

July 2017

Enhancement of Sanctions Data Quality

Document Context:

This document was updated in July 2017 as part of the Enhancement of Sanctions Data Quality workstream activities, following engagement with HMT. This document will be used as deliverable for handover. This document can be read for further details of the ongoing implementation of this solution.

Enhancement of Sanctions Data Quality

PROBLEM STATEMENT: SUMMARY OF THE ISSUES THIS ADDRESSES, AND THEIR PRIORITY

A sanctions list entry with detailed, clean and structured data enables more accurate detection and thus fewer false positives (stopping or delaying 'good' customers). Conversely, a poor quality entry can cause many false positives that i) result in additional work, and ii) can cause operational problems and unnecessarily delay genuine customer business. More importantly however, efforts by Financial Institutions to (FIs) to tune their sanctions screening systems in order to overcome poor quality sanctions-list entries increase the opportunity to generate false negatives (allowing 'bad actors' to slip through the process).

The issues are recognised in the FSA report from April 2009 that flags the quality of some 'identifiers' on the HMT list:

" 'Identifiers' are the personal identifying information on the HMT list used by firms to screen their customers. Identifiers, on the HMT list, that are too general make it difficult for firms to identify matches with their customers. They also increase compliance burdens significantly. While firms acknowledge there has been progress in this area, they remain concerned that some of the identifiers on the HMT list are too general."

While FSA report refers to HMT list, similar principles may be applied to other sources; furthermore, complexity increases by cross-border and cross-regulator inconsistencies.

When identifying an individual or an organisation, relying on just their name information is typically not enough. There are a number of common names used globally for people and companies, which correlates to the distribution of names populated on sanction lists. Therefore organisations need 'secondary identifiers' to reduce the number of matches and help validate people in their due-diligence process. The industry's requirement is to improve the integrity of well-populated secondary identifiers, thereby to help uniquely identify an individual or organisation.

While significant effort goes into the intelligence gathering to capture data for Sanctions Lists, the value that can be extracted is somewhat constrained by the failings in data management during publication. Examples gathered from our Working Group where corrections were required:

- Entity added to the list without a unique ID number
- Happens frequently: 7/3/2016, 19/1/16, 10/12/2015, etc. Numbers have lost leading all leading zeros (effect from converting from a text field to integer / number field)
- Entity added without a prime name or ID included
- Name Jameel inserted into the Title field instead of the name field.
- Carriage returns inserted within the middle of two records –lines 628, 630
- TXT version updated but CSV remains the same.
- When requesting the data file an old version of the file is returned by the server (issue now fixed by HMT with new server infrastructure)
- Data file change with no notification –change was in error and subsequently reversed.
- Multiple date of birth entries
- Missing/Inaccurate gender information

The reliance on well populated good quality data and data management is imperative when it comes to client on-boarding and payment screening. Compliance teams need this data to aid in making their judgements when carrying out customer due diligence (CDD) and investigation of screening hits. Without this data the risk is higher numbers of false negatives ('bad actors' not being stopped) and operations being slowed down due to high volumes of false positives (screening hits on good actors), which take time to investigate and often require further data submissions by the customer.

SOLUTION DESCRIPTION

Our proposal is for the UK payment industry to work closely with HMT Office of Financial Sanctions Implementation (OFSI) to deliver an improved approach for collecting and managing data for sanctions screening to address the detriments identified. This will encompass the quality of the data in sanctions lists and the approach for managing that data between the authorities and payments industry.

A. Data Improvements

- Engage with HMT to improve the population of accurate data within sanction lists for both primary and secondary identifiers (e.g. more verified passports/ NI's etc.). This could be carried out by HMT increasing the research team and sources of data to ensure more complete sanction profiles carried out by the sanction list provider.
- Payments industry to engage with HMT to perform a sanctions data assessment to detect issues for existing unverified data and for HMT to fix problems identified.

B. Process Improvements

- Industry work with HMT to create a single common Sanctions list for the UK with consistent format and structure, and effective data management for storing and distributing the list.
- PSPs to collaborate to define common standards and industry practices regarding use of attribute information for screening investigations
- PSPs to collaborate with HMT to share common best practices and challenges as a way to improve data quality.

C. Sectoral and Dual Use Goods List

In addition to the need to improve the sanctions lists used in the UK, an additional detriment was identified concerning sanctions for sectoral and dual-use goods. Currently UK regulatory bodies provide regulatory requests to PSPs regarding screening requirements which are not included in the HMT list. Examples include sectoral sanctions (e.g. Chimera) and dual use goods. Current practice from PSPs is to take the untrusted requests and manually construct screening lists using the data provided.

- A proposed solution is for PSPs to collaborate with authorities and third parties to use the improvement process described above to create a new list to include these regulatory requests.

