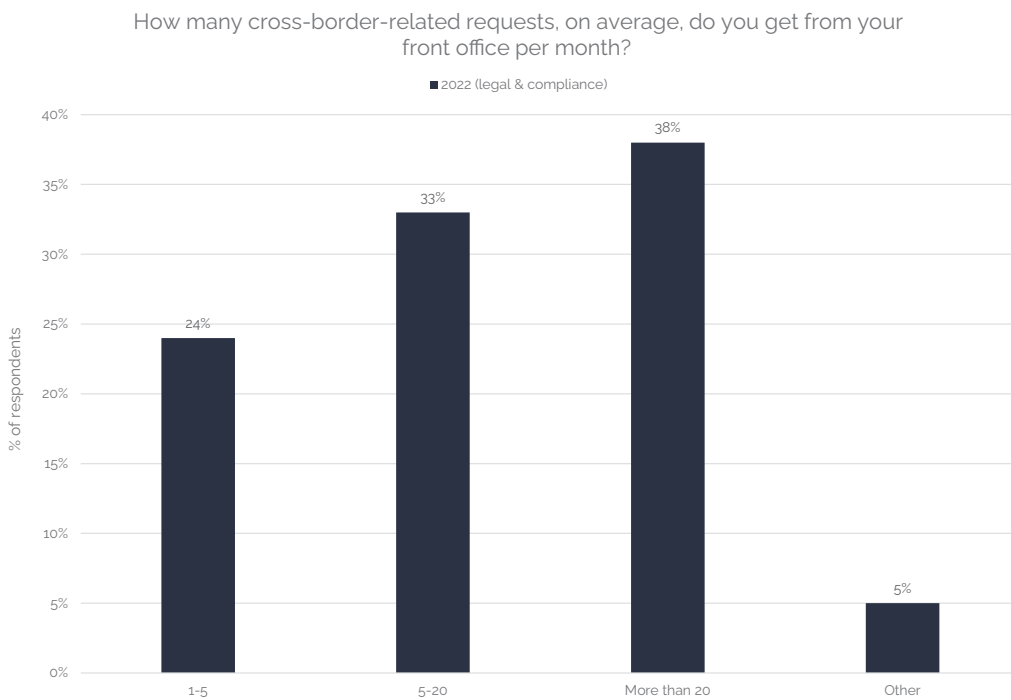


Figure 7 shows how many requests for cross-border-related information (i.e. legal and compliance) survey respondents get from the front office, on average, per month. Of the 2022 survey respondents, 38% get more than 20 per month, 33% get 5-20 requests per month, and 24% get up to 5 requests per month.

