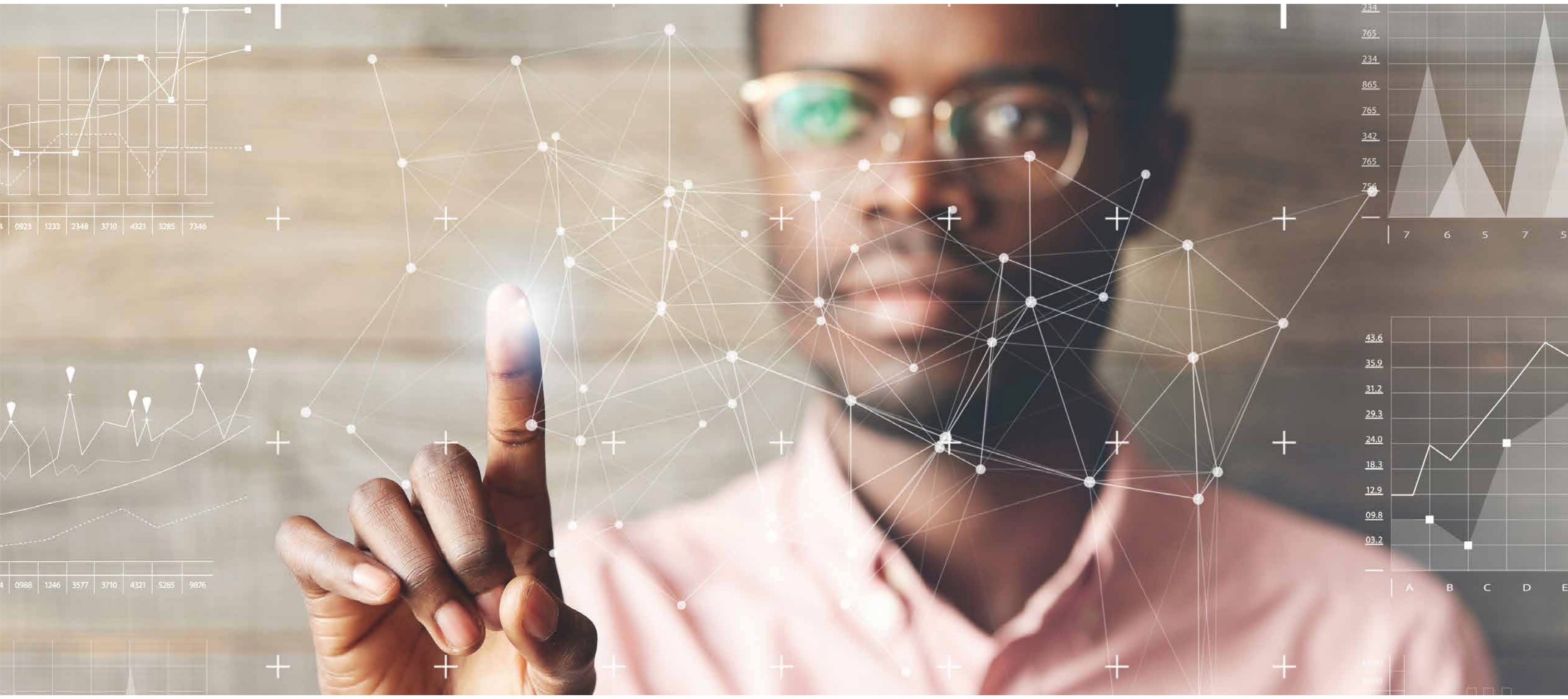

Managing Sanctions Compliance in a Global Economy

PART 1: DEPLOYING REAL-TIME WATCH LIST SCREENING

Competing in today's multifaceted, global economy is a high-stakes game of risk and reward. Regardless of industry, companies have ample growth opportunities—but along with that growth comes an increasingly complex landscape of rules, regulations and compliance pitfalls. As such, compliance has become a demanding aspect of everyday business operations, and success requires a measured, holistic program that includes four key components: real-time screening, retroactive monitoring, customer risk profiling and a centralized compliance management system.

To help businesses understand how to approach compliance and enterprise risk strategically, CSI's sanctions compliance white paper series explores each component of a holistic compliance program. As part one in our four-part series, this white paper examines real-time sanctions screening: the challenges businesses face, possible technology solutions and recommendations for next steps.

