



FUELING MODERN RISK MITIGATION WITH APIs

A Quintessential Guide to Watch List Screening

As technology becomes more sophisticated and continues to influence the way organizations conduct business, the need for efficient and dependable watch list screening increases exponentially. For those caught dealing with a blocked entity on the Office of Foreign Assets Control's (OFAC) Specially Designated Nationals (SDN) List, the financial penalty now often reaches into the millions.

Given the increasing complexity of regulatory and business environments, organizations need to realize what's at stake when they violate watch list sanctions. More importantly, they need to understand the most effective and efficient way to mitigate that risk.

This white paper details the best practices for modern-day watch list screening compliance, including the latest technological advancements, such as application programming interfaces (APIs).

The Growing Complexity of Watch List Screening

Several converging factors make watch list screening more complex than ever.

Changes in the Regulatory Environment

The purpose of OFAC's SDN List has not changed: to prevent U.S. citizens and companies from engaging in business with potential terrorists, money launderers and any other persons or entities deemed enemies of the United States. The purpose of the Department of Commerce's Bureau of Industry and Security (BIS) lists also remains the same: to restrict export privileges and enforce specific licensing requirements of targeted individuals and businesses.

However, since the turn of this century, several factors have vastly increased the significance of restricted party watch lists:

- **Expanded Regulatory Reach:** Prior to the 9/11 attacks, federal regulators mostly scrutinized watch list screening at banks and credit unions. The USA PATRIOT Act changed that with its expanded definition of "financial institution," adding the following businesses with a higher risk for money laundering and OFAC violations:

- Casinos
- Importers and Exporters
- Insurance Industry
- Jewelry, Precious Gem and Metal Dealers
- Money Services Businesses
- Non-profits and Charities
- Real Estate Firms
- Travel and Tourism Industry
- Vehicle Dealers

In the last several years, OFAC has also levied significant fines against these additional businesses:

- Electronic Payment Firms
- Energy and Fossil Fuel Industry
- Manufacturers and Distributors
- Retailers and Suppliers
- Technology Firms
- Transportation and Logistics Providers

- **Increasing OFAC Fines:** In addition, the amounts of OFAC fines have risen drastically in the last 10 years:

Year	OFAC Fine Total	Largest Single Fine	Bank	Non-Bank	Largest Non-bank Fine	Industry
2018	\$71.5 million	\$53.97 million	X		\$7.8 million	Manufacturer
2017	\$119.5 million	\$100.9 million		X	\$100.9 million	Telecommunications
2016	\$21.6 million	\$5.98 million		X	\$5.98 million	Oil/Energy
2015	\$599.7 million	\$329.6 million	X		\$7.7 million	Payments
2014	\$1.205 billion	\$963.6 million	X		\$50.9 million	Aviation
2013	\$137 million	\$91 million		X	\$91.0 million	Energy
2012	\$1.139 billion	\$619 million	X		\$1.3 million	Manufacturing
2011	\$91.7 million	\$88.3 million	X		\$1.7 million	Technology
2010	\$200.7 million	\$176 million	X		\$15.0 million	Aviation
2009	\$772.4 million	\$536 million	X		\$9.4 million	Shipping
2008	\$3.5 million	\$1.2 million		X	\$1.2 million	Metals

Source: [U.S. Department of the Treasury](#)

- **Watch List Update Frequency and Unpredictability:** On any given day, OFAC, BIS and other watch list generators may add, change or delete multiple parties to their lists, often with multiple name variations for each party. A review of the SDN List updates for one month—January 2018—revealed more than 350 changes over nine unpredictable days (4th, 5th, 12th, 23rd, 24th, 25th, 26th, 30th and 31st).



Changes in the Business Environment

While a record number of updates to restricted party watch lists and rules is occurring, the digital age is altering the business landscape. Due to the proliferation of affordable cloud-based technology, firms are using more systems that automate key operational functions—and generate vast amounts of data. As a result, many businesses have customer databases spread across multiple departments.

In addition, digitization enables more organizations to reach beyond our borders to serve continuously expanding customer bases. To complicate matters even further, consumer and commercial customer habits are changing in lockstep with digital commerce. Immediate transactions are expected, and often, demanded.

All of these developments increase watch list screening risk and complicate compliance efforts.

Effective Watch List Screening Begins with Automation

Businesses must determine how often and which watch lists to screen against. Firms considered high risk may need to screen multiple lists with every new transaction or customer, while organizations with lower risk profiles may only need to periodically screen their customer database against the SDN List. In either case, manual screening is not a viable option. The manpower required for manual screening is prohibitively expensive and diverts resources from other important tasks. In addition, there is simply too much data to manage, and the chance of missing a potential match is too great to risk.



