



NICE
Actimize

eBook

SCREENING 101

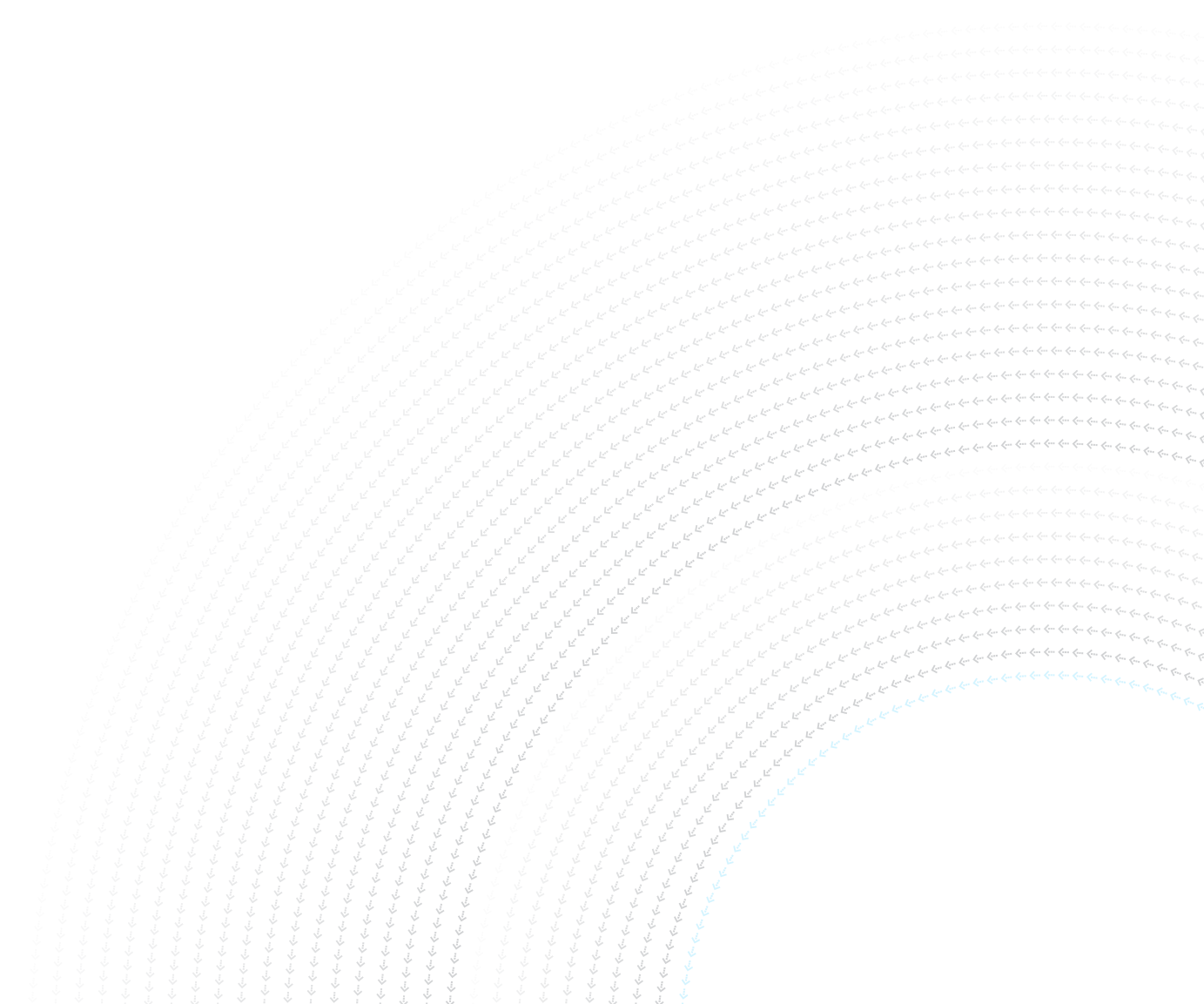
Answers to Frequently Asked
Questions About Sanctions Screening





Sanctions Fundamentals

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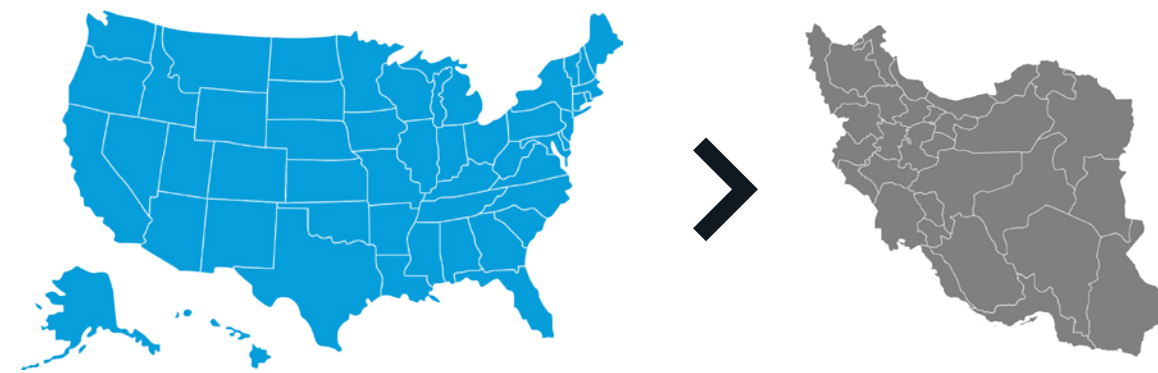


What are sanctions?

Sanctions can be unilateral or collective.

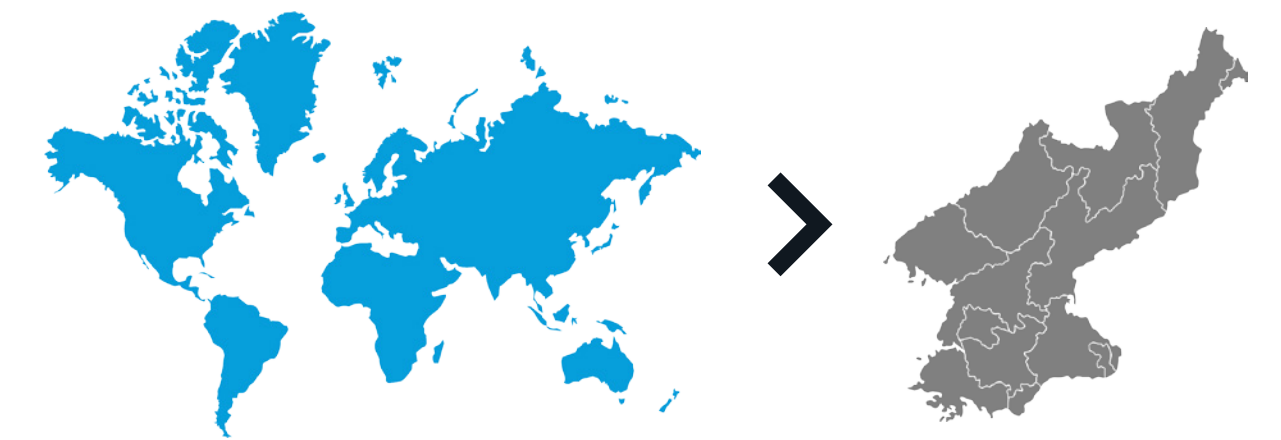
Sanctions are restrictions imposed by governmental and intergovernmental bodies. These restrictions can be applied to entire states, like North Korea, or individuals and companies, as seen in Russia-related sanctions.

UNILATERAL SANCTIONS

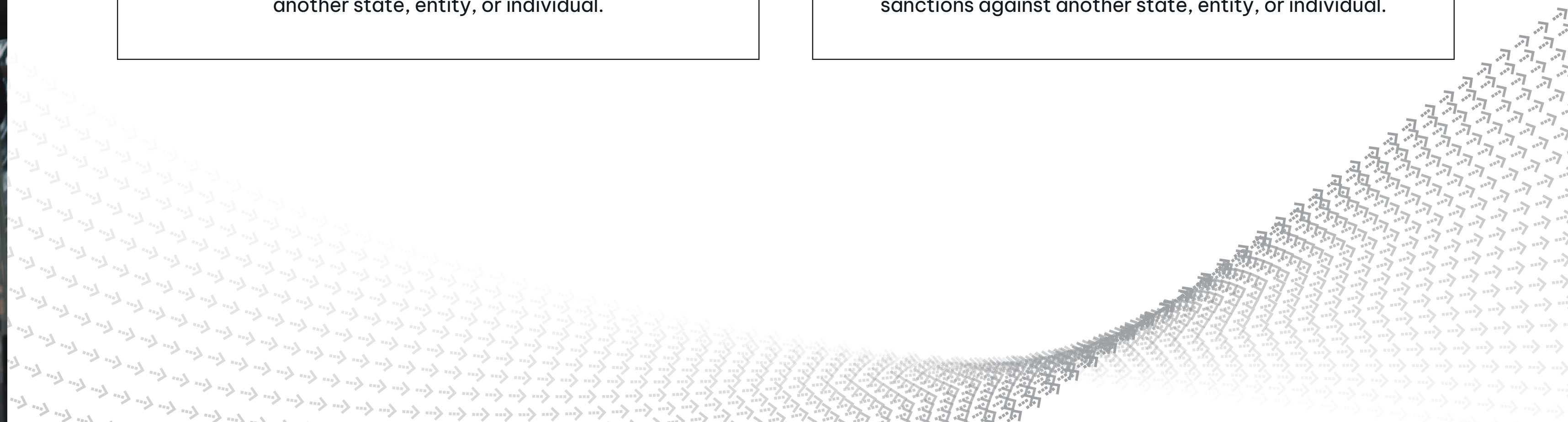


One state imposes sanctions against another state, entity, or individual.

COLLECTIVE SANCTIONS



A group of states, like the United Nations, imposes sanctions against another state, entity, or individual.





What is the purpose of sanctions?

Sanctions are intended to apply political pressure on or influence the behavior of sanctioned states, entities and individuals whose activities:



Pose a security threat to another state (such as nuclear weapons sanctions)



Are illegal according to international standards or agreements



Are oppressive or against human rights



Why are people, organizations, ports, ships, and goods sanctioned?

Why are ports and ships sanctioned?

Ports and ships are sanctioned to restrict the import and export of goods, services, and technology either with sanctioned uses or:

- To and from sanctioned regions
- On ships owned by sanctioned states
- To and from ports located in sanctioned states

Why are people or companies sanctioned?

Individuals and organizations are sanctioned for a variety of reasons including:

- Terrorism
- Serious organized crime that poses a threat to states (Mexican drug cartel leaders)
- Weapons proliferation
- Human rights violations
- Connections to authoritarian states or regimes
- Threats to national security, foreign policy or global economies



Why are goods sanctioned?

Sanctions can be used to restrict the sales and movement of goods that provide an economic, technological, or political advantage.