Modern-Day Operations Require Real-Time Screening

With technology serving as the main driver of change in today's economy, organizations are finding it easier to reach new markets and develop new lines of business. Both of these are ideal situations, but they also come with an increasingly difficult set of challenges, especially as it pertains to risk management and compliance.

As business functions grow and transactions become more sophisticated, how do companies ensure they aren't doing business with illicit parties or supporting illegal activity? One bad transaction or customer could derail an entire organization, which is why real-time transaction screening has become essential as a preventative compliance solution.

Whether it's compliance with expectations around the Office of Foreign Assets Control (OFAC), the USA PATRIOT Act or the Financial Crimes Enforcement Network (FinCEN), businesses are required to have adequate risk management protocols in place to prevent prohibited individuals or organizations from making purchases or completing certain transactions. These individuals may be prohibited by a regulatory body in order to prevent material support to those suspected of terrorism, to prevent fraud and money laundering, or to prevent human and/or drug trafficking. Even mobile applications are subject to sanctions in order to prevent prohibited persons from using communications, digital storage or digital payment services for illegal purposes.

Aside from the obvious reputational complications of such transactions—no ethical company wants to knowingly support a terrorist operation—there are significant practical considerations to ensuring a healthy watch list screening program: losses through fraud and, potentially worse, fines and penalties.

Take, for example, OFAC: from 2009 through 2016, OFAC alone imposed more than $4.2 billion in civil money penalties. While some of those fines were levied against traditional banks, businesses outside the financial services industry faced stiff penalties, too. And in 2016 alone, businesses accounted for nearly 90 percent of the total number of OFAC fines issued, with 37 percent of those fines totaling $1 million or more.[1]

Despite the possibility of monetary or reputational losses, some companies find it difficult to overcome the operational challenges associated with implementing screening solutions, such as negative impact on product performance. Thus, while legal and compliance teams see real-time screening as a risk-mitigation strategy, product and operational teams might see it as an impediment to the user experience that could prompt customers to go elsewhere.

However, regardless of the organizational point of view, modern-day operations demand real-time screening. And solutions exist that can mitigate both compliance and operational risks, providing companies with a real-time solution to their unique challenges.

[1] CSI. Understanding OFAC: A Best Practices Compliance Guide for All Businesses. http://csiweb.com/resources/white-papers/understanding-ofac-a-best-practices-compliance-guide-for-businesses

Overcoming Four Major Challenges to Real-Time Screening

To remain competitive in today's fast-paced economy, organizations face significant challenges, many of which are interconnected. In terms of compliance and risk management, they must not only have the capacity to accurately identify customers and vendors, but also quickly process transactions for goods and services while minimizing the risk of running afoul of numerous rules, regulations and sanctions pitfalls that accompany such transactions.

This delicate balance between risk management and speed is further complicated by four major challenges: the sheer breadth and volume of data sources, the need for accurate translation and transliteration from foreign languages, robust monitoring of payment flows, and ensuring that sanctions screening seamlessly integrates with the movement of goods.

1. Managing the breadth and depth of data sources

Any organization doing regular business is likely to find itself dealing with millions upon millions of records, all requiring near-instantaneous retrieval, screening and possibly flagging. But frequently, data sources are disconnected within the organization, making it difficult to establish real-time watch list screening practices that encompass all relevant data sets. In addition, managing data comes with its own set of multifaceted issues that must be overcome.

OFAC's Specially Designated Nationals (SDN) list alone includes more than **25,000** prohibited people or entities at any given time.

First, companies must maintain detailed data about each customer, client and vendor with which they do business and, in many cases, secondary and tertiary vendors that may do business with them—all to prevent prohibited parties from purchasing certain goods or services. That data must be accurate, with each identity verified and stored in a system that allows easy retrieval. And organizations with multiple product lines or services must be able to aggregate that data across disparate silos.

That is merely the beginning. All of that internal data must then be screened against numerous state, federal and international watch lists, depending on the regulatory expectations of a business. OFAC's Specially Designated Nationals (SDN) list alone includes more than 25,000 prohibited people or entities at any given time. And while OFAC is perhaps the most widely cited watch list, it is only one of potentially hundreds of watch lists that a business may be required to screen against in real time—as well as re-screen when list updates are issued.

