Managing Sanctions Compliance in a Global Economy

PART 4: CREATING A CENTRALIZED COMPLIANCE SYSTEM

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 the final installment in our four-part series, this white paper examines creating a centralized compliance system: the challenges businesses face, possible technology solutions and recommendations for next steps.

## Global Operations Demand Global Compliance Solutions

Compliance and risk management have never been so complex, especially for fast-growing businesses and those operating on a global scale. Countless regulations, including those pertaining to anti-money laundering, anti-terrorism and risk assessments, demand that companies verify the legitimacy of those with whom they are doing business—from the first point of contact to the ongoing transactions that occur for the duration of the relationship. And businesses that run afoul of any one of these rules or regulations could face massive fines or irreparable reputational damage.

An effective identity verification program requires an amalgam of real-time watch list screening, automated retroactive screening and customer risk identification; and these three separate functions should be integrated to provide a comprehensive approach to business operations and risk management. Because when know-your-customer (KYC) processes and sanctions screening functions are disjointed, they expose companies to vulnerabilities.

For example, even the most thorough and robust sanctions screening efforts could be undermined by sloppy, fractured compliance recordkeeping. If data sets aren't connected, then companies may lose sight of the entire customer relationship—and fall short of regulatory requirements.

And with increases not only in the number of regulations, but also the fines being levied by regulators like the Office of Foreign Assets Control (OFAC), companies can't afford to slip up. In 2016 alone, nearly 90 percent of all OFAC fines were levied against non-bank institutions, with 50 percent of those fines totaling $500,000 or more.[1]

To avoid violating regulatory expectations, businesses must combine their sanctions screening efforts into a centralized platform, giving them insight into the broader compliance enterprise. The goal is to gain a detailed risk perspective on both the micro level (individual customer risk) and the macro level (organizational risk). In establishing a centralized system, companies gain much-needed controls, metrics and monitoring across the entire organization.

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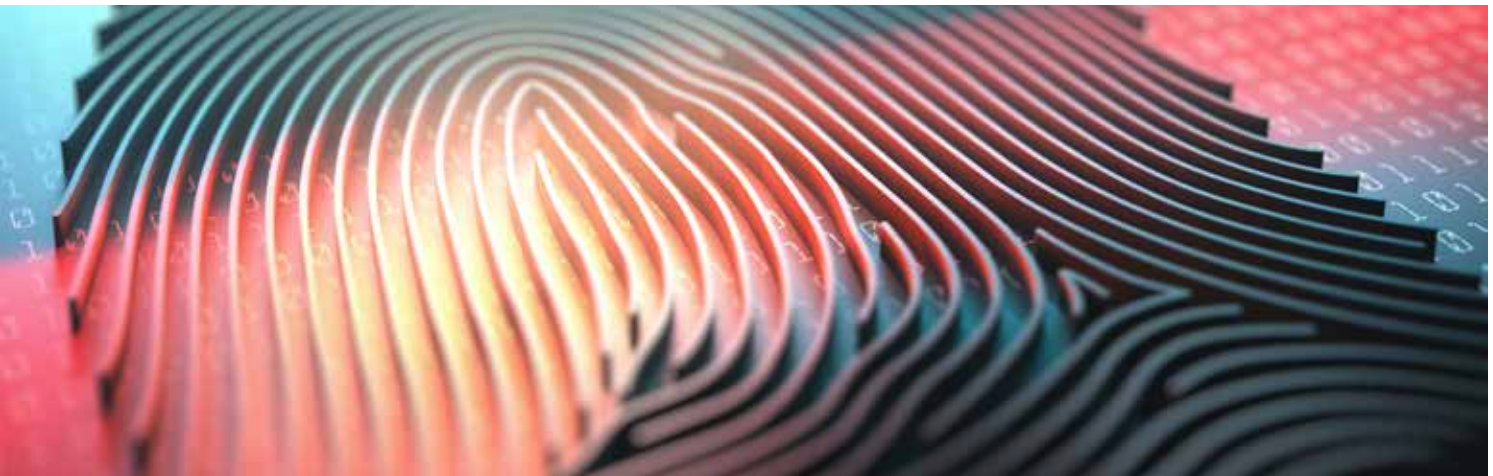
[1] *Computer Services, Inc. Understanding OFAC: A Best Practices Compliance Guide for All Businesses. http://csiweb.com/resources/white-papers/understanding-ofac-a-best-practices-compliance-guide-for-businesses*

Parts and Pieces Build Numerous Challenges

The parts and pieces of a holistic compliance program are countless: Many organizations have separate teams managing different functions. Sanctions screening efforts are tedious and manual. Data streams flow into the organization from disparate systems that never connect. Customer data resides in disconnected platforms that never merge for a consolidated customer risk profile. And the list goes on.

Not only do many organizations use multiple teams to manage different compliance functions, but also a majority of organizations use more than one solution to manage their screening efforts. According to a recent ACAMS poll, 73 percent of respondents said they use two or more solutions for automated screening. This might be one of the reasons why 58 percent of respondents said a regulator or internal audit challenged their methodology for conducting a sanctions risk assessment.[2]

While every organization faces its own particular obstacles, all organizations face three key business challenges that obstruct their ability to establish a centralized compliance platform: creating a unified vision and corporate buy-in for compliance management; connecting disparate departments, systems and data feeds; and uniting all compliance functions into a single platform without having to start from scratch.

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1. Creating a unified vision for managing compliance holistically and building corporate buy-in

Increasing regulatory expectations create a constant tug-of-war between an organization's compliance and operations groups, making it a necessity for businesses to strive for a unified vision for managing compliance.