Figure 8: Time required (on average) to resolve a cross-border compliance issue

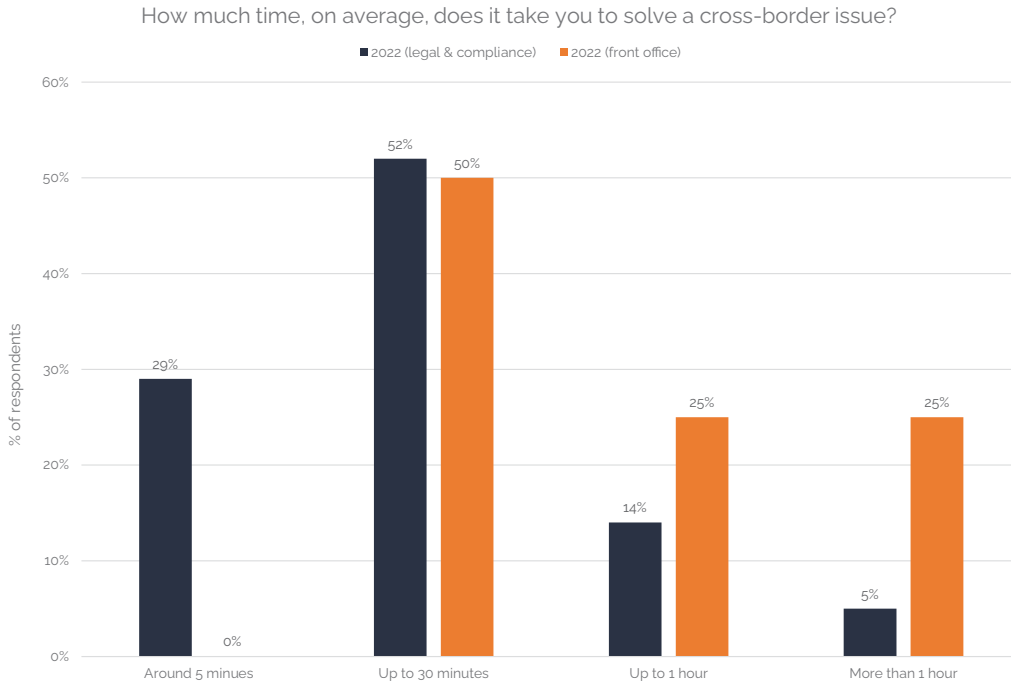


Figure 8 illustrates a comparison of how much time on average the back office (i.e. legal and compliance) vs front office spends resolving a cross-border compliance issue. Of the 2022 survey respondents, 52% say that they need (on average) up to 30 minutes to clarify cross-border issues, 29% need around 5 minutes to resolve such an issue, 14% take up to an hour and 5% more than an hour to find the right information. On the other hand, 50% of client-facing employees say that it takes them up to 30 minutes to get the right compliance answers when serving cross-border, 25% of them spend up to an hour and 25% more than an hour clarifying issues.

Figure 9: Sources of regulatory knowledge

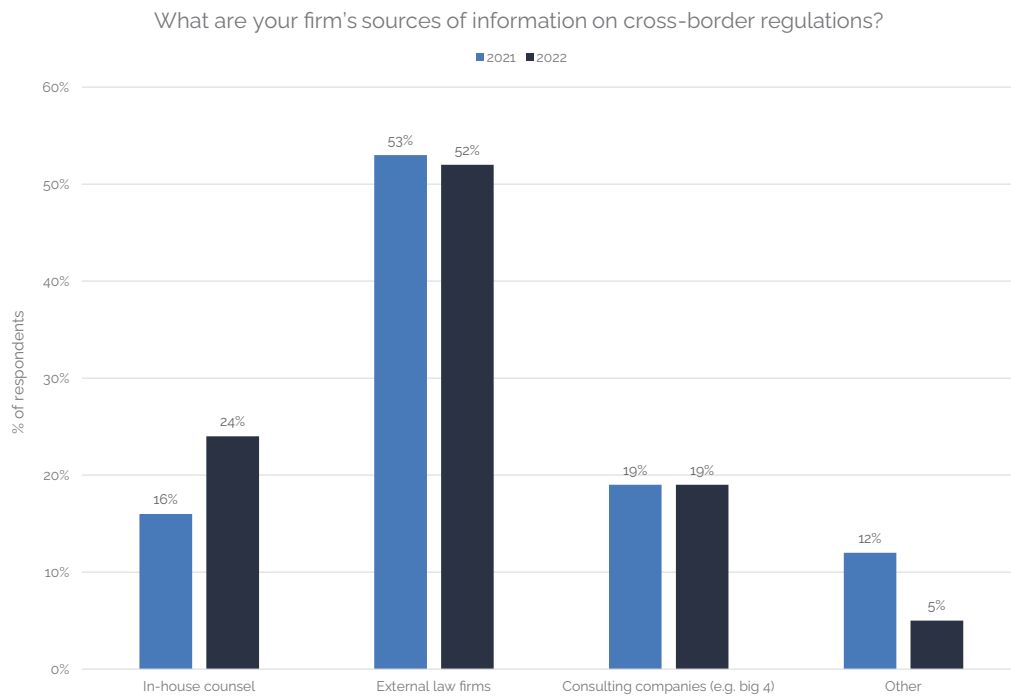


Figure 9 shows how financial institutions source their regulatory knowledge. Of the 2022 survey respondents, 52% say that their source of legal information is external law firms, 19% say that they source legal opinions through consulting firms, 24% source all their legal information from their in-house legal counsel and 5% get the information they need from other types of content provider.

