



FROM UTILITIES TO INDUSTRY-INITIATIVE:

HOW A CENTRALISED SERVICE FINALLY SOLVED THE FINANCIAL COMMUNITY'S SANCTION SCREENING PROBLEM.



Authors

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Since it appeared in 2001, sanctions screening of transactions has been a complex and multifaceted challenge for financial institutions (FIs). According to recent Celent estimates, the financial community will spend around 58 billion USD in 2023 at a global level to fight financial crime. All FIs heavily invest to comply with increasingly complex and far-reaching regulations, often with unintended negative side-effects in terms of end-customer experience and yet despite these heavy investments, the results are still disappointing with an estimation that only 1% of financial crime is prevented. Industry collaboration has the potential to drastically improve effectiveness and efficiency of those processes. Although some attempts have been made in the past, success is yet to be seen.

Evolution of sanction programs

From 2001 to 2021, the financial community witnessed a staggering 933% growth in sanction designations by OFAC. Sanction programs during this period also diversified, introducing sectoral and secondary sanctions adding further complexity and challenge.

Consequently, there was a dramatic increase in alert volume. Institutions processing hundreds of alerts in 2001, now faced the task of addressing tens of thousands daily by 2021. And in 2022, things further escalated: following the invasion of Ukraine, new designations skyrocketed by 250%, with sanctions lists from both the US and Europe swelling by 30%.

Legacy screening capabilities is no longer fit: financial institutions tread a fine line, where even minor oversights can lead to tarnished reputations and huge punitive penalties. These penalties, both in terms of financial implications and reputational damage, can have long-lasting repercussions. In essence, as the landscape of sanctions continues to evolve, institutions grapple with the challenge of ensuring impeccable sanctions screening while navigating a rapidly changing environment.

Handling alert volumes

The number of sanctions lists has been proliferated dramatically in recent years, with banks finding it increasingly arduous to simply remain current and updated within the short time window allowed by the regulators (that used to be 24 hours, but trends towards real-time updates).

From utilities to an industry initiative

Given that every FI is conducting the same transaction checks, a centralised system would promise efficiency, consistency, faster processing, and cost savings.

Historical attempts to establish shared services in the financial industry often took the utility model approach. But past efforts using this model for compliance frequently fell short, primarily due to challenges in devising a universally acceptable cost-sharing strategy that worked for all financial institutions.

The turning point emerged when the industry pivoted from a utility model to a profit-driven industry initiative. This model aligned interests – FIs would fund the service based on their usage, ensuring they received value and operational cost savings in return.

The financial sector stands at the brink of transformation, with collaboration and harmonisation in sanctions screening poised to redefine sanctions compliance. Engaging in cooperative endeavors allows institutions to merge their strengths and insights, forging a path towards more streamlined and effective screenings.

By pooling resources and exchanging vital information, institutions can elevate the precision and efficiency of their screening processes, addressing the challenges posed by the myriad of ever-evolving sanctions programs.

Collaborative efforts inherently reduce operational friction, eliminating duplicated efforts and fostering a more cohesive approach. This increased efficiency, born from unified efforts, directly translates into heightened effectiveness, ensuring that transactions are more consistently and accurately screened against all relevant sanction parameters.

Beyond the immediate benefits of shared knowledge and resources, collaboration also paves the way for broader access to technological advancements. With collective investment and focus, institutions can harness the power of the latest cloud-native technologies.

These cutting-edge tools, coupled with shared databases and analytics, enable real-time updates and integrations, significantly bolstering the robustness of the screening process. In essence, through collaborative industry initiatives, financial institutions can not only enhance compliance but also future-proof their operations against emerging challenges.

Gains from shared industry initiatives will only be achieved with a very high level of standardisation, allowing the outcome of the centralised platform to be integrated seamlessly in the existing processes of the institutions.

Where GSS fits in

With over 30 years of experience in the compliance industry, GSS quickly understood that much of the friction experienced by customers in sanctions screening is caused by duplicative processes and the absence of industry standards. GSS understands that there are significant benefits to be gained from sharing information across the industry and agreeing on common sanctions screening standards.

Over the past 18 months, GSS has collaborated with over 30 partner banks and held over 1,000 one-on-one meetings with sanctions experts to agree on common standards for sanctions screening, the GSS Industry Standards. In the process, GSS has learned the importance of bringing together the right people from competing organisations to collaborate on a more efficient and frictionless sanctions screening process.

Financial institutions provide data to GSS, such as transaction data, and GSS returns an alert if there is a match against a sanctions list. Financial institutions remain fully responsible for sanctions compliance, but GSS can help to streamline the screening process, allowing FIs to configure the platform to meet their specific risk appetite.

Where Neterium fits in

Since its inception in 2017, Neterium has been laser-focused on one single goal: create the best screening engine in the world. The engine is available exclusively through a very high-performance API. Since the Neterium engine is designed to be integrated into platforms, it perfectly fits into the ecosystem approach of GSS, and was selected in 2022 as the exclusive engine to power the GSS platform.

During the selection, GSS intensely tested the Neterium engine by sending up to 40 million transactions per hour to the API, a load that was met with impressive performance.

Branded as Jetflow, the Neterium engine supports extreme configurability: every individual request can be tailored with distinct lists, policies, parameters, and more. This adaptability ensures GSS maintains a multi-tenant nature, processing transactions from multiple clients concurrently, each with their unique demands and configurations, but all to agreed GSS industry standards.





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