2. Language translation/transliteration

While the global economy has opened up incredible opportunities for businesses to rapidly expand their reach, it also brings complications in terms of compliance. Doing business in China, for example, means that any transaction screening solution must have the capability to handle foreign, non-Roman characters. However, many regulatory agencies provide lists only in Roman characters, leading many screening solutions to fail to identify prohibited transactions.[2]

This "language barrier" enhances an organization's risk, and many are well aware: A 2016 Dow Jones and ACAMS global anti-money laundering (AML) survey of 812 businesses found that 38 percent of respondents said they weren't fully confident in their screening data accuracy due to questions about name variations and transliterations–up from 32 percent in 2013.[3]

Businesses with inadequate translation and transliteration processes face possible regulatory fines for failing to screen potentially prohibited individuals or organizations. They also risk losing customers or vendors that could be inconvenienced by delays in being identified as a false positive. To address this challenge, businesses must deploy real-time screening solutions that deliver reliable translation services, without sacrificing either data quality or user experience.

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[2] *PricewaterhouseCoopers. Financial crimes observer. February 2016.* http://legalexecutiveinstitute.com/wp-content/uploads/2016/06/PwC-Financial-Crimes-Observer-Sanctions.pdf

[3] *Dow Jones and ACAMS. Global Anti-Money Laundering Survey Results 2016.*

3. Monitoring payment flows

The sheer volume and number of transaction sources in an organization can further complicate sanctions screening. Monitoring the flow of payments grows exponentially more difficult as a business expands its customer base and the products and services it offers, the challenges of which include onboarding/KYC and identity verification of customers and vendors, transaction screening, maintaining watch list updates, and retroactive screening of customers and vendors after updates. Some organizations also have disparate departments or business functions that keep payments data in their particular silo (sometimes halfway across the globe, for international businesses), further complicating its management.

An effective sanctions screening solution must be able to handle payment flows at scale—and at speeds that don't inhibit the flow of business or inconvenience the end user. In some organizations, this could mean millions of names and billions of transactions across possibly hundreds of systems managed by teams from all over the world.

Organizations must keep up with the volume of transactions flowing through their systems and ensure that all parties and all transactions are screened against the appropriate lists according to industry regulation. Because regulators are watching:

According to a member survey at ACAMS' 22nd Annual International AML and Financial Crime Conference, 58 percent of attendees said a regulator or auditor has challenged their methodology for conducting sanctions risk assessments.[4]

Depending on the volume of transactions processed per day, it can be a struggle operationally for an organization to respond to the possible sanctions matches in a timely manner without sacrificing the customer experience. Operations and IT staff need to have real-time, immediate screening results that are embedded in their customer-facing processes and technologies so they can quickly weed out the clean transactions and let them through, but hold the suspicious transactions for additional review.

Further, integration of all that data into a sanctions screening solution must be transparent and non-disruptive. For example, a person making a purchase through a digital distribution platform such as Apple's App Store should be blissfully unaware of the complex set of sanctions screens that take place on a sub-secondary level when they hit the "buy" button. That is, of course, unless the buyer is flagged.

4. Screening transactions in real time

A lack of real-time screening capability could have several operational side effects, including the impediment of goods and services to customers. Because modern technology enables consumers to acquire goods and services in an instant, businesses must be able to screen transactions in real time, not only to keep up with influxes of activity, but also to ensure there is no interruption to service.

Real-time screening significantly mitigates the risk of prohibited transactions, giving businesses the ability to conduct proper due diligence before a parcel leaves the warehouse, before an online purchase is completed, or before a digital wallet is used. Any compliance solution that doesn't allow for real-time screening at these levels could result in potential risks being detected only *after* a transaction is complete. And by that time, correcting a prohibited transaction becomes exponentially more difficult.

[4] *ACAMS. The 2017 Hollywood Conference Polling Results Are In. April 24, 2017. http://www.acamstoday.org/2017-hollywood-conference-polling-results/*

Achieving Real-Time Screening Capabilities

While businesses face myriad challenges in deploying real-time screening, the benefits far outweigh the risk. Effective sanctions screening protocols ensure that businesses avoid costly mistakes from facilitating illicit transactions unknowingly. With the right approach, these protocols also can lead to enhanced compliance operations.

