

Fractured Approaches to Sanctions Screening Put UK Companies at Risk, Says New FSA Report

Submitted by: Devonshire Marketing Consultants Limited

Wednesday, 6 May 2009

Differing Interpretations, Lack of Understanding of Mandatory Financial Crime Requirements, and Misuse of Screening Tools Place Firms at Risk

Fractured approaches to financial sanctions screening by UK companies have resulted in UK banks and financial services firms exposing themselves to enormous business and compliance risk, according to fit-for-purpose data and compliance screening specialists, Datanomic Ltd. The findings are confirmed in the Financial Services Authority's (FSA) latest report "Financial services firms' approach to UK sanctions", produced by the FSA's Financial Crime and Intelligence Division.

Lack of understanding, varying departmental initiatives and poor application of technology are leading to differing degrees of compliance within the boundaries of the FSA regulations. Poor quality of customer data is a major frustration, with companies often only able to identify individuals in some, rather than all, of their systems. Underlying cross-departmental discrepancies in their customer data means firms are at increased risk of a financial sanctions breach occurring in some part of their company. The FSA's report also concluded that many screening systems designed to prevent breaches have not been implemented effectively. Some firms fail to understand the issues involved in accurately screening disparate customer data accurately, and fail to use the technology at their disposal effectively. Calibration of screening rules is extremely important in sanctions screening. The report found that some firms calibrate client screening rules too narrowly, increasing the risk of sanctioned individuals and entities going undetected. Others apply calibration rules too loosely or have selected screening technology incapable of triangulating multiple fields of customer data, resulting in the generation of too many false positives.

"The findings highlight the need for an enterprise wide system with configurable rules to ensure that automatic and mandatory consistency is applied across all screening," said Simon Pearson, Director of Compliance Screening at Datanomic Ltd. "The latest FSA report clearly states that it considers the use of 'fuzzy matching' – the ability to match words, spellings and other data that may not match exactly – to be best practice for companies using automated screening systems. However, if using fuzzy matching, it is important to ensure the matching criteria are relevant and appropriate for the size and nature of the business. Datanomic's Sanctions & PEP (Politically Exposed Persons) Screening software enables firms to customize their own criteria in line with their own specific requirements and risk based approach."

"The use of multiple identities is common in the criminal world and Al-Qaeda's own training manual requires its operatives to use false identities to hide their terrorist activities. Exploiting variations of a criminal's real name is, perhaps, the simplest way of acquiring a new identity. Typical approaches are to use name variations or switching the order of names," added Pearson. "Other data, such as dates of birth are often manipulated simply by transposing digits. It is critical to have advanced technologies that audit, process, cleanse, parse, validate and restructure all customer data and for it to be tightly integrated with accurate fuzzy data matching algorithms to ensure accuracy in Sanctions and PEP screening."

“False positives, and more critically, false negatives, place a huge burden to compliance departments and the Money Laundering Reporting Officers who are responsible for protecting the reputation and security of their institutions. Every occurrence of a client record matching to a name on a sanction, risk or PEP register has to be investigated. The majority of matches produced by most vendors’ systems will be false positives because they lack sufficiently sophisticated and powerful screening algorithms for dealing with widely varying customer data. Datanomic’s ‘Decision Intelligence’ provides unparalleled management of false positives, ensuring zero repetitive rework, improvements in staff time and productivity, and cost reduction. This makes an enormous difference to the amount of time and effort that is required by Compliance, typically reducing costs by as much as 70%.”

The FSA report also highlighted the need for all firms and sectors to pay careful attention to financial sanctions requirements. Failure to comply with the FSA’s obligations can carry serious consequences for both firms and individuals. Companies face substantial fines, and individual senior management can be held personally accountable, resulting in a criminal record and in serious cases, a prison sentence of up to seven years.

A full copy of the FSA report on financial services firms’ approach to UK financial sanctions is available for download at <http://www.fsa.gov.uk/pubs/other/Sanctions%20Final%20Report.pdf>

About Datanomic

Datanomic’s holistic approach to delivering fit-for-purpose data and screening accuracy enables its growing list of blue chip clients around the world to achieve a rapid Return on Investment, by exposing and correcting deficiencies in information their businesses rely upon, and by discovering potential regulatory and legislative compliance data issues in line with proactive risk management. Our clients come from a wide spectrum of industries including financial services, telecommunications, government, healthcare, utilities, professional services and engineering.

For further information, please contact:

Kim Squire
Devonshire Marketing
Tel: 0870 7000 166