regulatory scrutiny related to sanctions since early 2022.

Isaac M. O'Bannon • Jul. 11, 2023

Grant Thornton LLP, one of America's largest audit, tax and advisory firms, has

sanctions and the accompanying regulatory changes.

Survey participants also reported that the cost of sanctions compliance has been increasing, with 57% of respondents noting a spend increase in response to the recently imposed global sanctions. More than 65% agreed that overall costs related to sanctions will continue to rise, and they expect to increase their compliance spending over the next 12 to 24 months.

There are multiple factors driving up the costs of sanctions compliance, including the increasing complexity of different sanctions and diverging interpretations and level of enforcement of sanctions requirements.

With higher spending on sanctions compliance trending up, not all budgets at financial institutions have kept pace. Globally, 36% of survey respondents said they consider their budgets to be inadequate or severely inadequate, with Asia-Pacific and Latin America exceeding the global average.

"Governments are rolling out sanctions at an unprecedented pace and continuing to enact major legislative changes, often combining various financial crime concepts," said Sven Stumbauer, a managing director at Grant Thornton LLP and the leader of the firm's Anti-Money Laundering and Sanctions practice. "As a result, banks are trying to figure out the new rules, enact the right compliance measures and find the tools to do so, all while trying to protect their business. This, in turn, is increasing the pressure on boards and C-level executives."

A well-informed board of directors is crucial

As financial institutions wrestle with intensifying sanctions, a well-informed and engaged board of directors has never been more crucial. Despite the importance of risk management, 30% of survey respondents indicated that they do not provide

"Boards that receive more frequent trainings and briefings will enhance their ability to adapt strategy at a faster pace," said Stumbauer.

Mitigating the consequences of de-risking

According to the survey, 79% of respondents utilized a de-risking strategy to manage their sanctions exposure. When institutions were asked in which area they planned to increase their investment the most, there was a tie between "adequate risk assessment and quantification" and the need to "assess sanctions risk in more agile ways."

De-risking typically involves eliminating or restricting business relationships to avoid and manage risk, but this strategy does not come without consequences. In fact, the survey reported that 60% of respondents either limited or terminated business relationships as a result of their de-risking actions. In conducting the survey, Stumbauer and his team also found that some institutions are using different counterparts — often away from traditional "trade routes" — and are effectively forum shopping for the lowest customer due diligence requirements. As a result, institutions have created nested relationships that often lead to increased risks of money laundering and sanctions breaches.

"There is no more 'business as usual,' but there's a way to grow your business while monitoring risk," Stumbauer added. "Now is the time to invest in a thorough risk and compliance program that accounts for the many levels of complexity we're seeing in the current sanctions landscape."

De-risking is not a new phenomenon, but Russia-related sanctions have amplified this trend. In fact, more than 88% of respondents identified sanctions risk assessments as one of their top six investment areas in 2022 and beyond.

To see additional findings from Grant Thornton’s 2023 Global Sanctions Compliance

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