In deploying real-time screening, the most effective solutions will deliver the following advantages:

- Connect large volumes of disparate data streams and isolated compliance functions
- Offer translation and transliteration functionality to support global business operations
- Scale alongside growing business operations without causing delays or disruptions

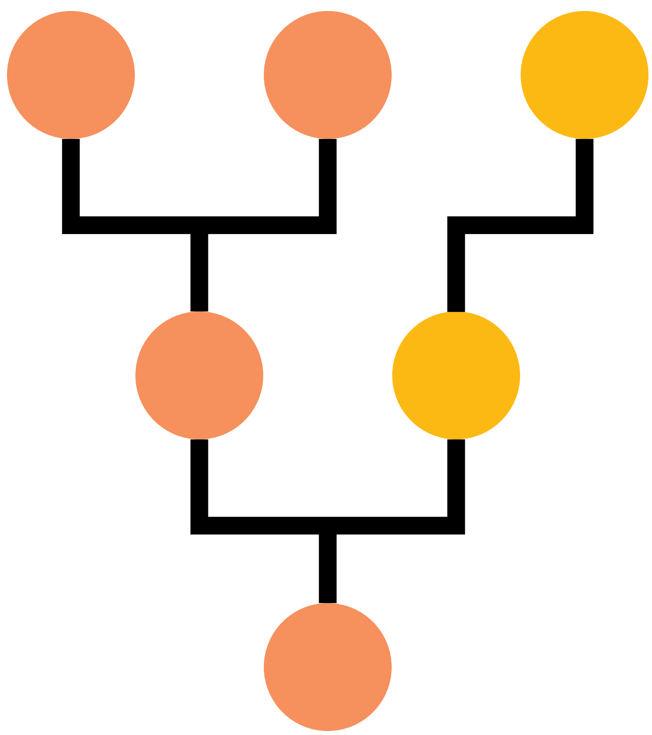
So what is the best way to implement the most effective solution, both financially and operationally?

Such a solution can be built from the ground-up, within an organization. But taking a homegrown approach could be time-consuming and costly to develop, requiring teams of programmers working alongside multiple business units to ensure that data from disparate departments (and likely different systems) is properly integrated and can provide meaningful aggregates and reports.

Such an undertaking could be difficult and both time and resource intensive, particularly for larger organizations.

In most cases, a simpler solution is to connect to an external, lightweight application programming interface (API) that can be seamlessly embedded and integrated without altering or disrupting the pre-existing systems—while offering immediate screening at scale. An API is a tool or set of programming tools that allow multiple software components, databases or programs to communicate and interact with one another. Such a system would act as an overlay, bridging disparate systems without requiring heavy programming resources.

For the end user or business customer, the solution should be largely invisible. For example, a customer booking a trip on an online reservations website may merely experience a one- or two-second delay between clicking “Book It” and confirmation that a flight or hotel was successfully booked. And, a parcel handler for a logistics company should have the ability to scan thousands of packages each day as they are loaded onto a truck for delivery, uninterrupted. Regardless of the industry, the process should be painless and nearly instantaneous for the end user.



Real-Time Expectations Require Real-Time Solutions

An increasing number of industries can no longer afford to wait even seconds for customers or end users to purchase products or access services, because almost every aspect of daily living comes with real-time expectations. But businesses can't sacrifice compliance in the name of speed.

To manage both expectations and compliance, companies must seek real-time watch list screening protocols. And any real-time solution requires effective, embedded integration that manages large data sets; easily accounts for foreign and non-Roman characters; and quickly monitors payment flows. Too much is at risk from a financial, reputational and regulatory perspective to employ a clumsy sanctions screening system. Regulatory expectations, along with watch list requirements, are likely to grow more voluminous and complex.

Industries that are subject to these rules should seek out a compliance solution that can seamlessly integrate into their own systems; provide immediate, accurate feedback in a manner that is invisible to the customer or end user; and keep up with changes in watch lists and regulatory expectations. These embedded and integrated processes should be lightweight enough to not disrupt existing systems, yet scalable and responsive to an organization's changing needs.

Real-time expectations require real-time solutions.

Sanctions Compliance Series

Building a holistic approach to sanctions screening? Don't miss the other three white papers in our series:

- Maximizing Automated Retroactive Screening
- Implementing Customer Risk Profiling
- Creating a Centralized Compliance System

About CSI Regulatory Compliance

CSI takes risk management and regulatory compliance seriously; we know you do, too. Since regulations constantly change, we've developed comprehensive solutions that address today's requirements and adjust to meet tomorrow's demands. Our industry-leading solutions include watch list screening, identify verification and compliance consulting. Financial institutions and businesses alike trust CSI's expertise to enhance their compliance programs and reduce operational costs.

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