



Sanctions screening—what financial institutions need to do now to reduce their risk exposure

How to navigate a regulatory landscape that's increasingly complex and more rigorously enforced than ever before

Sanctions screening continues to be top of mind, for both regulators and the financial industry, where in recent years we have seen rise in international sanctions, and many discrepancies between how these sanctions are handled in different locations, all of which is generating media attention.

- There are ongoing international tensions where asset freezing, confiscation and other sanctions have been used as tools of foreign policy leading to an increased stream of sanctions.
- There is greater divergence in application of sanctions between the US (OFAC) and the EU/UK (EU and HMT), as a result of the US leaving the JPCOA agreement and re-implementing sanctions against Iran progressively in 2018.
- Various outcomes post Brexit are possible, and still unknown. This will inevitably lead to a divergence of UK and EU sanctions over time. In the UK, OFSI (Office of Financial Sanctions Implementation) have issued guidance about possible outcomes with UK sanctions in the event of a no-deal Brexit. Whatever the outcome, it is likely that we will see a trend of divergence between UK and EU sanctions over time.
- We have seen an extension of the Sectoral Sanctions issued on Ukraine and Russian entities causing a continued challenge for financial institutions (FIs) to manage. Implementation of the '50%' OFAC rule, coupled with the subtle difference between OFAC and EU/UK rules adds complexity to on-boarding and ongoing monitoring of entities.

These challenges continue to increase and add to complexity for compliance professionals who must ensure that sanctions and transactions screenings are conducted according to regulations and institutions' policies. As we move to a very digital world and the world of challenger banks, where the majority of transactions are managed online, added complexity presents itself. Do FIs understand the digital identities of their customers and their digital networks?

Is Wolfsberg Group changing traditional sanctions screening with their recent guidance?

The Wolfsberg Group recently published detailed guidance for financial institutions regarding sanctions screening.¹ Below summarizes several important principles from the guidance:

- 1** All good sanctions screening and AML risk management programs start with the important task of mapping the business, its relationships and identifying where sanctions risk exposure lies.
- 2** To ensure effective risk management, an entity must look into **reference data**, (lists of entities/transactions needing to be matched), and **sanctioned entity** data (lists of sanctioned entities against which reference data is matched).
- 3** The guidance describes the most important attributes of any sanctions screening program (referred to as the fundamental pillars). Key aspects of this include defined policies and procedures, audit and controls of the process, and testing and validation to ensure the program remains robust.
- 4** Europe is placing greater emphasis on a risk-based approach guided by the 4th and 5th Anti-Money Laundering Directive (AMLD). The guidance identifies that there is no 'one size fits all' approach to sanctions screening. The importance of evaluating the risk relative to the FIs products, services and geographies is recognized.
- 5** The guidance recognizes that sanctions screening is imperfect by its very nature, therefore any system will generate a volume of alerts of possible matches which require further work to remediate alerts into false positives which can be discounted, or true matches (hits). Efficiency and effectiveness of the alert remediation process is a critical component of any sanctions screening process and the guidance gives several detailed principles to assist FIs.
- 6** Another key part of a sanctions screening program is the technology platform through which the reference data and sanctions screening data are matched. Often referred to as the matching or screening engine, the algorithm used and the functionality of the technology platform can make a huge difference to the results of the process. The guidance provides FIs with some insight regarding the issues to be considered in deciding whether to build in-house or buy from a market vendor.

- 7 The guidance expands on what is meant by reference data with examples of the types of data typically collected by an FI, which will be matched against sanctions data lists.
- 8 Transaction screening is also highlighted as critically important for FIs, more specifically when it comes to identifying high-risk transactions and the attributes that should be considered for screening from data capture.
- 9 The guidance includes a section on the management of list data (of all types) used in the screening program, emphasizing that data must be accurate, up-to-date and reliable. This applies to internally generated lists and externally sourced data. Apropos externally sourced sanctions data, the guidance specifically identifies the importance of the quality and timeliness of data, particularly if an FI used a third-party list, rather than a list directly from the sanctions authority.
- 10 Finally, the guidance discusses the importance of ‘lookbacks’ meaning historical reviews of already screened data, which may expose previously undetected sanctioned entities and what should be done regarding transactions/entities that have passed but should not have.

The Wolfsberg Group’s recent guidance highlights the importance of account and transaction screenings, but does not fundamentally propose changes to the processes that FIs should be following already.¹ Robust sanctions screening systems, high data quality and up-to-date policies will drive a successful long-term sanctions screening program.