Examples of goods:



Dual-use goods, like goods with both military and civilian uses



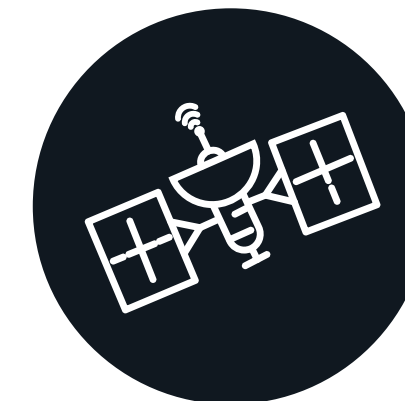
Energy-related goods and services like coal, oil and jet fuel



Luxury goods



Resources like titanium, aluminum, iron, grain, or wood



Advanced technologies such as those used for aviation and space



What are the different types of sanctions?

There five main types of sanctions. They are:



ECONOMIC SANCTIONS

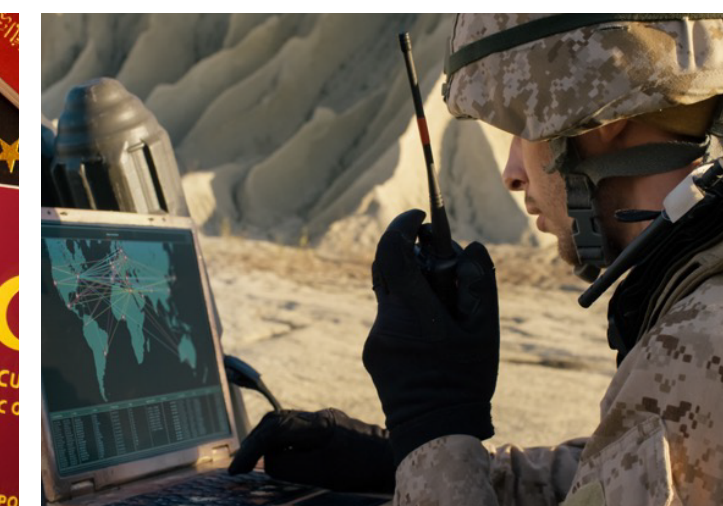
A ban or restriction on trade and financial integration. There are three types of economic sanctions:

- [Trade sanctions or embargoes](#)
- Trade restrictions (such as arms embargoes or controls on specific goods)
- [Financial sanctions](#)



DIPLOMATIC SANCTIONS

Reduction or removal of diplomatic ties



MILITARY SANCTIONS

Military intervention



SPORTS SANCTIONS

Restriction of countries and athletes from participating in sporting events



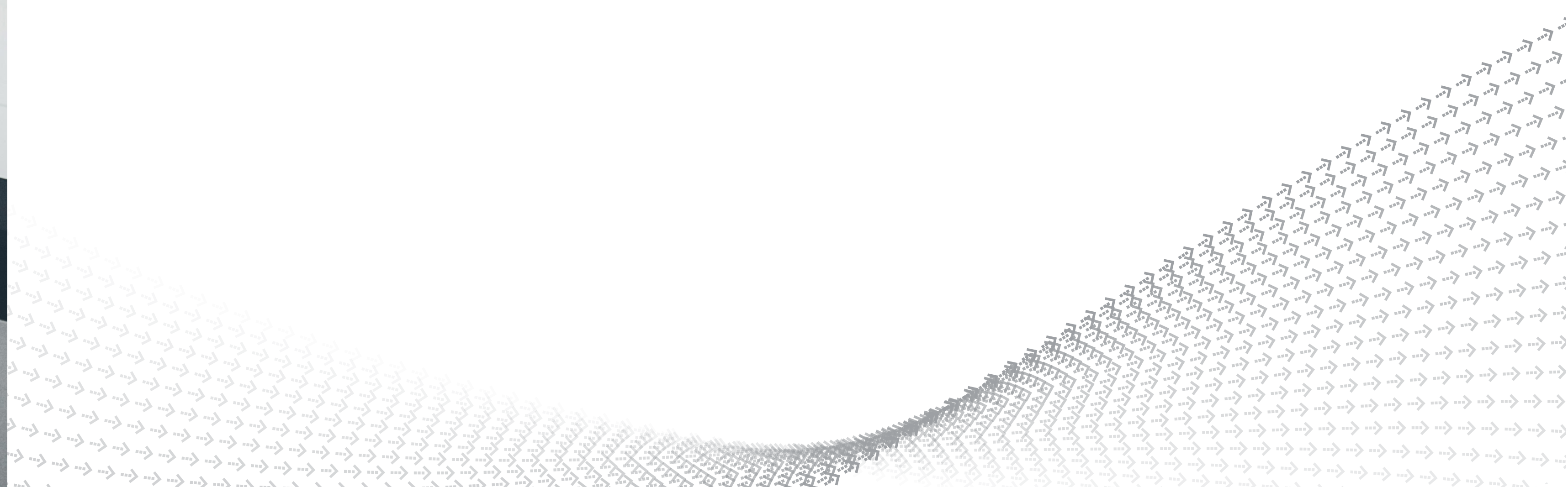
ENVIRONMENTAL SANCTIONS

Penalties for detrimental environmental breaches

Which types of sanctions are most relevant to financial institutions?

Economic sanctions, including [financial sanctions](#), are most relevant for financial institutions.

Most financial institutions have legal and regulatory requirements, in the form of Anti-Money Laundering (AML) laws, that require them to comply with ongoing sanctions. Because financial institutions store and transfer wealth between individuals, corporates, and states, it's their responsibility to monitor customers and the originators and beneficiaries of transfers. Monitoring ensures involved parties are not subject to sanctions, which would restrict a financial institution's ability to do business with them and process related transactions.





What is a financial sanction?

A financial sanction is a type of economic sanction. If an entity is placed under financial sanctions:



All their assets and funds are frozen



They're prohibited from transferring or receiving funds across the financial system, regardless of the financial value



They cannot open new accounts or financial services in jurisdictions where they are sanctioned

What is the difference between a trade sanction and a trade embargo?

Trade embargoes are often broader than trade-specific sanctions:

- Embargoes generally ban all trade with a country or region including exports to and imports from that country
- Sanctions generally prohibit certain activities and the trade of certain goods without a license. Examples include prohibiting trade with a certain merchant or the trade of:
 - Certain resources, like oil
 - Goods and components, like weapons and materials used in nuclear bombs





Who creates sanctions? What are the relevant sanctioning bodies?

Sanctions are determined by sanctioning bodies. The relevant sanctioning bodies vary depending on the regions and currencies of an activity or transaction.

The most common sanctioning bodies include:



United Nations Security Council (UNSC)

Applies to all activities:

- Completed within a UN member state



Office of Foreign Assets Control (OFAC)

Applies to all activities:

- Involving a U.S. citizen or U.S.-incorporated company
- Involving a company with a US-based parent company, affiliate, or subsidiary
- Using U.S. dollars
- Involving U.S. products or components
- Leveraging a US-connected agent or supply chain



Office of Financial Sanctions Implementation
HM Treasury

Office of Financial Sanctions Implementation (OFSI)

Applies to all activities:

- Involving a U.K. citizen or U.K.-incorporated company
- Involving a company with a U.K.-based parent company. Example: bank branches
- Completed within the U.K.



EU Sanctions List

Applies to all activities:

- Involving an EU citizen
- Involving an entity incorporated in an EU state



What are the penalties for breaching sanctions?

Penalties can be imposed for entities that:

- Don't conduct sanctions screening and are required to
- Don't have sufficient controls in place to monitor for sanctioned entities
- Choose to facilitate sanctions evasion
- Breach sanctions themselves

Organizations and individuals could face:



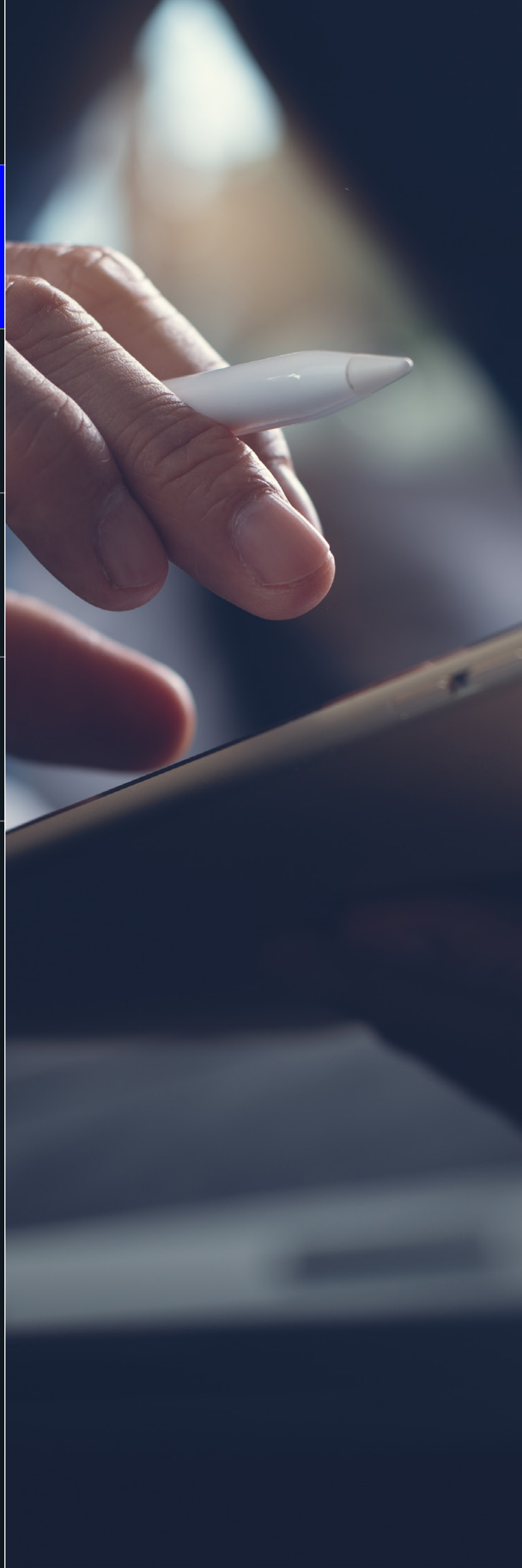
Fines



Reputational Damage

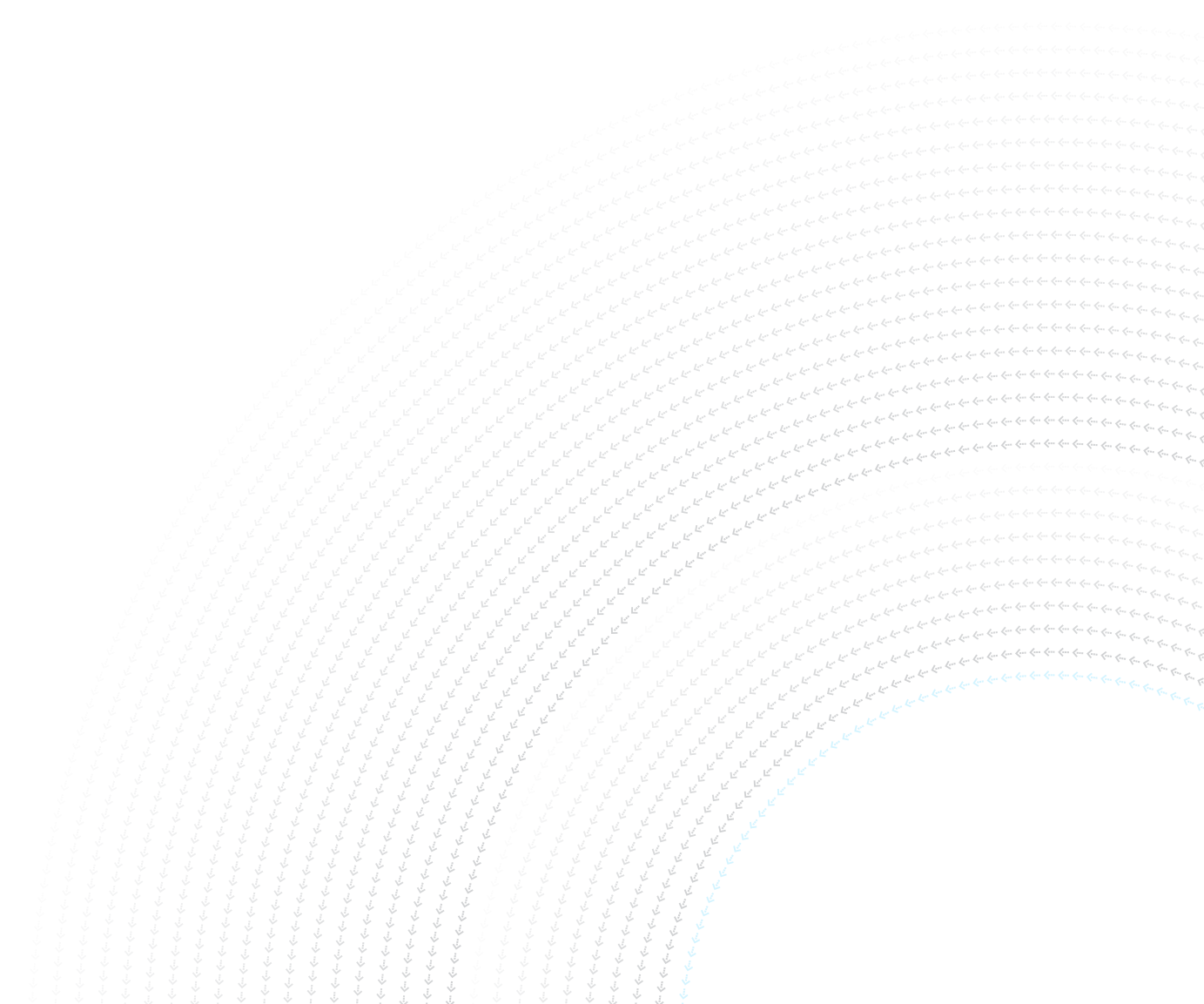


Criminal Prosecution
And Potential Custodial
Sentences



Screening Fundamentals

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What is sanctions screening and its purpose?

Sanctions screening is the process of checking that there are no sanctions breaches prior to, and as a condition for, completing business activities or financial transactions.

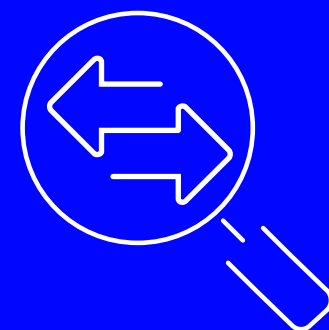
Sanctions screening is a legal and regulatory requirement in most countries. It's especially relevant for regulated organizations, including financial institutions, and significantly enhances sanctions compliance, reenforcing the impact of sanctions.

There are two main types of sanctions screening:



PARTY SCREENING

Party screening is the screening of relevant parties at the start of and at regular intervals throughout a business relationship. This includes screening new customers, suppliers, and partners before opening accounts, and providing or receiving services.

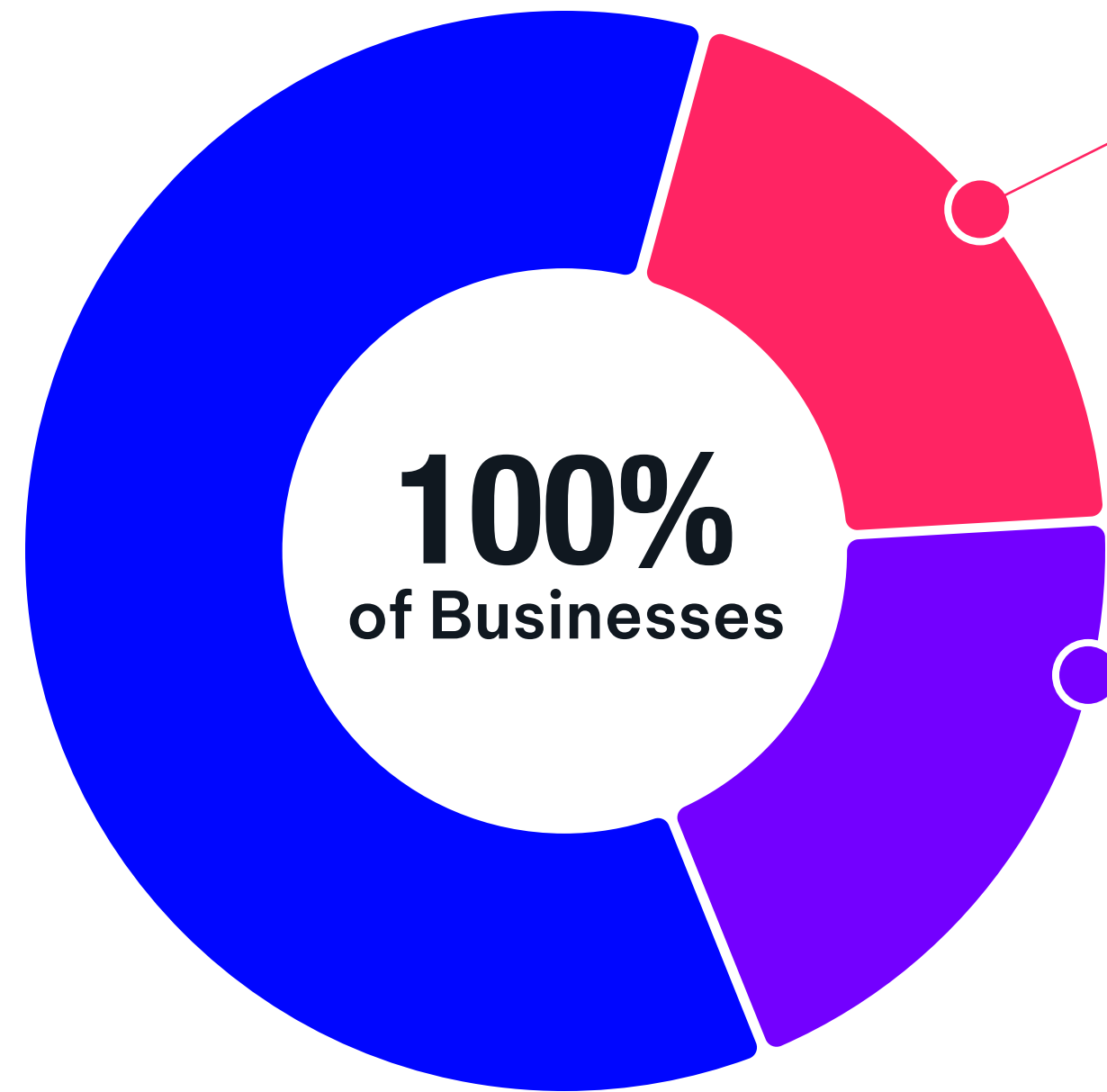


TRANSACTION / PAYMENT SCREENING

Payment screening is the screening of all transactions and asset transfers to ensure transfers are not to or from a sanctioned entity.



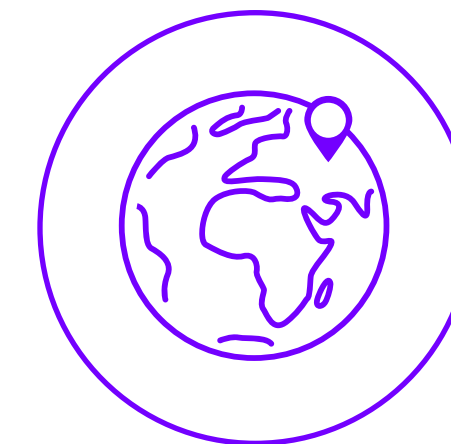
Who should do sanctions screening?



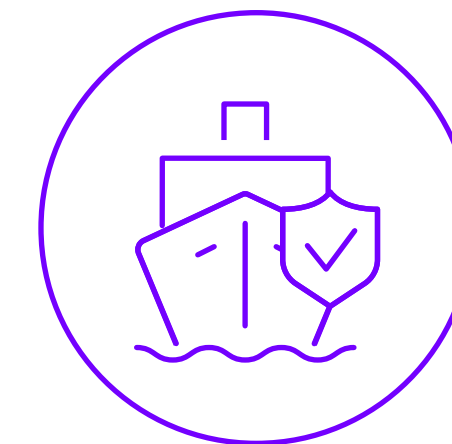
All businesses should do sanctions screening.

Regulated organizations, including financial institutions, face greater scrutiny and stricter, more prominent enforcement action.

Organizations that operate internationally also face greater scrutiny, especially those who do business with higher-risk:



Regions /
Jurisdictions



Industries



Customers
(Politically Exposed /
High Net Worth)



When should sanctions screening be done?

Screening should be done:

- Before a business relationship is established
- Before a transaction is completed
- On an ongoing basis, to ensure existing customers, counterparties or suppliers are not added to a sanctions list after the inception of the business relationship





How can I determine the relevant financial sanctions for my institution?

To determine if a party or payment is sanctioned, institutions should screen against all involved parties, including the Ultimate Beneficial Owner (UBOs) and directors of relevant corporations.

Most screening solutions have rules in place to automatically determine relevant sanctions, removing the need to analyze relevance every time and greatly simplifying the screening process.

