

## OPINION

# REGULATORY & COMPLIANCE SPOTLIGHT SERIES 2024: OUTSOURCED OR IN-HOUSE COMPLIANCE FUNCTION – THAT IS THE QUESTION...



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## Introduction

Setting up a regulated entity in the UAE for the first time (or moving operations to a new jurisdiction within the UAE) can feel daunting from a compliance perspective simply due to the inevitable lack of familiarity with a new jurisdiction.

As having a Compliance Officer is mandatory for all regulated entities in the UAE's key financial free zones and is a critical foundation for business success, firms naturally question whether to outsource that function so that they can immediately hit the ground running operationally, or whether to spend time recruiting an in-house Compliance Officer.

With cost and operational efficiency top of mind, it is worth pausing to carefully consider what the benefits of outsourcing the compliance function are and what is the most effective way forward for your firm.

## Key considerations

Benefits of outsourcing the compliance function		
	Outsourcing	In-house
<b>Regulatory Knowledge</b>	A group of experienced professionals will have more collective regulatory knowledge than any one person a firm could hire. Access to this talent will be on demand in an outsourced arrangement.	Specialist compliance experts with wide ranging experience are difficult to find as the discipline is still relatively new and continuing to evolve.
<b>Costs</b>	Costs associated with an outsourced compliance function can be varied according to need and to meet budgetary constraints. Even where an outsourced Compliance Officer is hired, there is a flat fee of approximately US\$ 60,000 a year without any additional associated employee hiring or retention costs.	The salary of a competent in-house Compliance Officer is generally higher, at least US\$ 96,000 a year. Moreover, there are additional associated costs relating to hiring an in-house Compliance Officer in the form of office space and equipment, benefits, work permits etc.
<b>Management</b>	When a compliance issue arises, an outsourced compliance provider can approach management for corrective activity autonomously. Equally, when outsourcing the compliance function, there is on-demand cover. Should the firm need to make a change to their compliance arrangements, there are none of the emotions associated with firing an employee.	Managing an in-house Compliance Officer is challenging as both the firm and the Compliance Officer need to acknowledge the conflicts of interest a Compliance Officer faces in terms of remuneration and career progression and put systems and controls in place to manage the conflicts. Compliance Officers could be absent due to annual leave and sickness, which can result in a critical gap in coverage.
<b>Independence</b>	An outsourced compliance function can easily demonstrate independence from the business it is advising, on the basis of no conflicts of interest.	Conflicts of interest need to be carefully managed. Detecting a serious compliance deficiency can create significant disruption if a compliance breakdown fractures the relationship with management.

<b>Leverage of Employee Skill</b>	An agreement to provide outsourced compliance support will only extend to specified list of compliance services, with a team of skilled experts to choose from to match the firm's needs.	In-house Compliance Officers often perform multiple roles, which stretches their capacity and limits the opportunities to continuously upskill in all areas needed.
<b>Business Knowledge</b>	A compliance services firm will have broad industry knowledge and apply it to a particular issue the business faces.	An in-house Compliance Officer will become an expert on the intricacies of the business it is overseeing over time [but may have limited industry knowledge.
<b>Control</b>	Firms can control the service offered by a written agreement and through the relationship with the service provider.	An in- house Compliance Officer will report to senior management and must be mindful of the impact of internal reporting.
<b>Liability</b>	A firm cannot outsource liability and therefore must have robust systems and controls in place for managing the arrangement with any outsourced compliance provider.	A firm cannot avoid liability for any breaches arising from lack of compliance, and the in-house Compliance Officer thus has full responsibility for ensuring robust systems and controls are in place.
<b>Efficiency</b>	Compliance outsourcing can help organisations address compliance demands, enabling the firm to stay focused on their core business functions and go-to-market strategies.	In-house Compliance Officers wearing multiple "hats" or limited in resources may not be able to support the business to the extent desired.
<b>Response to Regulatory Change</b>	An outsourced compliance function will offer proactive assistance and insights on regulatory change from a holistic perspective as a result of experience and relationships with regulators.	A slower, silo type response to regulatory change is expected with an in-house Compliance Officer, without the benefit of a large team's input.
<b>Challenges</b>	Locally-based outsourced functions can significantly assist in addressing local laws, avoiding delays, travel time and associated costs whilst liaising closely with management teams overseas.	An in-house Compliance Officer covering multiple regions may not be able to promptly address local issues arising there and may need additional time and costs to get-up-to-speed, especially of liaising with local lawyers.

### **In summary**

In-house compliance teams can certainly have more insight into the business and more control over the day-to-day operations. However, an outsourced compliance function can enable new market entrants to immediately hit the ground running operationally - quickly, flexibly and cost-efficiently - so that they can focus on growing the business whilst assessing their longer-term needs as the business evolves.

### **How we can help**

Re/think offers regulated firms qualified outsourced CO/MLROs who have the right expertise and experience to help them:

- develop and implement a risk-based compliance control framework and monitoring program in record time and from application stage;
- address compliance demands while staying focused on their core business functions and go-to-market strategies;
- adapt to regulatory change management and easily demonstrate independence and limited to no conflicts of interest;
- envelope cost efficient compliance and AML procedures customised to their needs as part of enterprise risk management, and
- access regulatory guidance and advice to the Board at a senior level via provision of Director level oversight for quality assurance and advisory.

Having set up over 100 regulated entities in the UAE in the last decade, we are today one of the Top 3 firms in the UAE in relation to authorisations and CO/MLRO mandates, renown for the hands-on approach of our senior directors who guide and protect our clients' interests every step of the way. So please do not hesitate to get in touch to hear more about how we can help drive your business growth.

## Re/think

Re/think is an award-winning regional multi-service business advisory and outsourced services firm providing accounting, regulatory and compliance, tax and VAT advisory, audit, HR consultancy and recruitment services to regulated firms, multi- and single-family offices, and other operating businesses.

Established in the UAE in 2014, the firm has 80 staff across three offices in Dubai and Abu Dhabi providing clients with timely, proactive and customized business solutions – from set-up and early development to the latest stages of a business lifecycle.

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