

# *Sanctions screening – global developments*

ACAMS South Africa Chapter

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# *Global developments*

# *Current issues driving an analytics-based approach to sanctions risk and compliance*



## ***Expanding Regulatory Expectations***

The convergence of a high volume and a diverse range of government mandates is overwhelming already stretched risk and compliance teams.



## ***Data Proliferation***

Consumers are shifting the way they consume, and the new means and methods of transacting in a global, digital economy leave an incredible wake of data. Data sets are reaching beyond the ability of traditional software tools to capture, manage, and process within a tolerable elapsed time, both in regard to size and complexity. As a result, organizations must define a new way of conducting business: one that is driven by data-based decision-making.



## ***Sharper Scrutiny***

Regulators armed with data-mining techniques and analytical sampling and testing capabilities are issuing fines and sanctions in response to noncompliance with global regulatory sanctions.



## ***Emerging Technologies***

New data integration and visualization tools are enabling more thorough testing, better identification of trends and aberrations, and dynamic reporting allowing institutions to make comprehensive decisions based on keenly focused insights and foresights.

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## ***Sanctions developments and trends financial services***

### ➤ **Increased volatility of sanctions**

- Ukraine, Russia, Syria & Sudan – increased
- Cuba - eased
- Iran – partially reduced (JCPOA)

### ➤ **Focus change from banks to insurers**

### ➤ **Assurance focus areas to ensure relevance**

- Independent assessment of process
- Systems – use of data analytics to test effectiveness and efficiencies
- Operations - dealing with matches and levels of due diligence
- Risk appetite - level of fuzzy logic applied
- List management
- Exiting of customer relationships

# Sanctions challenges – insurers & reinsurers

## Examples:



1. A US firm obligated to pay out an insurance claim learns that the beneficiary of the policy is living in a sanctioned jurisdiction, e.g., Crimea, Syria or North Korea.



2. A ship registered in a non-sanctioned country faces technical problems offshore forcing the ship to call a port in a sanctioned country. The necessary repair work executed by a local contractor, normally covered under an ocean maritime insurance, will now be subject to US sanctions.



3. A US person travelling in a sanctioned country needs medical treatment in a hospital and asks the US-based insurer to reimburse costs for the treatment provided by doctors in the sanctioned country.

4. An insurer that must pay claims discovers that the payee's bank account is co-owned by another person living in a sanctioned country.

5. An insurer is considering dealing with a counterparty where individuals named on OFAC's Specially Designated Nationals List are involved as shareholders or in an operative position.

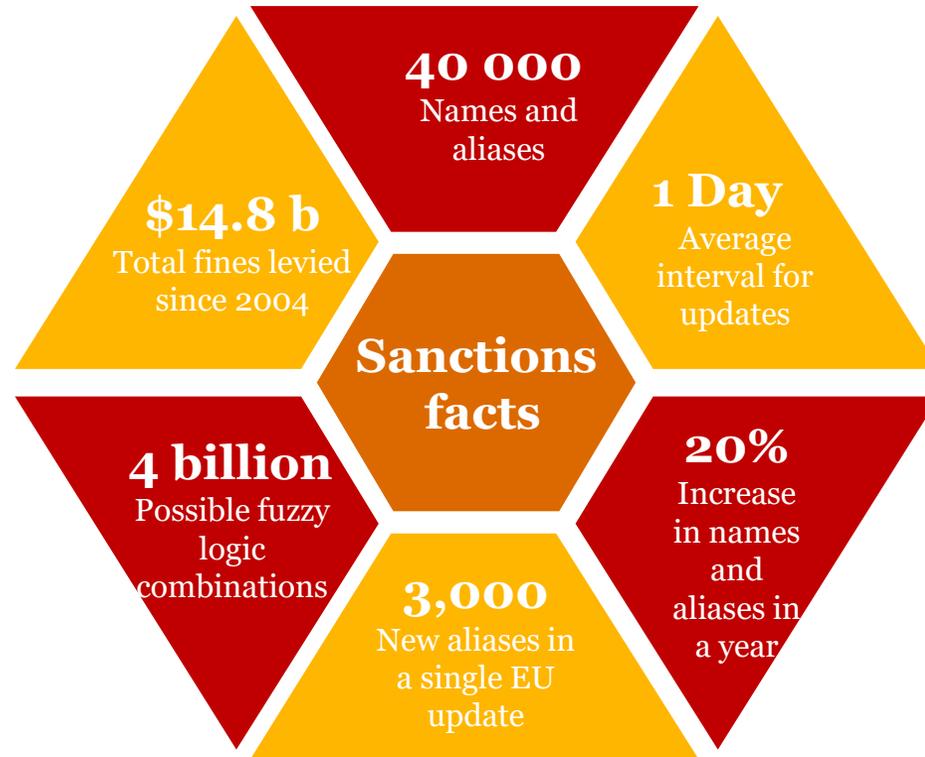
***“...the initial rush to reconnoitre Cuba and Iran will slowly but surely give way to a more measured approach... It will be months, if not***