Figure 10: Ways to obtain regulatory knowledge

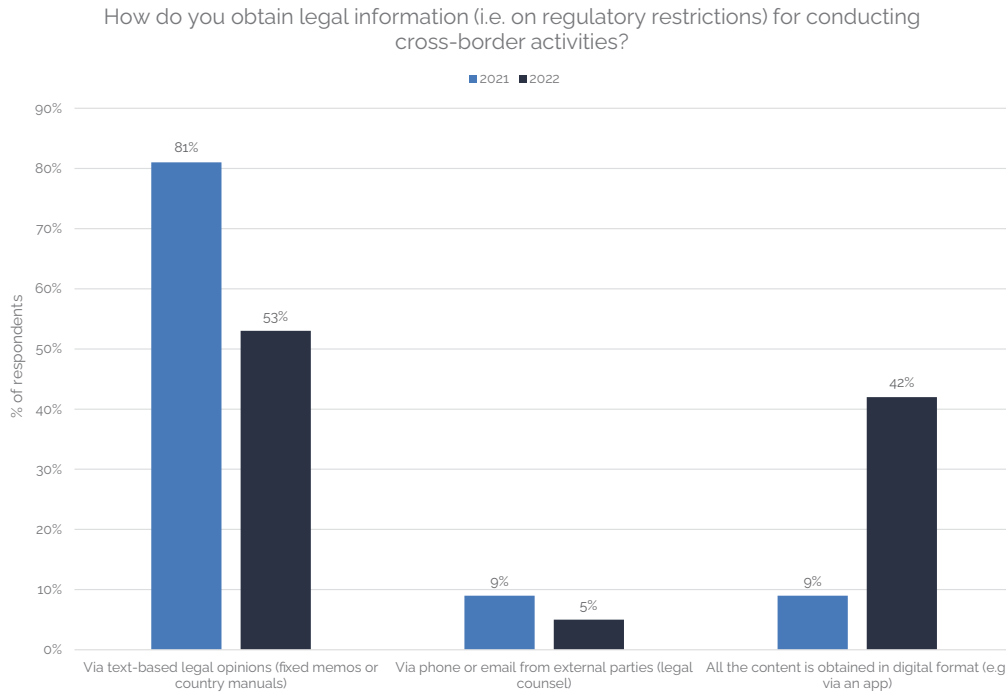


Figure 10 demonstrates how regulatory knowledge is obtained. Of this year’s survey respondents, 53% say that traditional text-based legal opinions, such as memos or country manuals, are still the most common way to obtain regulatory knowledge. The figure also shows that 5% of survey respondents still source legal information via phone or email, while 42% obtain regulatory restrictions in a digital format (e.g. via an app).

Figure 11: Obtaining and managing policies in a digital format

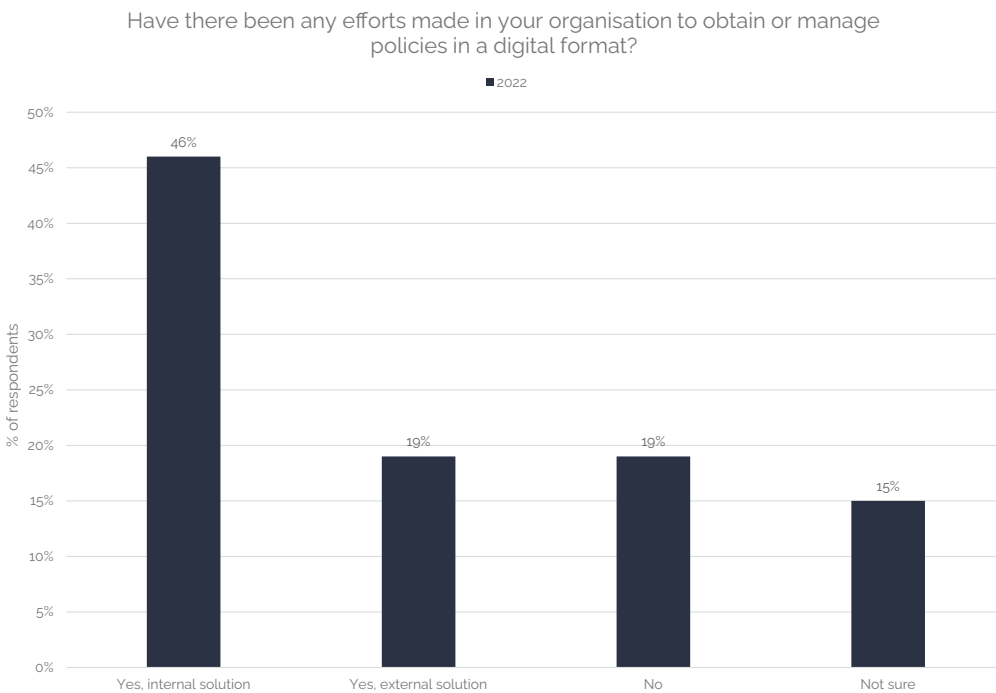


Figure 11 shows whether financial institutions have made any efforts to obtain or manage policies in a digital format. Of the 2022 survey participants, 46% confirmed that their companies have developed an internal solution to digitise policies. On the other side, 19% say that they use an external solution to obtain or manage legal content in a digital format and 34% are not yet on a journey towards digitising legal content.

Figure 12: Processes that would benefit from an automated check of cross-border rules