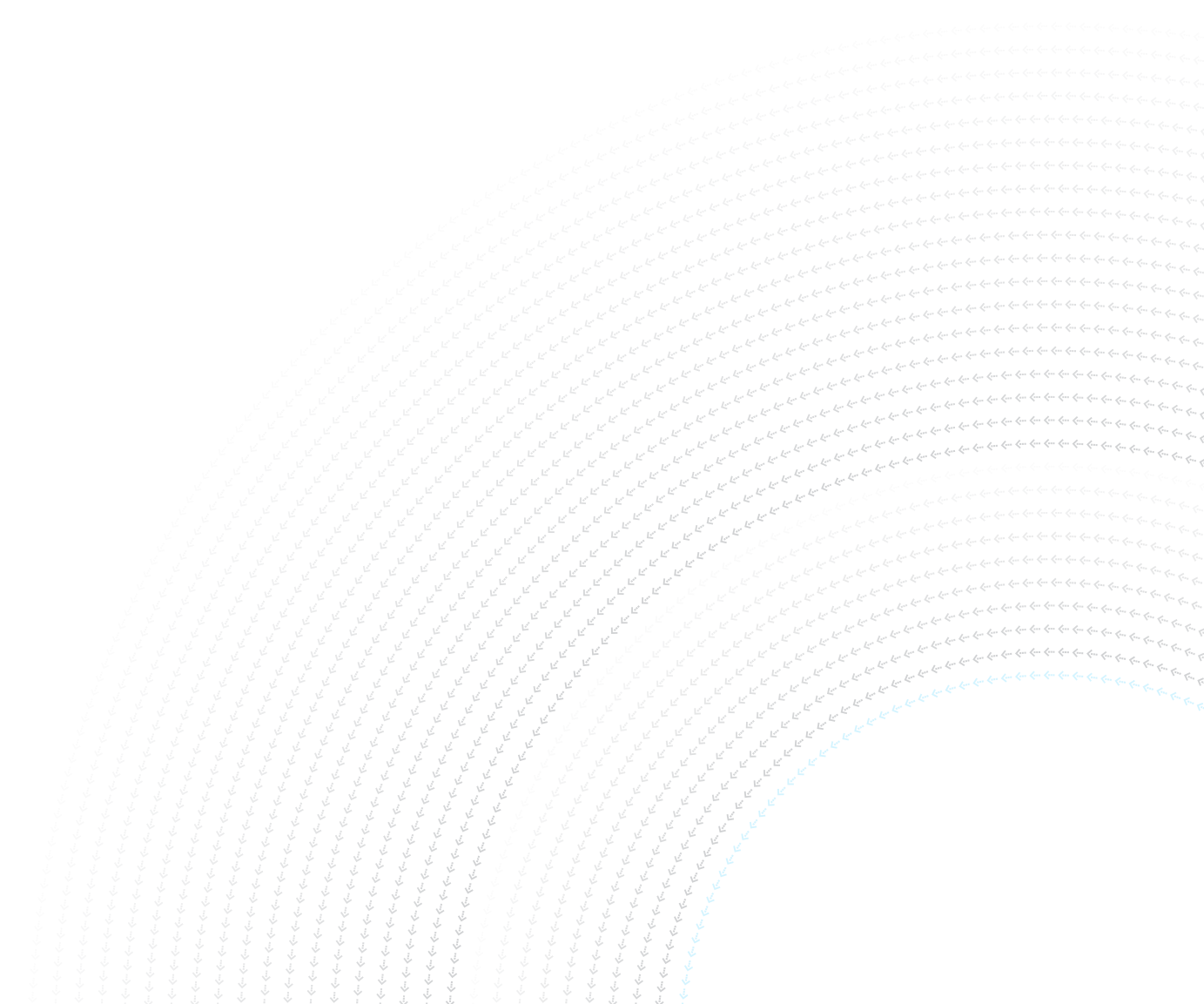
Financial institutions should look at sanctions requirements for:

- Any collective organizations relevant to the above countries (e.g., the UN and EU)
- Any countries connected to:
 - The financial institution's location and their parent company's location
 - The transaction (for example: a transfer from Kenya to Brazil would have to comply with Kenyan and Brazilian sanctions)
 - The citizenship of relevant parties
 - The incorporation/constitution location of relevant corporates, parent companies, and subsidiaries
 - The currency used in the transaction (e.g., U.S. sanctions for US dollars)



Screening Processes

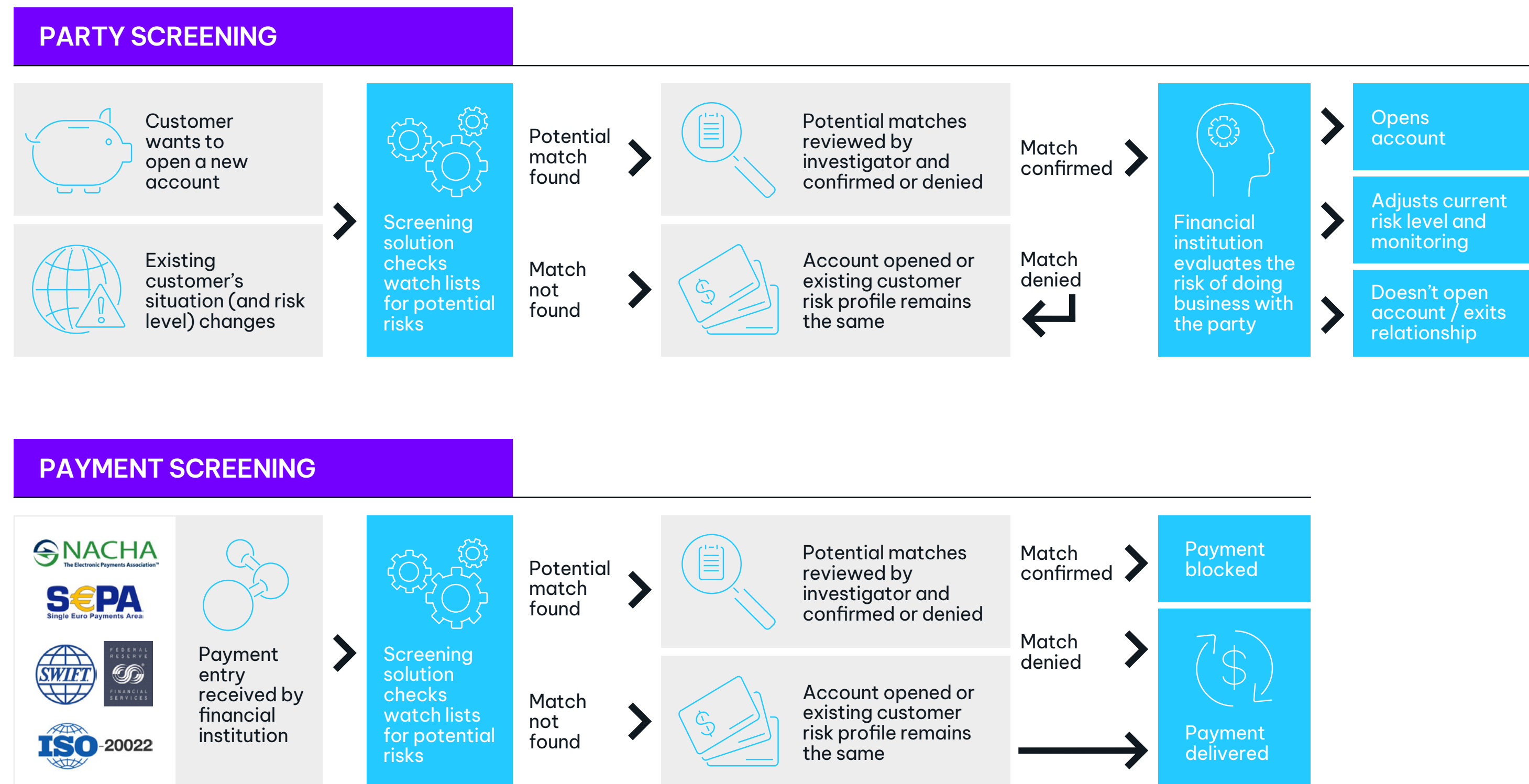
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What does a typical sanctions screening process look like?

The screening process varies slightly between screening parties and payments:





What is a sanctions list or watch list?

There's a wide variety of watch list providers. Keeping in mind business-specific risks, financial institutions will choose a subset of existing watch lists to screen against.

A watch list is a consolidated list used during a sanctions screening process to check individuals and organizations for sanctions and other risk factors.

Watch lists may include:

- Sanctioned entities
- Politically exposed persons (PEPs)
- Entities identified in adverse media
- Corrupt entities
- ESG-related risks
- High risk industries or business areas
- Entities identified by an organization as being too high risk

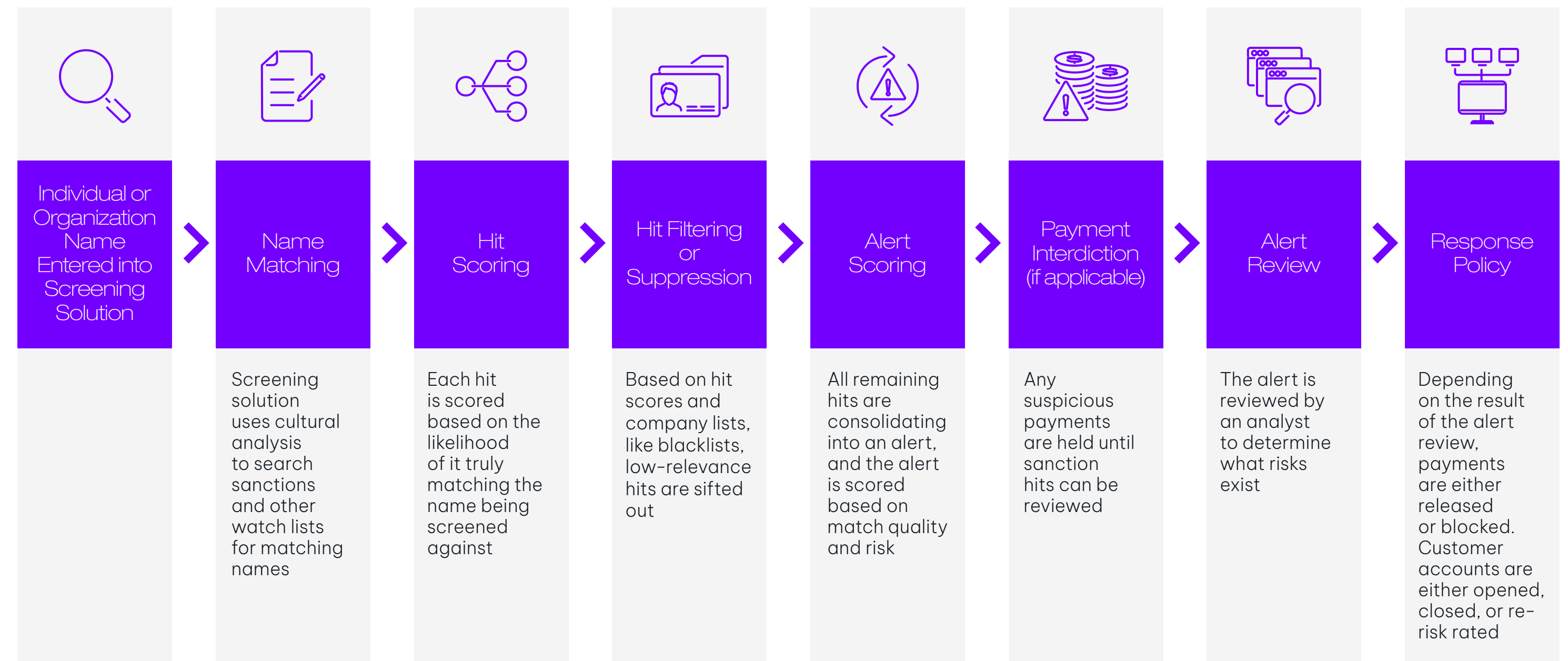
Some common watch list providers include:

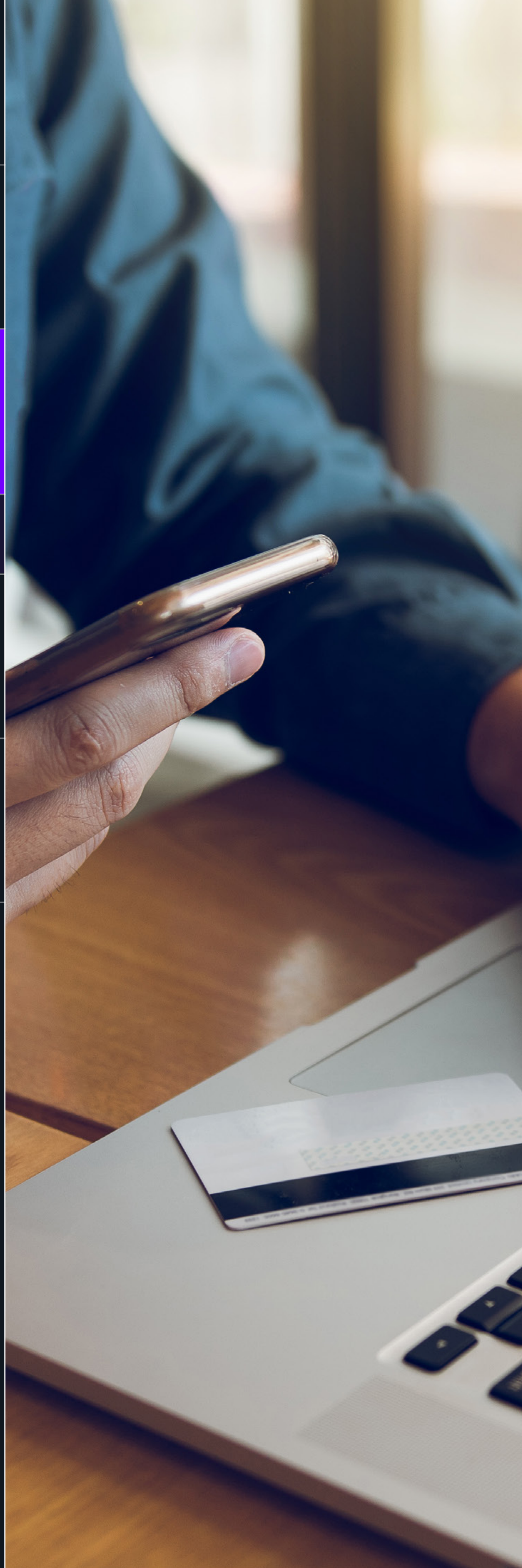
Sanctions & PEPs
        
Adverse media
    
Other risk data
     



How does sanctions screening work?

Within the "black box" that is screening, several processes occur:



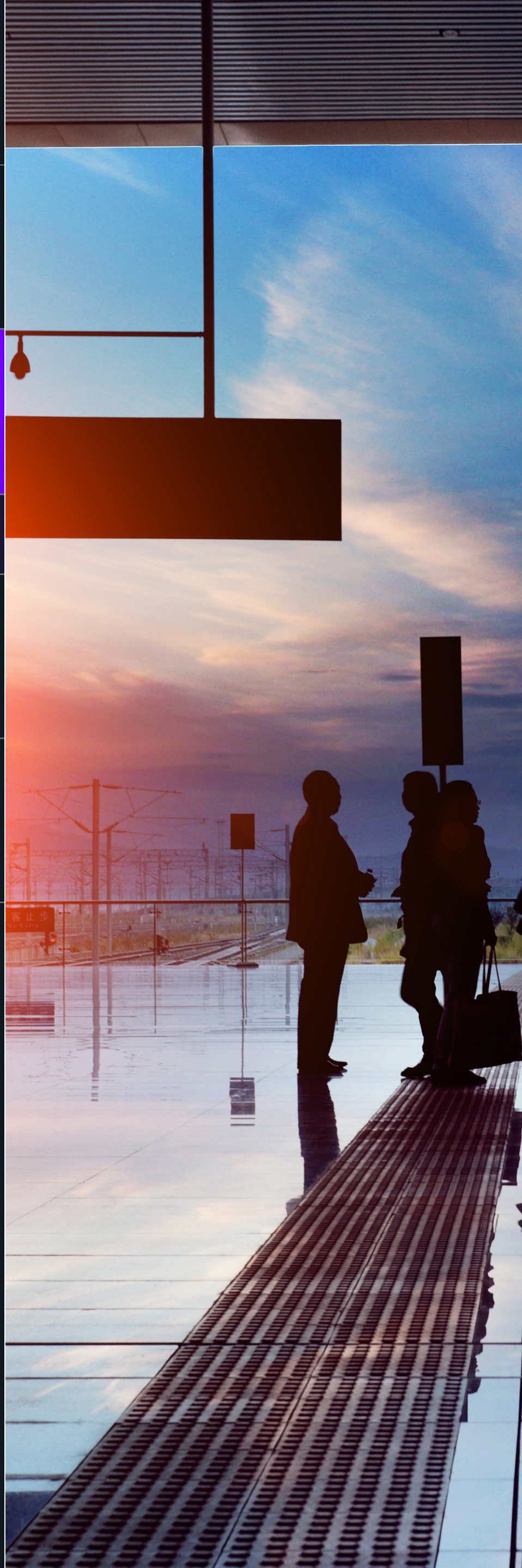


What happens if a payment is blocked or rejected due to sanctions violations?

If a payment is blocked or rejected, a few things happen:

- The end recipient of the payment does not receive the payment
- The financial institution blocking or rejecting the payment reports the transaction to their regulator, financial intelligence unit, or financial sanctions enforcement body, as defined by local legislation
- If a payment is blocked, the financial institution freezes the assets involved in the transaction
- If a payment is rejected, the financial institution returns the funds to the originator

Policies around whether to block or reject a payment vary by jurisdiction. Please consult your local regulator's guidelines.



What is fuzzy matching?

Fuzzy matching is a matching algorithm and one of the core analytics used in screening solutions. It compares two sets of text to determine the likelihood that they are the same. It's used to compare customer names or beneficiary or originator names against all names on a screening list to determine whether there's a hit against each screened name.

Fuzzy matching often includes the following processes to increase coverage and match confidence:





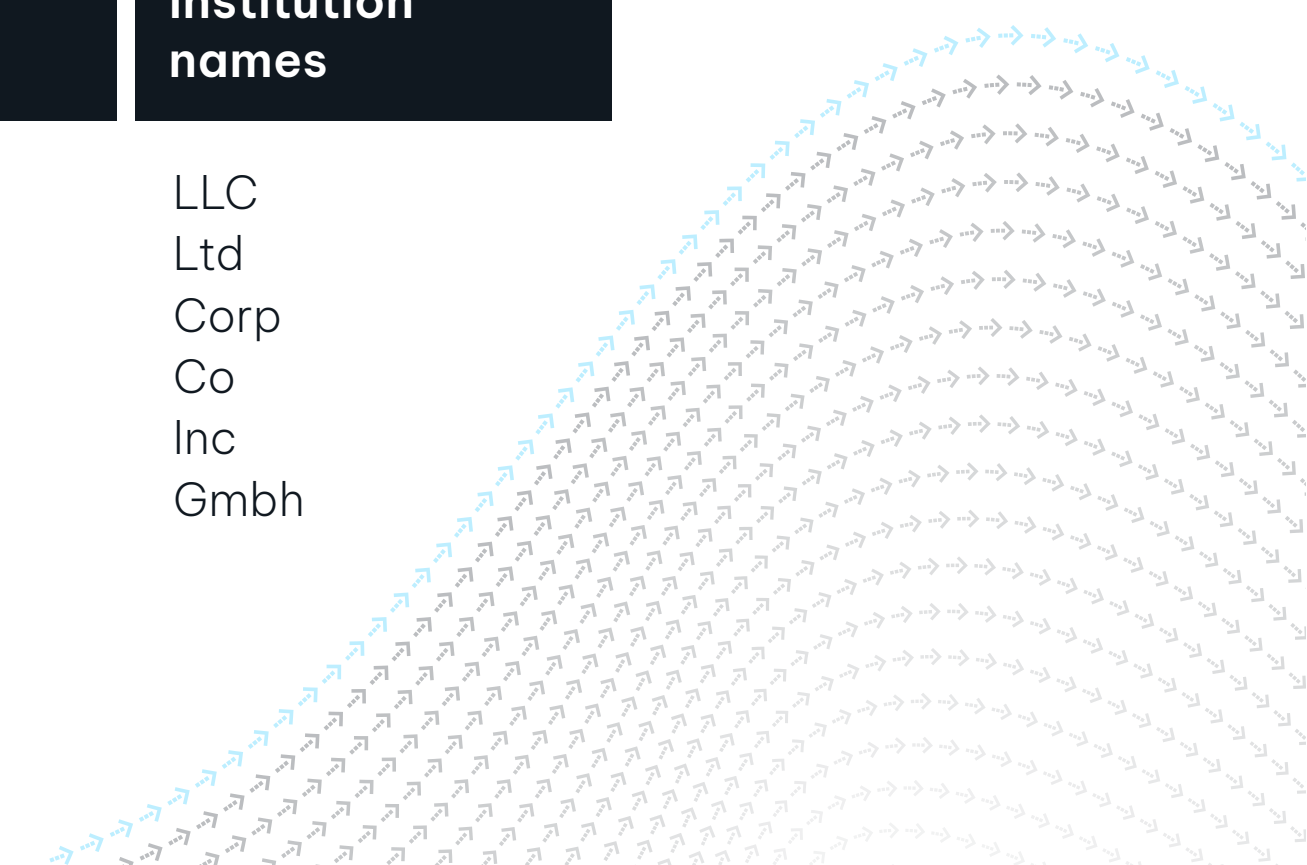
How do institutions screen against foreign names?

[Fuzzy matching](#) engines use culturally-aware matching logic to identify watch list hits regardless of the culture of an individual or organization and the name used on the screening list.

This culturally-aware fuzzy logic catches common variations like:

Given name variations	Foreign naming conventions	Name splits or combinations	Dual surnames or name order	Name Spacing or Hyphenation	Language- family equivalents
Robert Rob Robb Robby Bob Bobby	Yoo Yu U Ryu	Van der Berg Van de Berg Vandeburg	Portillo Blanco Portillo-Blanco Portillo y Blanco Portillo NOT Blanco	de-Wilder de Wilder	Bert Robere Ruben Robbert

Letter transpositions	Extra or missing letters	Common suffixes and prefixes	Titles	Institution names
Frye Fyre	Fryye Fry_ Frye	Jr Sr III Esq. PhD	Dr. Mrs. Ms. Herr Frau HM HRH	LLC Ltd Corp Co Inc Gmbh





What are weak aliases or low-quality aliases?

- **An alias is an alternate name an individual or organization is known by**
- In screening, a weak alias refers to a generic alias that can result in many false hits
- Weak aliases are useful for confirming hits generated against other high-quality aliases but often are discounted alone because of their likelihood to result in a false positive
- Screening lists indicate low-quality aliases, where available, providing institutions flexibility in how they manage screening against these names



What is the difference between payment screening, transaction screening, and transaction monitoring?

