Effective sanctions screening is an increasing priority for financial services firms in Asia-Pacific. Faced with mounting regulatory pressures, the existing risk detection capabilities that rely on rules-based screening engines and manual processes cannot keep pace. Financial institutions need new tools to accurately detect true matches and false positives.

Sanctions risk is a significant financial crime risk facing Asia-Pacific’s financial services institutions. The penalties for breaches of US sanctions have already seen non-US banks subject to fines totaling millions – even billions – of dollars. As US regulators continue to sharpen their focus on Asia-based financial institutions, current screening engines are struggling to handle the evolving complexities of sanctions compliance in the region. At the same time, globally, there has been an uptick in the activities in fines related to anti-money laundering (AML), therefore other regional sanctions regimes should also not be ignored.

**US sanctions on Iran**
With 60% of the world oil using US dollars for international trade, the ongoing US sanctions on Iran present a continued focus for compliance. These sanctions take aim not only at Iranian oil exports, but also at international shipping companies and their supply and insurance networks. Institutions need to monitor all transactions activities including where the goods are being shipped to and from. Simply providing the finance for or insuring a ship carrying Iranian oil puts institutions in the frame for fines. For those not transacting in US dollars, even a nexus into the US creates sanctions exposure.

**North Korea**
North Korean sanctions target not only oil-related and shipping companies with indirect links to North Korea, but also financial institutions in the trade for taxes. For those not transacting in US dollars, even a nexus into the US creates sanctions exposure.

**Russia**
Rather than being country-based, Russia’s sanctions are targeted at individuals, companies and even vessels operating under the Russian flag, adding further complexity to the task of screening.

The continued development and stringency of sanctions regulations require financial institutions to navigate a dynamic mass of, often complex, requirements, including:

**Complex and evolving regulatory environment**

The better the question. The better the answer. The better the world works.
Higher bar for sanctions compliance

Regional regulators have set increasingly high expectations for the design and execution of sanctions controls in financial institutions. Similar to expectations for AML transaction monitoring systems, regulators globally and around the Asia-Pacific region expect financial institutions to be able to demonstrate that their sanctions screening systems are configured correctly, and reflect the specific risks of the institution, its clients and counterparties.

For example, the Hong Kong Monetary Authority’s latest circular requires institutions not only to perform regular testing, but to provide information about how they are validating their system and ensuring the effectiveness of controls, and to benchmark its performance against their peers. This is a first for institutions in the region, with only few geared up to comply with the new requests.

Similarly, in Singapore, the Monetary Authority of Singapore’s guidelines on trade finance and correspondent banking highlight the sanctions controls that financial institutions should put in place to identify a potential direct or indirect sanctions nexus.

In Australia, local financial institutions are struggling to keep up with geopolitical changes that may have significant impact on their business model. This is happening primarily because Russia and Iran, two jurisdictions relevant to Australian businesses, are the main focus of potential sanctions from countries such as the US. This, and the extraterritorial reach of the US for US-based people, is leading Australian institutions to ring-fence customers and employees, which limits the ability to have a single source of data for screening.

The People’s Bank of China (PBOC) requires institutions to maintain a screening system with a comprehensive list covering sanctioned and “Red Notice” persons, terrorists and other persons listed by the PBOC or law enforcements. Institutions are endeavoring to demonstrate compliance to the same by using an automated solution.

Meanwhile, PBOC has increasingly focused on the retroactive search function in on-site inspection. With huge client bases, institutions are struggling with the time taken to complete retroactive searches.

Current screening testing is broken

These emerging regulatory expectations are beyond the capabilities of most of the screening engines. Existing screening engines are generally inefficient, with large numbers of false positives being generated due to rule-based alerts. Major pain points for the existing engines at Asia-Pacific’s financial institutions are the following:

- **False positives**: Often rule-based alerts are rapidly disposed of at the institutions’ discretion. Using a risk-sensitive threshold, allowing client appetite with regard to PEP and sanctions risks to drive the disposition of alerts
- **Advanced risk indicators** to score each alert
- **Machine learning** used to identify false positives based on similar historical investigator decisions, where cases have been correctly closed or escalated
- **Network and entity analytics** to detect customers in the same extended network as known PEPs and sanctioned entities
- **Semantic natural language processing** to derive understanding from multilingual data and to identify additional high-risk entities, previously unseen by the primary matching engine

EY has collaborated with leading vendors to build new tools to tackle these challenges

EY Secondary Screening Tool analyzes historical operations decisions and intelligently prioritizes new sanction and political exposed person (PEP) alerts based upon their likelihood of being a true match. Alerts identified as likely false positives can then be rapidly disposed of at the institutions’ discretion.

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EY teams have developed a Screening Engine Quality Assessment tool (SEQA), which performs more than 100 unique variations of tests against the screening engine for regulation, compliance and internal audit to assess screening performance, giving financial institutions vital insights into the efficiency of their screening process and the effectiveness of their tuning efforts.

Financial institutions value SEQA for its:

- **Targeted results** which enable financial institutions to pinpoint areas for improvement in their screening engine
- **Up-to-date synthetic test pack** automatically generated based on current screening list entries
- **Interactive results dashboard** with advanced drill-down capabilities, allowing screening functions to visualize and interrogate test results
- **Performance tracking and benchmarking** against global banks or market peers
- **Customized reports**, including detailed analysis on missed alerts, effectiveness and efficiency metrics

Global banks are using the tool to optimize and test screening engines, and to validate effectiveness and efficiency ahead of regulator reviews.

**How to adapt to the new era of sanctions screening**

To comply with screening requirements in the shifting sanctions framework at a sustainable cost, the region’s financial institutions need to:

- Urgently review their exposure
- Adjust their risk tolerance as required
- Put in advanced screening solutions that can identify false benchmark performance demanded by regulators
- Rationalize their watch list scope to further improve matching efficiency scores

**Get your system tested to avoid potential regulatory actions and reputational risk.**
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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