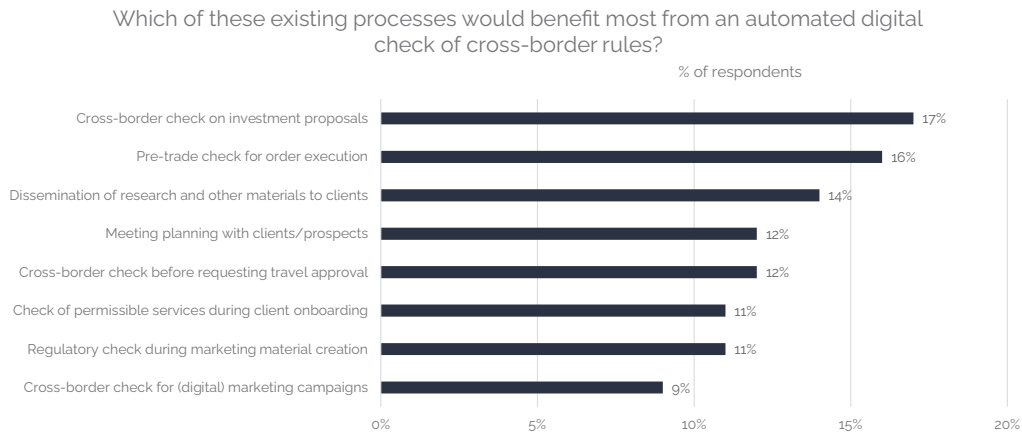
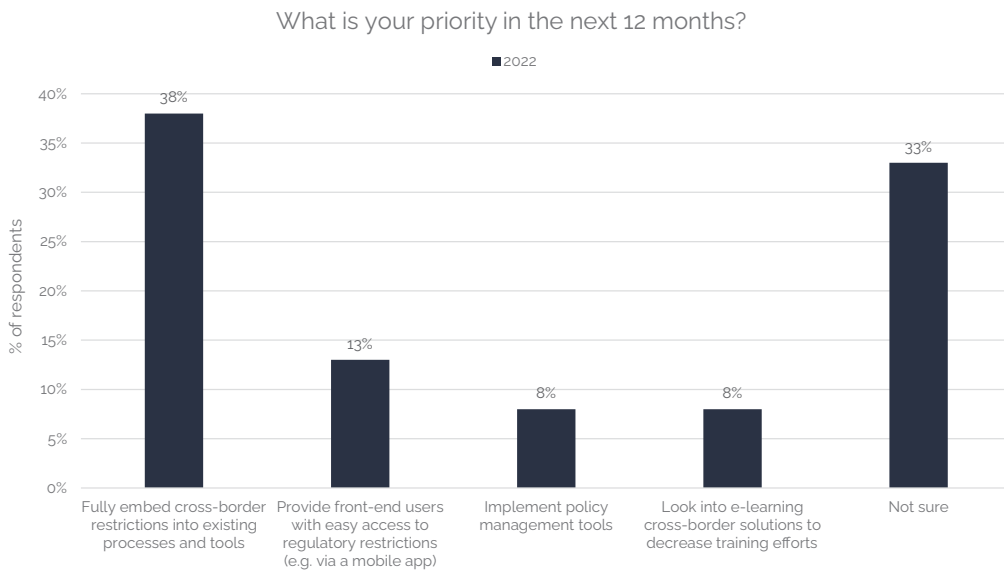


Figure 12 displays processes that would benefit from having automated digital checks of cross-border rules. According to the 2022 survey respondents, the top 3 processes where they would like to have an automated digital check of cross-border rules are: cross-border check on investment proposals (17%), pre-trade check for order execution (16%), and dissemination of research and other materials to clients (14%).

Figure 13: Priorities for 2022



As Figure 13 shows, for 38% of 2022 survey respondents the priority for the next 12 months is to fully embed cross-border restrictions into existing processes and tools. For 13% of respondents, providing client-facing employees with easy access to regulatory restrictions is a company priority for this year. A further 8% want to implement policy management tools, another 8% want to look into e-learning solutions and the remaining survey respondents, still a third of all the respondents (33%), are not sure about the compliance digitalisation priorities of their firm for 2022.

Conclusion

Cross-border business activities continue to be a crucial pillar of the financial industry. In recent years, however, the rules have become not only stricter but also more enforced. This makes the work for the front office as well as for legal and compliance teams more and more challenging.

Serving an international client base is driving the need for compliance operational excellence, resulting in financial institutions looking for more cost-effective and efficient methods of compliance management in their global organisations.

As our annual survey shows, financial firms are on a journey to modernise and digitalise compliance. Although traditional paper-based manuals are still the most common way to acquire regulatory knowledge, this year's cross-border survey results show that 42% of survey respondents are already using a digital compliance solution to obtain cross-border compliance information, a huge increase from just 9% last year.

Integrating cross-border information as digital rules into existing processes seems to be a clear priority for financial institutions in 2022. Deploying such a solution not only significantly reduces the time required to resolve cross-border compliance issues but also improves the accessibility of compliance knowledge within the organisation. We are convinced that digital compliance tools will continue to enable financial services to increase agility and responsiveness in the coming years.

What's next

Talk to us

If you'd like to learn more about Apiax cross-border solutions, or just have an open conversation about where to go next, we're always happy to talk.

Get in touch

Visit our website

If you'd like to know more about Apiax cross-border compliance solutions, visit our website and read through our customer success stories, and more.

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