Best Practices of Automated Watch List Screening Solutions

The most effective watch list screening program includes an automated solution that incorporates the following technology, functionality and methods to strengthen and streamline compliance and reduce the risk of costly fines.

API Integration

APIs have recently emerged as a game changer in watch list screening. They facilitate full integration between otherwise separate systems. In other words, APIs can help your watch list screening solution communicate across your organization's various systems. With APIs incorporated into the solution, businesses see a unified, cohesive view of their compliance across their entire organization because of the following:

- **Integrated Incoming Data:** All appropriate watch lists relevant to your risk profile are available to your business from one hosted environment that is available for immediate, real-time access.
- **Interacting Integration:** There is seamless interaction with all your relevant technology, including customer onboarding, transaction payment and vendor-related systems.
- **Consistent Integration:** Consistent, real-time screening against multiple internal databases across your enterprise is available at all times.

Streamlined Screening

For the best and most cost-effective watch list screening results, your automated solution should provide the following functionality for screening:

- **Up-to-date:** No matter when or how often you screen, the solution continuously monitors, gathers, cleanses and deploys list updates in real time.
- **Simultaneous:** No matter how many separate watch lists your business needs to screen against, the solution allows you to screen them simultaneously via one data integration.
- **Real-time and Retroactive:** You can screen by individual, non-individual, sanctioned country, type unknown or exact ID at the time of the transaction and retroactively.
- **Single or Batch:** You can conduct single and batch lookups in real time.
- **Non-disruptive:** The API-fueled solution ensures that your business transactions flow uninterrupted, but creates a notification of possible matches for further investigation.



Sophisticated Matching

The veracity of individual matches is another vital best practice. A solution that generates too many false positives creates unnecessary, costly work and may lead to missed true matches. When comparing watch list screening solutions, ask these questions:

- **Advanced Search Algorithm:** Does the solution's algorithm check for every possible name and spelling variation, including initials and acronyms, to detect true matches and eliminate false positives? Can the weight of penalties and disqualification factors be configured and tuned to fit risk tolerances and operational considerations?
- **Translation and Transliteration:** Can the solution screen names submitted in all major languages and in multiple alphabets, including Arabic, Cyrillic, Korean, Japanese and Chinese?
- **Exact ID Matching:** Can the solution screen using only a numeric identifier, such as a Social Security number against the Social Security Administration's Death Master File or a National Provider Identifier against the National Plan and Provider Enumeration System?
- **Enhanced Due Diligence:** Can the solution verify the company data of high-risk third parties or customers to ensure the true majority owners are identified and screened?

Additional Technology, Tools and Services

There are several other functions that are considered best practices for watch list screening:

- **Cloud-based API Gateway:** The ability to access an automated solution anywhere and anytime via the cloud has become standard, but today's most effective and secure solutions take that to the next level. A centralized cloud-based API gateway provides a single end point for easier and more secure client connection through consistent authentication and authorization techniques.
- **Audits and Reports:** Solutions that provide extensive audit and report features help you continually monitor and improve your watch list compliance program, the evidence of which can be used to support your position with federal regulators.
- **Customizable to Your Business:** Besides letting you choose the watch lists most appropriate for your industry and business type, solutions powered by APIs let you segment customers by risk attributes and apply screening rules based on that segmentation.
- **Outsourced Watch List Services:** A solution that offers the option of having experienced, third-party analysts review your potential matches helps streamline your internal processes.

Credible and Reputable Provider

The automated solution's provider should also be scrutinized for best practice qualities:

- **Expertise:** Does the provider have a proven background in information technology, software development and APIs? Are its regulatory compliance professionals well versed in regulations and on top of government-issued changes?
- **Diligence:** Does it continuously monitor and address changes in the regulatory landscape that impact its solution and your business?
- **Non-complacent:** Does it routinely investigate emerging IT trends and adopt those that power its solution with the most sophisticated technology available?
- **Communication and Support:** Is its product user-friendly and does it offer ongoing technical and regulatory compliance support?

Such High Stakes Can Be Mitigated

OFAC alone imposed \$4.37 billion in fines between 2006 and 2018. The violators include large, sophisticated conglomerates alongside small family-owned and local businesses. Many of their enforcement actions noted the lack of an adequate or formal compliance program.

None of them needed to risk their firm's financial health or reputation by violating watch list restrictions, and neither do you.

When you automate watch list screening with an API-powered solution, your business can easily and quickly incorporate the best practices described in this paper, thereby counteracting the complexity of 21st century compliance.



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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 consulting, social media compliance, testing and watch list screening. Financial institutions and businesses alike trust CSI's expertise to enhance their compliance programs and reduce operational costs.