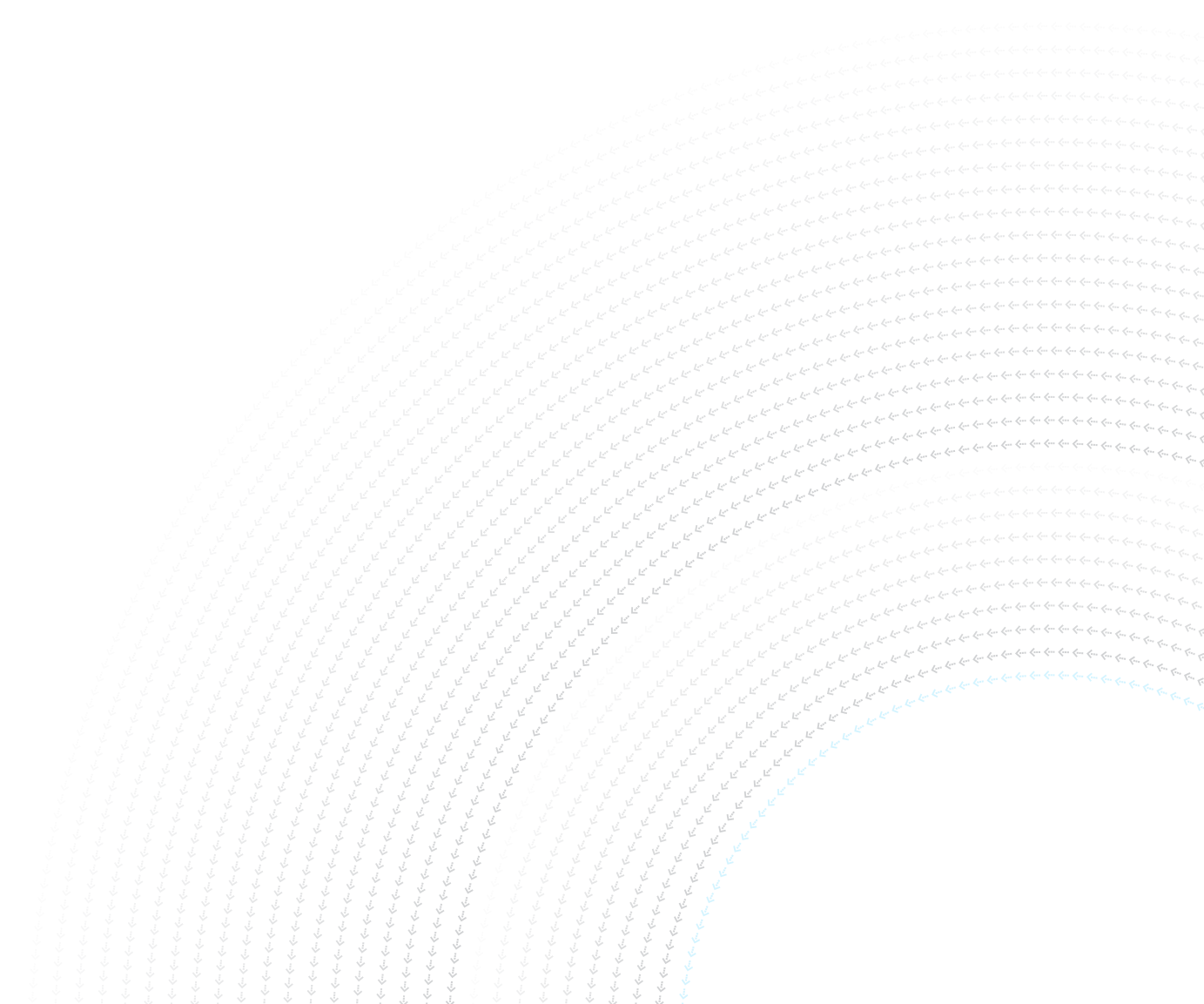
- Payment screening and transaction screening both refer to the process of screening value transfers in real-time for sanctions risks
- Transaction Monitoring refers to the process of examining customer transactions for trends or red flags that could be indicative of money laundering or terrorist financing
 - Transaction monitoring can be done retroactively or in real time
 - Retroactive transaction monitoring is currently the most prevalent method used by financial institutions because some scenarios require historical analysis to understand behavior and identify suspicious activities





Screening-Related Terminology and Regulations

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What is an SDN?

SPECIALLY DESIGNATED NATIONAL

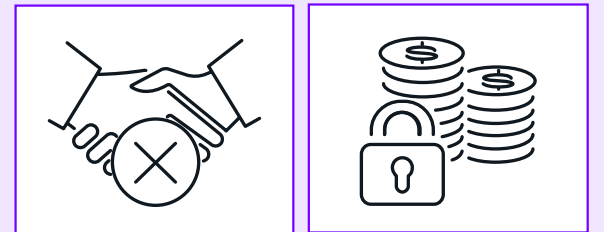
The U.S. government defines a Specially Designated National as:

 A person acting for or on behalf of a sanctioned country


 A company owned or controlled by a sanctioned country


 Individuals, groups, or entities under non country-specific sanctions, like drug traffickers and terrorists


U.S. individuals and companies are prohibited from doing business with SDNs and must block an SDN's access to any assets under that U.S. entity's control.





OFAC frequently updates their SDN List that includes:


 First and last name

 Nationality

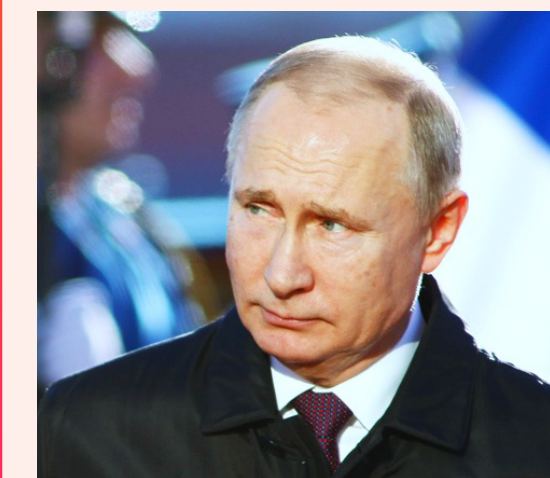
 Date and place of birth

 ID number and country

 Related sanctions program

 Aliases

Well Known SDNs



Vladimir Putin
Russia



Carrie Lam
Hong Kong Special Administrative Region of the People's Republic of China



What is a PEP?

A PEP is a **P**olitically **E**xposed **P**erson. PEPs are entities at a higher risk of money laundering and predicate crimes because of their political position and ability to influence or their risk of being corrupted

There are Three Types of PEPs:



**Domestic
PEPs**

PEPs in the country in which a financial institution operates. Domestic PEPs generally face less scrutiny than foreign and international organization PEPs.



**Foreign
PEPs**

PEPs for countries outside of the country a financial institution operates in.



**International
Organization PEPs**

PEPs connected to international organizations like the United Nations, International Monetary Fund, FIFA, etc

Related Guidance: **FATF 40** Recommendations 12 and 22



Who is considered a PEP?

Government officials



Executive Bodies
Heads of State,
Ministers



Judiciary Bodies
Supreme and
Constitutional
Courts



Legislative Bodies
Parliament
members,
senators,
representatives



Diplomats
Ambassadors

Relatives and close associates of a PEP



Malia Obama



Ivanka Trump



Maria Vorontsova

Senior Leaders in politically influential organizations



State-Owned Organizations
Senior
Executives



International Sports Organizations
Committee
Members



Military Leaders
High Ranking
Officers

Businesses connected to a PEP



Trump Enterprises



Can organizations do business with a PEP?

Yes, organizations can do business with a [PEP](#). Whether a business should do business with a PEP depends on their risk tolerance and the risk posed by the PEP.

Not all PEPs carry the same level of risk. PEP risk may vary based on:

- The person's political position
- The country in which they hold their political position
- Their connection or proximity to other PEPs
- The political exposure they retain

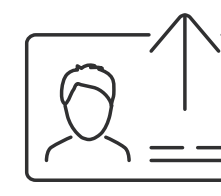
Check out [this blog](#) for more information on varying PEP risk.

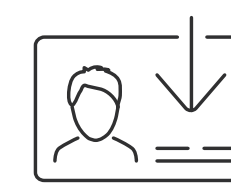



What is a payment message and what information does it usually contain?

- A payment message accompanies a wire transfer with information for the receiving bank, including instructions related to that wire transfer
- Payment messages generally include the following information:

 Date, value, and currency of the payment

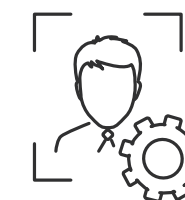
 Name and account number of the originator

 Name and account number of the beneficiary

 Originator's address, national identity number, customer identification number, or date and place of birth

- They may also include:

 The financial institutions for both the originator and recipient

 Other identifying information about the beneficiary

The minimum amount of information included in a payment message depends on local regulations.



What is the travel rule?

Under the FATF guidance, the ‘Travel Rule’ applies to any transaction over USD/EUR 1000.

