



# Managing Sanctions Compliance in a Global Economy

## PART 2: MAXIMIZING AUTOMATED RETROACTIVE 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 two in our four-part series, this white paper examines automated retroactive monitoring: the challenges businesses face, possible technology solutions and recommendations for next steps.**

## When the Good Go Bad

As businesses onboard new customers or complete transactions, they must verify the legitimacy of those interactions via real-time watch list screening. Using a robust platform, companies must run their customers or vendors through the gamut of know-your-customer (KYC) and identity verification processes.

Then, once these companies have confirmed that those with whom they are doing business are not suspected terrorists, sanctioned countries/individuals, or politically exposed persons (PEPs), they continue actively monitoring each transaction in real time to ensure that everyone remains in compliance.

And, once a customer is cleared, everything's all good, right? Wrong. The unfortunate reality of the compliance landscape is that today's good guy might be tomorrow's bad guy. For that very reason, retroactive sanctions screening remains a compliance expectation for all businesses.

Besides, all it takes is one watch list update for a client or customer to go from compliant to prohibited, opening up an organization to serious risk. And in today's complex world, watch list updates are happening more frequently: **In just the first three months of 2017 alone, the Office of Foreign Assets Control (OFAC) updated its Specially Designated Nationals (SDN) list 28 times—sometimes multiple times on the same day.**<sup>1</sup> Every update represents a new risk for companies unless they have a mechanism in place to quickly re-screen customers automatically.

So while real-time sanctions screening may be the frontline defense for many industries, including money services businesses, insurance, logistics and financial services, it only provides a one-time snapshot of a customer's or vendor's status as an approved or prohibited party. That status could change at a moment's notice, requiring a compliance solution that not only looks backward when watch lists update, but also manages voluminous customer databases quickly and accurately.

Automated retroactive monitoring, along with real-time screening, are two essential elements in developing a truly holistic compliance program.



<sup>1</sup> Office of Foreign Assets Control (OFAC). <https://www.treasury.gov/ofac/downloads/sdnnew17.pdf>

## Growing Businesses. Changing Lists. Complex Challenges.

The compliance challenges facing nearly every organization today revolve around breadth, depth, timeliness and accuracy of data. Regulatory expectations and watch lists grow and change with frightening frequency, while successful businesses continue growing their customer and client lists. That combination all but ensures a large volume of data that must be aggregated, analyzed and scrutinized for potential risks—not just once during a particular transaction, but as frequently as watch lists change.

These factors add up to four major compliance challenges: automating the process of rescreening across disparate lines of businesses and transaction types, scaling up screening to give virtually real-time results, increasing the efficiency of the due diligence process, and reducing false positives.

### 1. Automating rescreening across all lines of businesses and transaction types

When it comes to screening and rescreening against watch lists, automation across all lines of business and transaction types is ideal. The Stimson Center, a nonpartisan policy research center whose subjects include global compliance issues, is blunt in its assessment of how modern-day organizations should utilize watch list screening: “Manually screening against the restricted party lists is not recommended because it can be extremely time consuming and, often, possible matches may be missed.”<sup>2</sup> The sheer scale of modern-day industries necessitates automation and batch screening (the ability to upload and screen multiple files simultaneously) to keep up, particularly as a business grows and expands its offerings.

In addition, different lines of business, products and services within an organization are likely to have separate data sets (sometimes even in different formats) that must all be screened. This demand all but necessitates the need for not only automated screening, but also the use of an application programming interface (API), a tool that allows multiple software components, databases or programs to communicate and interact with one another.



### 2. Scaling up to give near-real-time results

Automation and APIs also are necessary to deal with the large volumes of data that successful businesses will inevitably accumulate. Every customer or vendor, in addition to each transaction of goods or services, exponentially increases the number of records that businesses must maintain. Thousands of customers could generate millions upon millions of records—all of which are subject to an ever-changing set of regulatory expectations and watch lists.

Businesses must have a compliance solution in place that can handle millions of queries per day, along with periodic batch screens when watch lists are updated. And all of this must be accomplished almost instantaneously, without negatively affecting the customer or end-user experience. A customer wanting to purchase goods, for example, is unlikely to remain a customer if their purchases are held up by back-office operations that cause delays in transaction approvals or completions.

As businesses grow, so too must their screening capabilities in terms of both volume and capacity, to ensure they are conducting effective due diligence while also meeting customer expectations.

<sup>2</sup> The Stimson Center. *Compliance with Targeted Sanctions Watchlist Screening*. <https://www.stimson.org/compliance-with-targeted-sanctions-watchlist-screening>

### 3. Increasing the efficiency of the due diligence process

Automation and scaling are important, but timeliness matters as well. Regulatory bodies update their watch lists quite frequently, and at seemingly random intervals. OFAC updated its SDN list 75 times in 2016. Each update adds prohibited parties—and additional risk for businesses that don't update and rescreen their clients and vendors in a timely manner.