Naturally, the compliance group will have a lower risk appetite while remaining more adverse to risk. For example, they will want the organization's compliance system to cast a wider net to snag more matches. This means adding additional layers of oversight, increasing the amount of data flowing through the system. However, added performance creates a burden, because extra layers of oversight mean the operations side will need to pull and sift through an increased amount of data to investigate and close out all of the extra matches.

Therefore, compliance and operations must come together to analyze data and metrics to form a consensus on how to manage compliance. And, any solution must instill confidence across business interests, from compliance to legal and the executive level, allowing each a customized view of their compliance data and common ground with which to make risk management decisions.

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

2. Connecting various departments, disparate systems and fractured data feeds

Unfortunately, many companies find that the responsibilities associated with compliance lead to a fractured internal compliance landscape: it's not uncommon for organizations to consist of multiple business functions that have separate compliance departments, processes and record-management systems. While each department may have its own fully functioning sanctions system, their data may be inaccessible, incompatible or difficult to aggregate when a more holistic view or approach is needed.

Even worse, relationships that are identified as high risk in one compliance system might not receive the same scrutiny in a separate business function within a company if data sharing across systems is difficult or impossible.

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3. Uniting all compliance functions into a single platform without starting from scratch

Organizations looking to develop a centralized system must first answer a series of difficult questions: Does it currently manage its onboarding process, KYC/risk profiling, transaction screening, watch list updates and other compliance functions in a way that allows for easy aggregation and report generation? And does it rectify and navigate the competing interests among executive, legal, sales and compliance departments? Most importantly, do all of those functions interact with one another?

Then, the process of establishing a centralized platform begins. However, companies have existing processes and platforms, so abandoning them in favor of something new is highly improbable. And few organizations have the time, money or programming resources to develop a centralized compliance system from scratch that can seamlessly bridge all the various compliance functions and data sets without affecting the end-user experience.

Therefore, the ideal answer is to integrate a platform within existing systems that interweaves all those systems and processes together.

An Interlocking System

Pulling together all the various components of an effective identity verification program can seem unwieldy. Building a platform from the ground up might be improbable for most companies, given the scope of such a project and the operational implications. So, identifying a third-party platform that can serve as an interlocking system for internal departments, systems and data feeds can be a more realistic option. In leveraging such a solution, organizations can create a holistic compliance screening platform that centralizes all compliance functions into a single view.

From an audit and regulatory perspective, a centralized system allows not only a comprehensive means to aggregate data on the results of sanctions activity, but also provides a view on both specific and overall compliance efforts, including policies, procedures and controls that are in place and how they function. In other words, a company should always be prepared to show auditors not just what they are doing in terms of due diligence, but also how they are doing it. A centralized platform would be invaluable if a company is asked by regulators to provide documentation showing that it is following appropriate sanctions protocols to prevent risk and meet legal expectations.

There are also financial benefits to having a centralized compliance system.
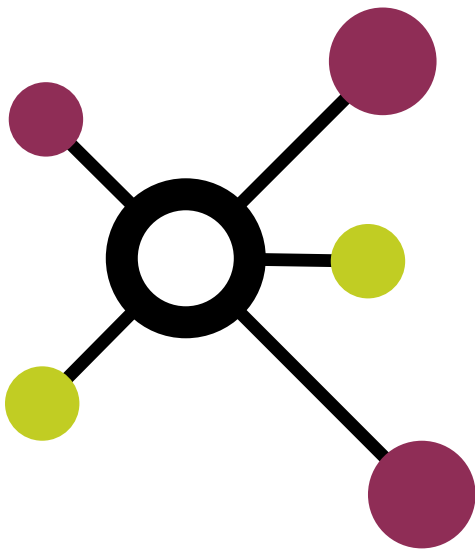
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A Dow Jones and ACAMS study found that 40 percent of companies surveyed exited a full business line or segment of business in the prior 12 months because of the perceived regulatory risk or their inability to manage that risk. Another 51 percent cited the cost of compliance as the main factor in their consideration for exiting a business segment.[3]

A centralized compliance system helps a company perform an effective financial analysis—and gain a clearer understanding of the costs of the compliance functions correlated with each product and service—before launching a new business line. That, in turn, allows a company to project future compliance costs when considering new products or services against potential profits and risk appetite.

Additionally, a full 53 percent of those surveyed in the Dow Jones report said they'd consider reevaluating that decision to exit a business line if they had "more precise guidelines from regulators or increased compliance comfort." A well-integrated, centralized system could easily provide that level of comfort. Alternately, organizations without this capability may find out too late that new offerings are too costly from a compliance standpoint to truly be viable.

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

Knowing Your Customers. Knowing Your Risks.

For many industries, the difference between success and failure can be measured in how they maintain and utilize data. Quality data helps produce quality outcomes. The same holds true in terms of compliance. Fractured compliance teams and disparate sanctions systems can add up to increased risk, absent the unifying power of a centralized compliance system of record.

It's all about knowing your customers—and knowing your risks.

For any business, an effective, modern identity verification program must include a centralized system that can bridge any potential gaps, communicate across departments and offer a true enterprise perspective of an overall compliance ecosystem. And it must be able to do so in a way that quickly and easily integrates into existing operations, creating a lightweight, seamless experience across silos.

The increasing complexity of business operations and customer relationships makes it more important than ever to ensure that compliance records and data are maintained in an organized, auditable system that allows easy access. A centralized compliance system provides all of those benefits, enhancing risk management and facilitating a growing enterprise's ability to streamline products and services, all while meeting regulatory expectations.

Sanctions Compliance Series

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

- Deploying Real-Time Watch List Screening
- Maximizing Automated Retroactive Screening
- Implementing Customer Risk Profiling

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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