***years, before the sanctions on both countries will be lifted. Even then foreign firms will face big obstacles to conducting business...”***

The Economist, “When the sanctions come off”, July 25th 2015

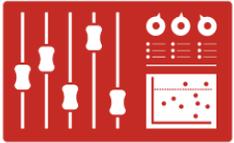
# Global sanctions facts

## Complexity of sanctions



# *Entity focus areas*

# ***Sanctions Compliance Assurance*** *what your organisation should be focusing on*



## ***Sanctions Technology Transformation Management***

- Ongoing vendor Assessment and Management
- Technology Implementation Support
- Data Quality Assessment
- System Integration Testing (SIT)
- Tuning and Optimization



## ***Metrics and Reporting***

- Identify High Risk Sanctions Compliance Issues
- Self Identify Program & Control Gaps
- Spot Efficiency & Effectiveness Concerns
- Advanced Data Visualization



## ***Sanctions Risk Assurance***

- Internal Audit and Compliance Testing
- Fuzzy Matching Logic Testing
- Implementation Testing
- Data Controls Design
- Materiality Testing (*Alert Handling Assessment*)
- Scenario based quality reviews
- Governance & Sustainability Controls



## ***Sanctions Technology Framework Development***

- Process Re-engineering
- Sanctions Compliance Efficiency
- Operating Controls
- Governance and Oversight Structure

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## ***Understanding your current and potential exposure to financial sanctions***

Proactive risk assessments and “what if” analyses can help prepare your organisation in dealing with these developments.

In order to increase your regulatory litigation readiness you should make sure and verify that:

- Your sanctions compliance processes are up to date;
- You have sample tested your transaction data from the past;
- You have verified that all of your transaction and user data within the organisation is archived properly;
- You have evidence of due diligence performed to identify sanctioned parties; and
- You are assured that all necessary evidence can be pulled out of your IT systems with minimal costs and delay.

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# *Sanctions screening operating model*

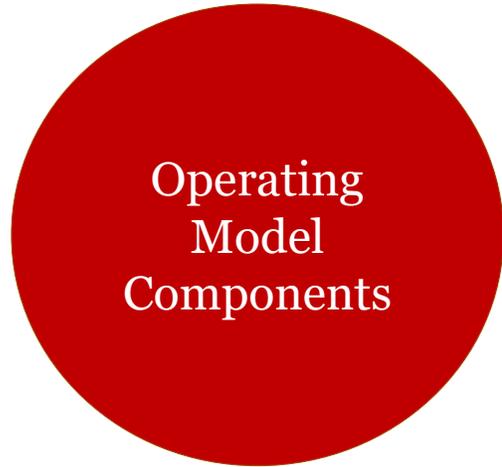
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## *Purpose*

The main purpose of sanctions screening is to:

- Conduct screening of specific parties against watch lists;
- Identify possible party matches;
- Manage output of the matching process; and
- Make decisions at the appropriate level on confirmed matches; in line with agreed approach