What is considered “timely”? A 2016 Dow Jones and ACAMS global anti-money laundering (AML) survey of 812 businesses found that nearly 90 percent of respondents expect internal lists to be updated within 24 hours of any changes.<sup>3</sup> Optimally, that 24-hour time period should also include rescreening an entire customer and vendor base, providing results to compliance analysts for any needed action and proof to auditors that it's being done. The value of automation to streamline compliance functions in this scenario cannot be overstated.

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### 4. Reducing false positives

Finally, accuracy is paramount. While the prior challenges primarily involve preventing interactions with prohibited individuals or organizations, false positives pose a different kind of risk.

**False positives represent cases in which a legitimate customer or vendor is mistakenly flagged as a prohibited entity, temporarily blocking a transaction and requiring human intervention to rectify the issue.**

These mainly occur when the individual's name is very similar to a name on a restricted party list. For example, a customer's online purchase might be flagged if the platform matches his name with a suspected money launderer; it is then up to business analysts to review and disqualify that match, which causes delays in the customer experience. A false positive could also trigger the rejection of a valid insurance claim, or prevent a logistics company from delivering packages.

While false positives may not carry the regulatory risks that screening failures do, they have the potential to disrupt operations and, even worse, negatively affect the customer experience.



<sup>3</sup> Dow Jones & ACAMS. *Global Anti-Money Laundering Survey Results 2016*.



## Retroactive Must Be Proactive

Using manual processes is not the most efficient and accurate way to conduct retroactive monitoring. A truly modern system brings automation to the entire process. Instead of managing the rescreening process itself, compliance analysts should have access to a system that manages it for them.

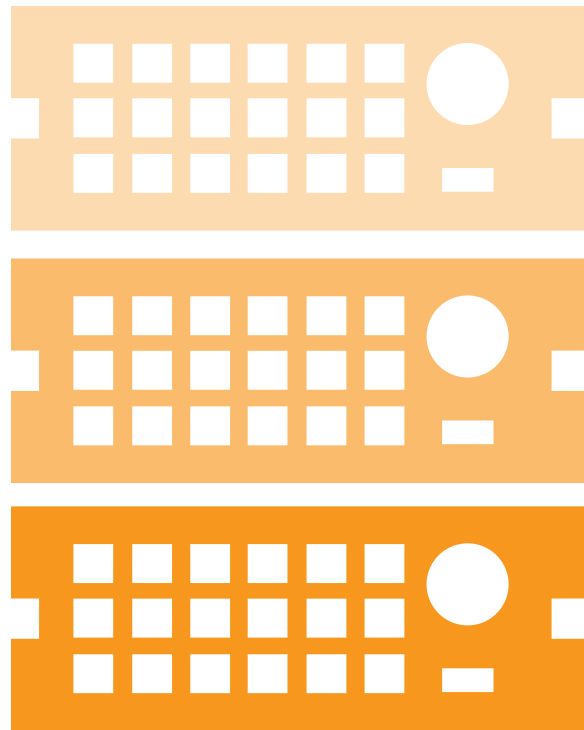
Ideally, a modern sanctions screening system, which includes the company's real-time screening capabilities, automates both the updating of watch lists and the rescreening of customer data—and it should do so within 24 hours of watch list updates. This approach makes retroactive screening a much more proactive business operation. Plus, the platform should give organizations access to a library of disqualifying rules, along with the flexibility to customize their own suite of rules, good and bad customer lists, and disqualifiers. In addition, it should grant the ability to customize entire libraries of rules and settings based on industry, risk tolerance and other factors.

That flexibility allows an organization to not only mitigate risk, but also prevent false positives more effectively. For instance, companies can create lists of names that they know are legitimate individuals, but are similar to prohibited names. These lists help weed out false positives, keeping business flowing more efficiently.

In addition to customized rule sets and lists, advanced computer learning within the platform can help refine an organization's compliance efficiency. Machine learning, for example, allows the system to iterate through data, recognize patterns, make decisions and develop predictions based on its own analysis. The platform also would learn from the analysts themselves, further refining its own functions based on their decisions concerning risk tolerance, flagged parties or transactions.

The end result is a wholly customized watch list screening solution that naturally grows more efficient the more it interacts with data and the human element.

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## Looking Back While Looking Ahead

Performing a single screen of a customer or vendor simply isn't adequate for most organizations. New regulations and unpredictable watch list updates mean that today's legitimate customer could be tomorrow's prohibited party. And the sheer volume of data required to maintain, screen and analyze makes automated technology a must.

Effective retroactive sanctions screening requires automating the process across the entire enterprise, scaling up to provide near-instant results, increasing the efficiency of the overall due diligence process and reducing false positives. Addressing these challenges will help organizations maintain both a high level of risk mitigation and a superior customer experience. Fortunately, a holistic approach to watch list screening, one that simplifies the process retroactively and in real time, can help businesses overcome these challenges.

Automated retroactive monitoring is key to a robust compliance posture. Coupled with real-time screening, businesses have all the tools needed to look back while looking ahead.



### 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](#)
- [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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