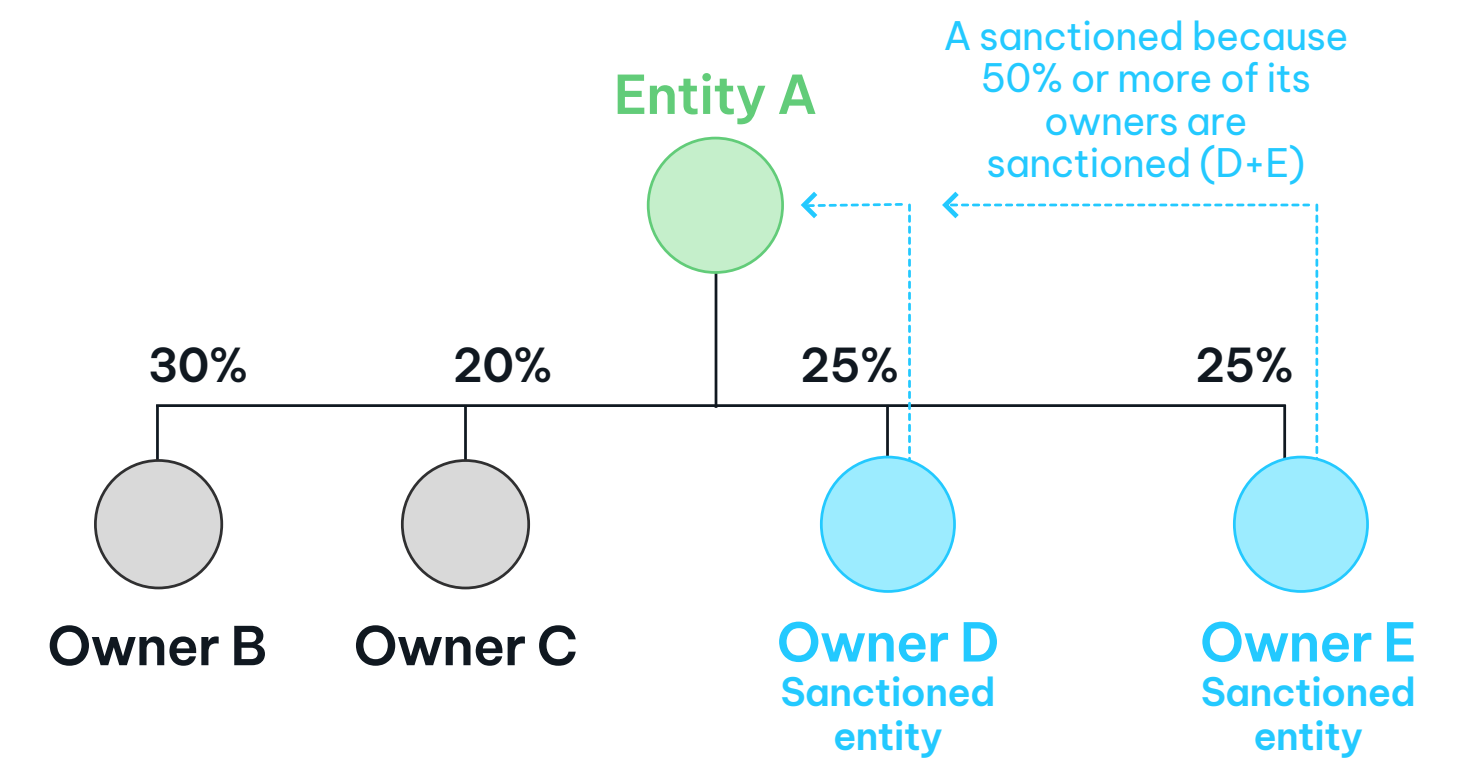
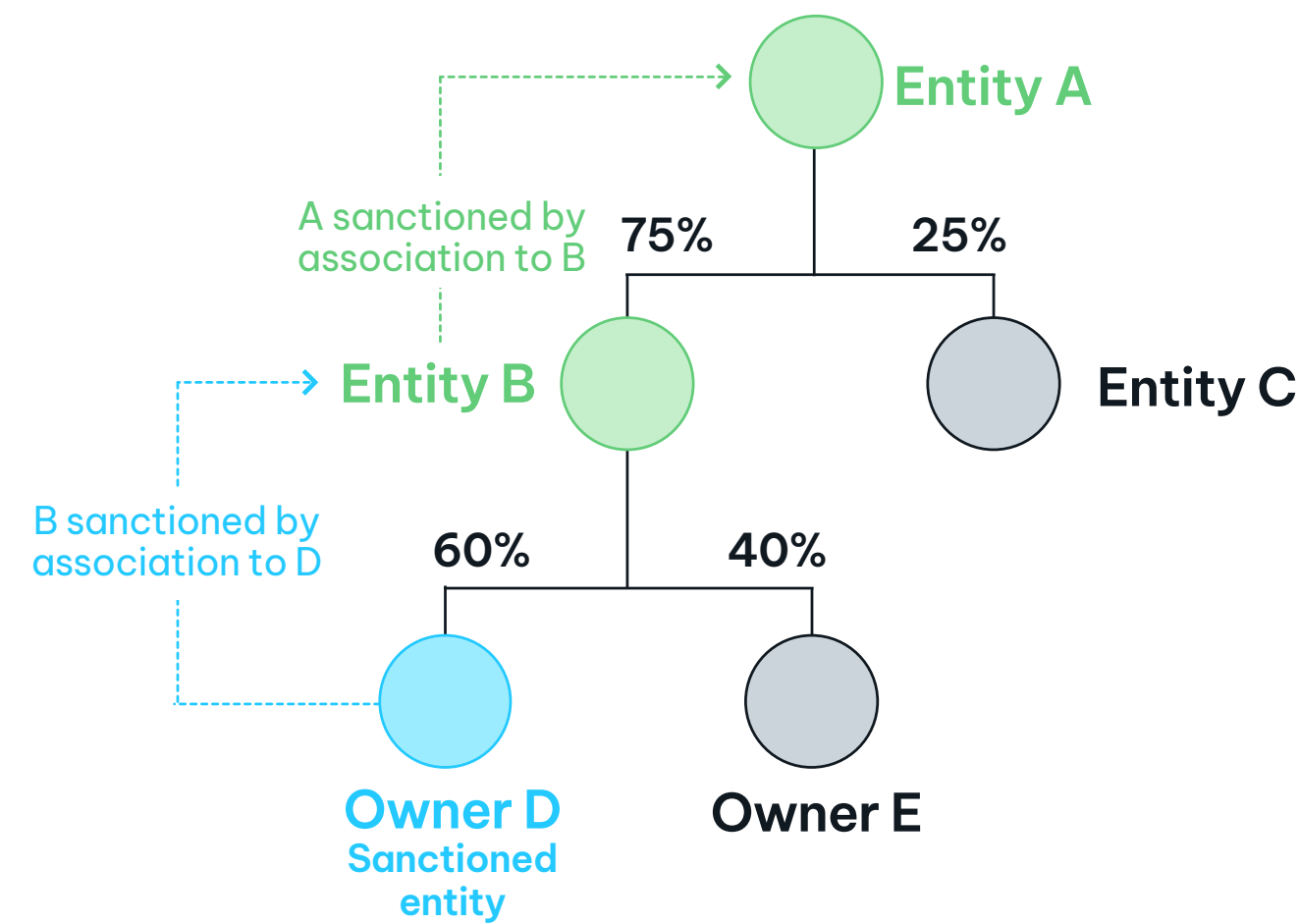
FATF’s ‘Travel Rule’ requires financial institutions to pass along information to one another for certain electronically-facilitated transfers. The info ‘travels’ along with the pertinent transactions from bank to bank until the funds reach their end destination. This rule was developed to inhibit criminals, terrorists, and sanctioned individuals from freely using wire transfers to move their funds in a non-transparent way and to enable the detection of any illicit electronic transfer use. It also supports the reporting of suspicious activities and enables law enforcement to subpoena transaction details.

Related Guidance: **FATF 40** Recommendation 16



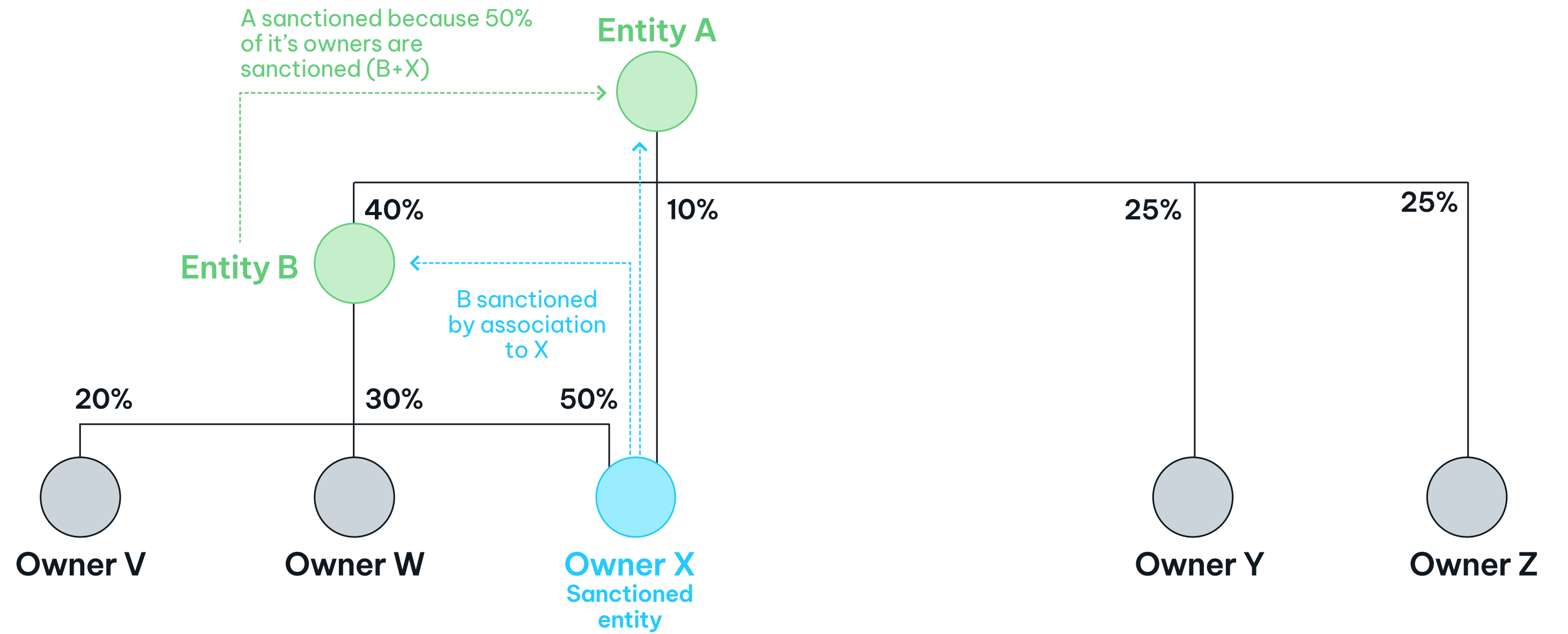
What is the 50% rule?

- If a person's or organization's aggregate ownership of a sanctioned entity is 50% or more, the owner is sanctioned, too.
- If an organization is owned by 50% or more sanctioned entities, then the organization is sanctioned, too.



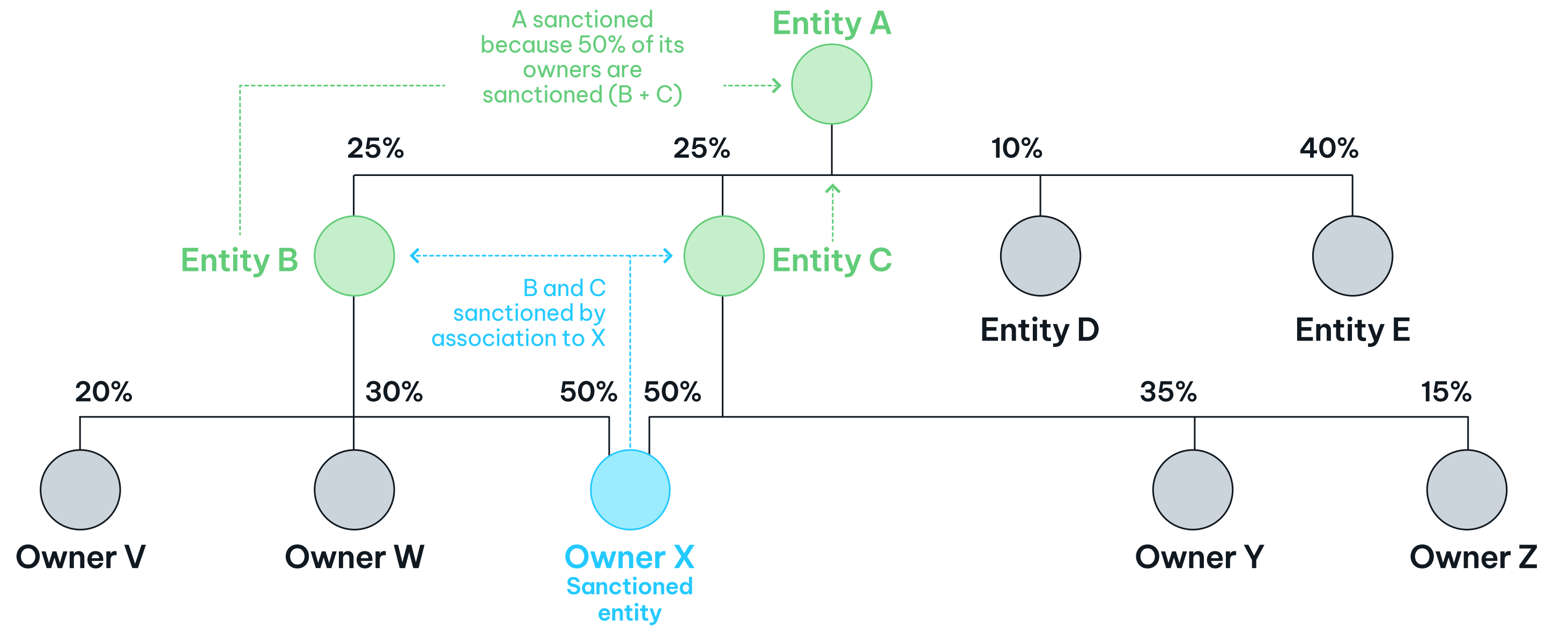


What is the 50% rule?