# Target Operating Model



## Due diligence & Screening

### Strategy

- Vision and objectives of the business
- Envisioned future state

### Process & Procedures

- Screening processes
- Sanctions lists & relevant databases

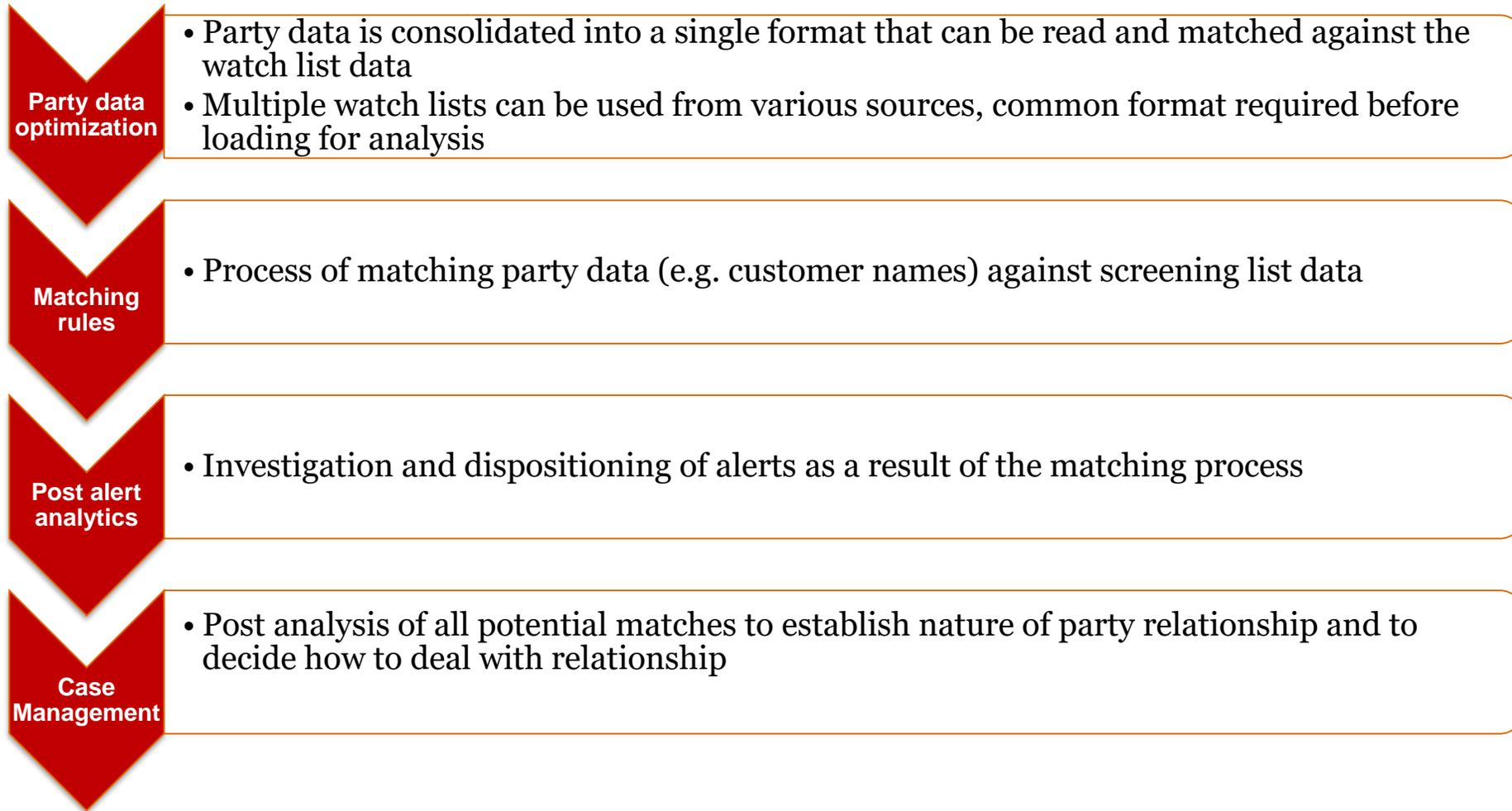
### People

- Appointment of key resources
- Roles & Responsibilities, KPIs
- Training

### Technology

- Customer screening solution
- Payments screening solution
- Workflow
- Watchlists

# Generic Screening Operating Model



# Centralised

## Centralised TOM

- The application of processes, technology and organizational model are centrally performed
- Screening function, governance and oversight also performed centrally

Advantages	Disadvantages
Improved governance and control	Business units excluded from process
Centralised decision making	Limited screening accountability for business units
Standardization of reports	Limited decision making powers for business units
Standardization of process & technology	
Economies of scale achieved through standardization	
Reduced business risk as a result of centralized screening solution	

# *Federated/ decentralised*

## **Federated TOM**

- Each business unit implements own screening model and solution
- Group policy and standards for screening solution is defined centrally

<b>Advantages</b>	<b>Disadvantages</b>
Each business unit can manage party relationship as they best see fit	Reduced governance and control over screening process
Tailored screening model for respective business unit aligned to group standard	Multiple screening solution result in increased costs
	Duplication of business processes across Group
	Increased staffing requirements
	Increased business risk due to federated screening solution

# Hybrid

## Hybrid TOM

- Centralized function for screening operations and responsibility, formation of Centre of Excellence (CoE)
- Standardized screening model across business units
- Flexible decision making capabilities at business unit level

Advantages		Disadvantage
Increased governance and control over screening process	Standardized screening solution across the group leads to cost efficiencies	Multiple stakeholders will be involved in setting up CoE, some level of complexity will be involved
Decision making at business unit level	Reduction in the business risk due to a centralized screening solution	
Consistency in regulatory reporting to the authorities	The business unit retains the final decision to continue relationship with party	
Economies of scale achieved through standardization of technology and process	Joint accountability between CoE and business unit for match management and investigations creates buy-in	

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