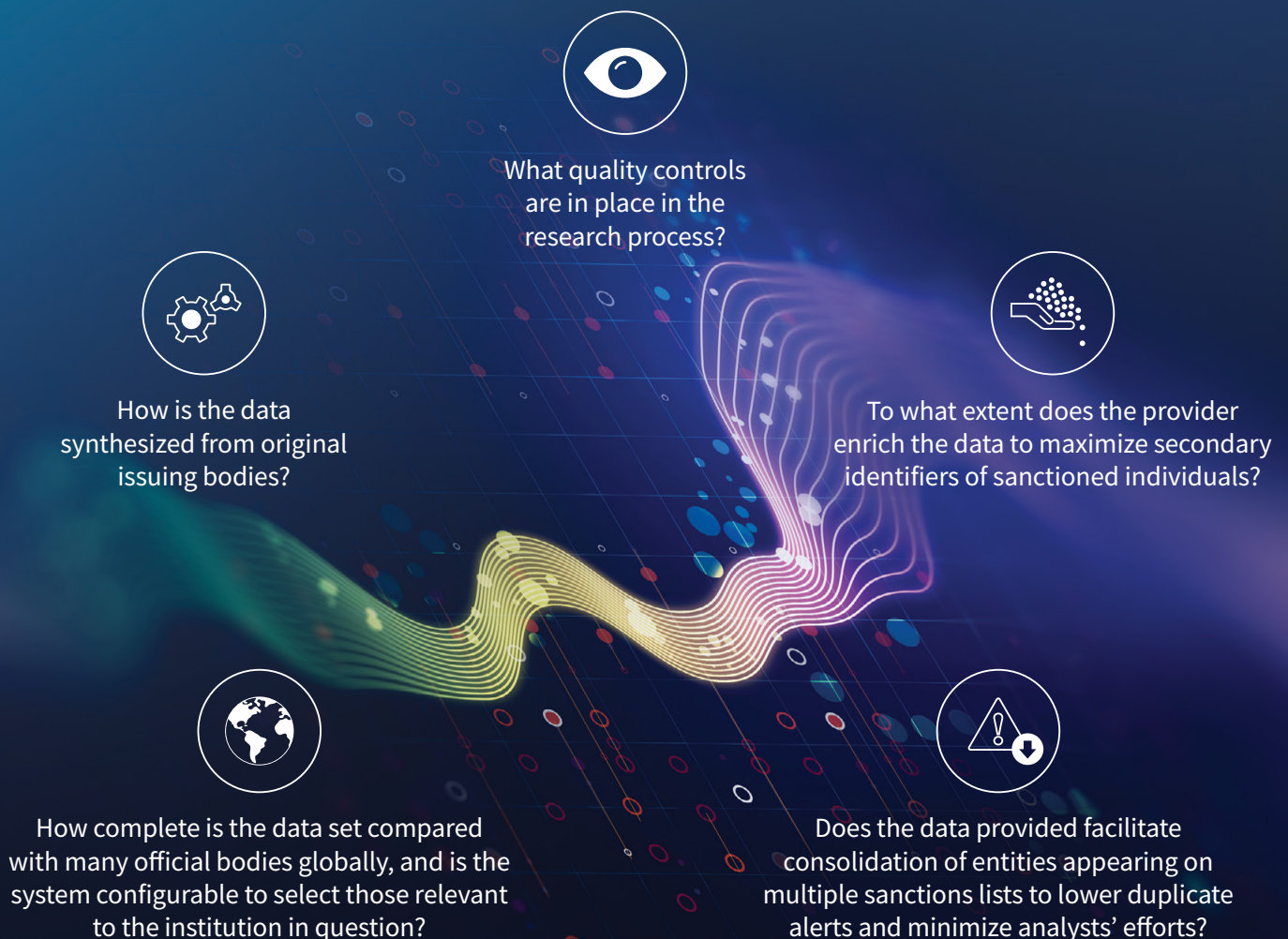
Are you looking to increase the robustness of your sanctions screening program?

Aside from the importance of documented controls and procedures, a clear understanding of sanctions risk, and taking a risk-based approach to customer on-boarding, you should consider improving in the following areas:

LIST MANAGEMENT – Reference list data can be incomplete and decay over time. Active list management is essential to ensure that data is complete, accurate and up-to-date.

SCREENING TECHNOLOGY – Screening engines vary in capability, and it is vital that the platform meets the needs of the business. Considerations should include: the ability of the platform to deal with the requisite volume of records to be screened; the ability of the system to be configurable to reflect the differing risk profiles of reference lists; that the system has fully functioning workflow tools to ensure efficient alert remediation; that it can ingest a variety of external lists and that it is capable of API integration into enterprise systems.

SANCTIONS DATA – Not all externally provided sanctions lists are created equal. The FI should conduct thorough due diligence and compare data from different sources. Some issues to consider are:





Conclusion

Sanctions screening is a vital but complex process, and compliance staff involved in this area need to be well trained on an ongoing basis to ensure that the FI is always screening against the most relevant and up-to-date sanctions lists. Increasingly, the way sanctions information is presented by the authorities requires intelligent augmentation through a combination of human efforts and new technologies such as big data, data analytics, machine learning and artificial intelligence.

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¹ <https://www.wolfsberg-principles.com/sites/default/files/wb/pdfs/Wolfsberg%20Guidance%20on%20Sanctions%20Screening.pdf>