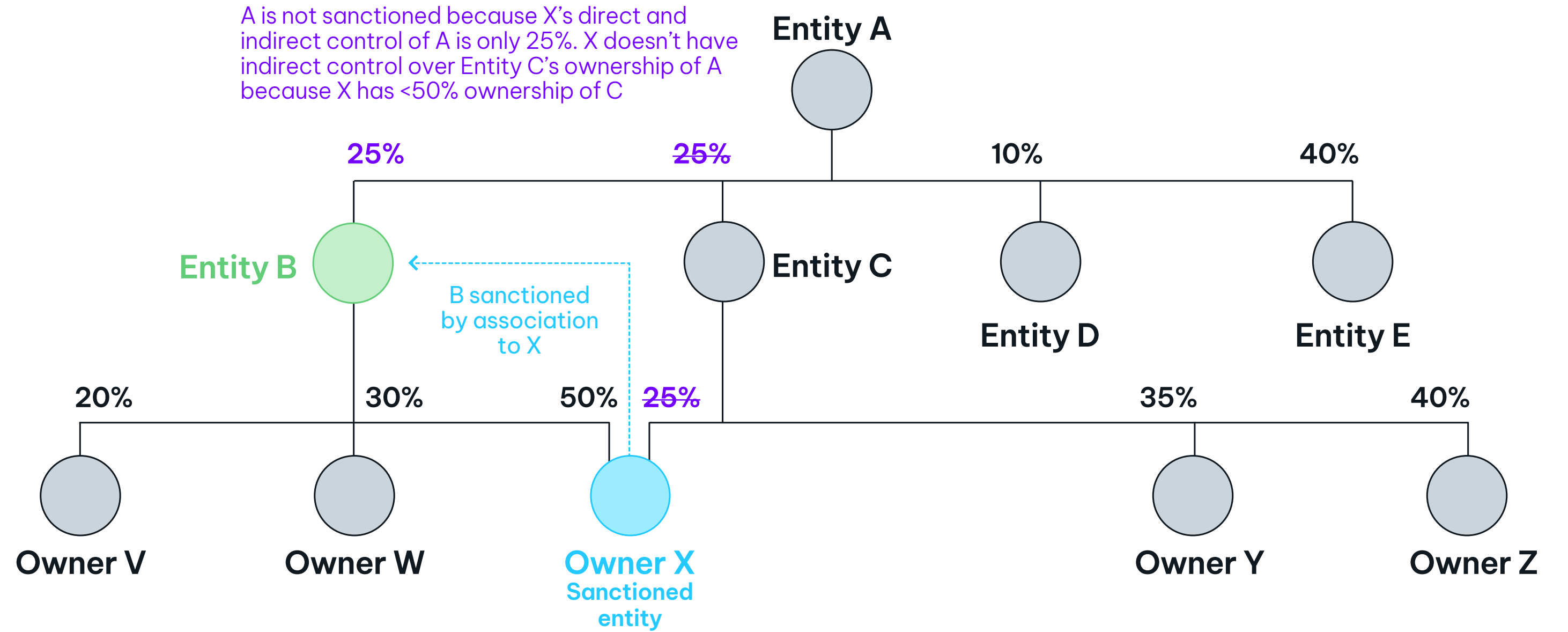


What is the 50% rule?



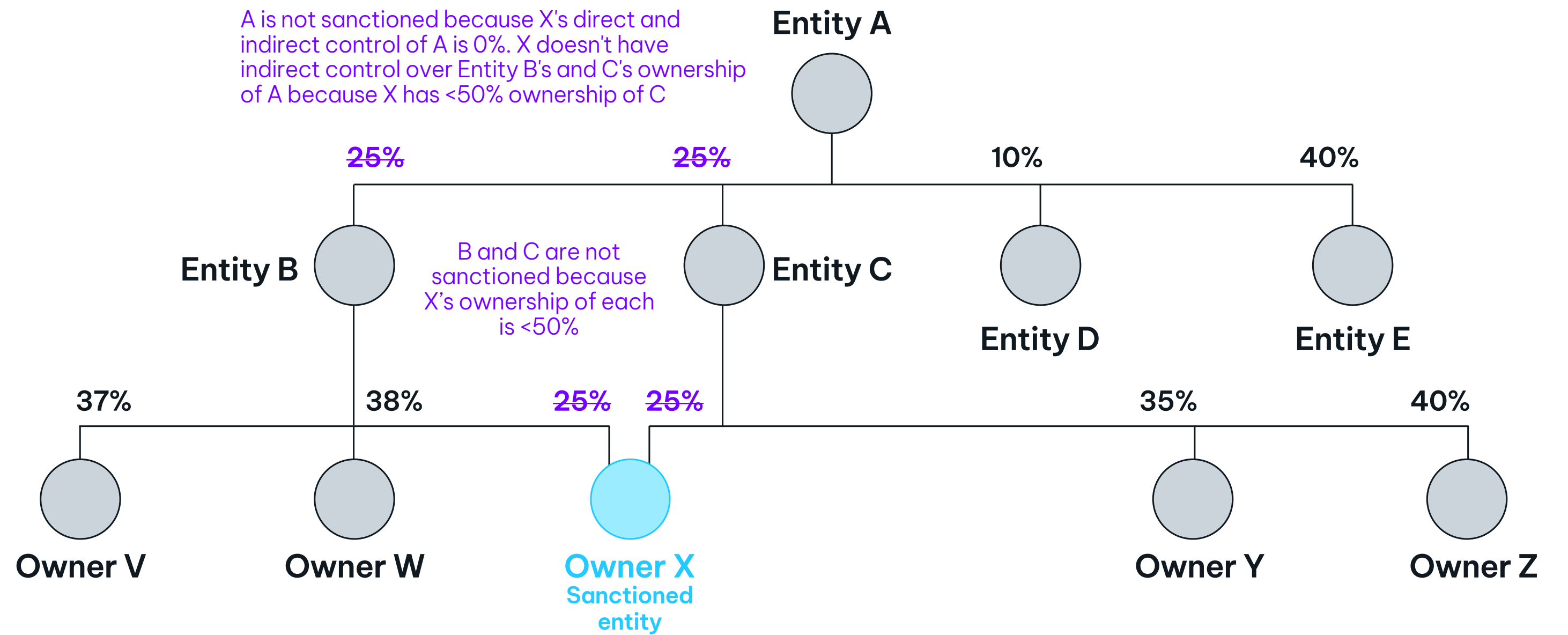


What is the 50% rule?





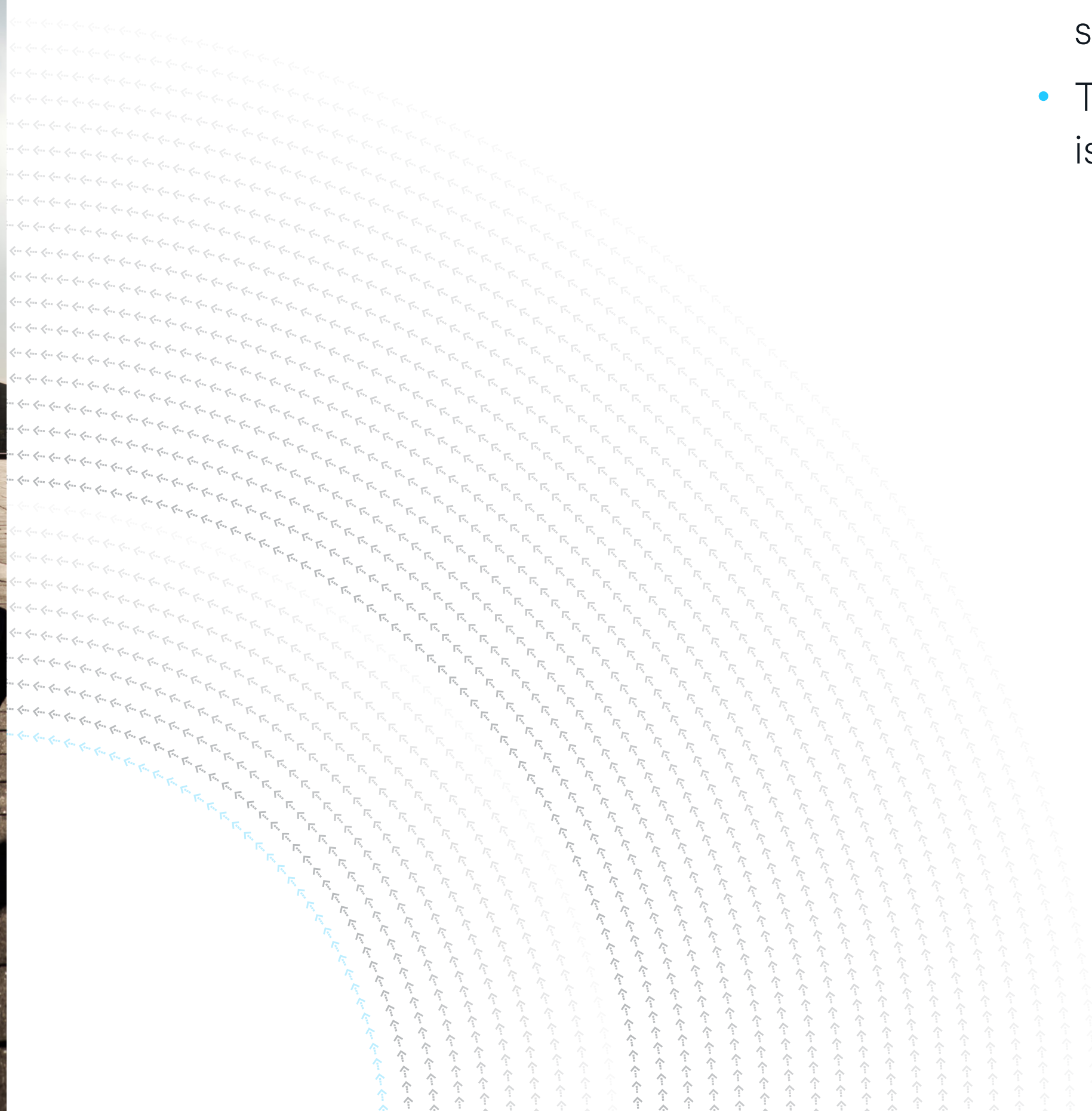
What is the 50% rule?





What are sectoral sanctions?

- Unlike blanket sanctions against corporates or individuals, sectoral sanctions are targeted sanctions, which focus on specific types of transactions or sectors, like energy, defense, or financial sectors
- Sectoral sanctions were first used in 2014 in response to geopolitical unrest and have since been applied to other world areas
- The Sectoral Sanctions Identification (SSI) list is published by OFAC



Sanctions
Fundamentals

Screening
Fundamentals

Screening
Processes

Screening-Related
Terminology and
Regulations

Learn More

Learn More About Sanctions Screening Best Practices

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