The solution proposals above assume that a standard for how data is captured accurately (identity and verification) by PSPs for consumers will improve the matching capability against sanction lists, and this will be delivered by the Forum's proposal for Identify Verification, Authentication and Risk Assessment.

UN's Advanced Sanctions Data Model

In addressing the solution proposals set out above, the industry should support HMT in assessing whether there is a case for the UK to adopt the UN's Advanced Sanctions Data Model, or whether the UK should continue to use its own sanctions list and data model tailored to the UK market environment. The approach for international payments transactions will need to be fully addressed alongside the requirements for domestic transactions.

- An Advanced Sanctions Data Model has been developed by the UN 1267/1988 Security Council Committee which OFAC in the USA have implemented and UN will implement by June 2017 (on current plan). The rationale driving this model was to enhance the quality of the Sanctions List entries and thus their effectiveness in use. The model provides a linguistic basis for the storage and classification of Sanctions entity information and covers different scripts, transcriptions and cultural variances. Adopting this model would position the UK to address current inconsistencies between differing issuing bodies, and the roadmap moving forward could be managed as a global community.

Scope

The scope of the improved sanctions list will be for all entries, encompassing individuals and organisations.

The requirements for sanction screening extends beyond PSPs, this proposition is focused on PSPs requirements only. If further work is required to create a common approach with other types of organisation, the PSR should engage in these discussions to ensure the payments field is represented.

The solution must be inclusive to all PSPs, regardless of size, channel and payment services they provide.

COST BENEFIT ANALYSIS (HIGH-LEVEL)

Benefits

Adopting this enhanced approach to sanctions data quality and data management for the UK would not only enable improved detection capabilities for FIs, but also help eliminate the frequent errors that find their way onto the lists.

If adopting the UN's Advanced Sanctions Data Model, promoting this model internationally would not only aid detection quality domestically, but also help the transfer of Sanctions Entity information between states.

Adopting this standard would greatly support maintenance and universal use of the data file over time.

The benefits from improving the data quality of sanctions fall in the following areas.

- Reduce the ability for bad actors to open accounts and execute payments/move money
 - reduced ease of funding for org crime gangs, for terrorism
 - catch more bad actors/ bad transactions – and let fewer bad actors/transactions slip through
 - increased accuracy and speed in identifying matches for sanctions screening.
- Improve the experience for good actors (good customers)
 - faster processing / service: If the CDD process gains more confidence (through improved sanction data) this in turn will improve the turnaround time to on-board a new client and thus improve the experience for the customer
 - less effort in supplying the information that FIs request
 - fewer delays due to additional checks (or being prevented altogether) – ‘false positives’.
- Greater efficiency / reduced operational cost for FIs (...account opening, transaction execution)
 - cost savings for established FIs; more effective process;
 - lower barriers to entry for medium/small FIs and new entrants looking to expand their range of services;
 - increased confidence in CDD: a greater depth of accurate secondary identifiers (e.g. DOBs, countries, passports etc.) provided by the sanction list, compliance teams have more certainty when carrying out due diligence of new parties;
 - A greater level of good quality data, compliance teams are aided in prioritising good quality matches that have a significant amount of supporting and matched data.
- Standardised, more controlled approach across industry, and sharing best practices
 - Easier and quicker to introduce changes to Sanctions requirements to deal with new risks, intelligence;
 - Better highlighting of existing issues in the data
 - Sharing methods within the industry on managing screening-matches.
- Wider society benefits
 - harder for organised crime gangs (OCGs) to operate – e.g. drugs, people trafficking ;
 - harder for terrorist organisations to operate;
 - harder for sanctions-targeted regimes/ countries to operate;
 - Law enforcement authorities, and the public, have higher confidence in role of FIs.

Costs

The costs associated with change to the HMT list is expected to be in line with the general cost associated with modifying a sanctions list.

Implementation costs for PSPs to implement the new sanctions list will be in line with the costs they will face when OFAC changes their list to the new Advanced Sanctions Data Model. Further research is required to estimate the implementation cost at this point.

EXISTING OR IN-DEVELOPMENT SOLUTIONS

OFAC implemented the Enhanced Sanctions Data Model in 2016 and the UN is currently initiating the project to implement within the next 18 months.

<https://www.treasury.gov/resource-center/sanctions/OFAC-Enforcement/Pages/20150105.aspx>

There are a number of data vendors that focus on improving the quality of sanction list data. This includes improving data accuracy / validity, ensuring consistent formats and enhancing/ completing profiles. Some of the vendors in this list management and quality space are:

- Dow Jones – provide an enhanced data file: Dow Jones Watchlist, which consolidates a number of Sanction lists, PEPs and Adverse media records with improved data quality and completeness.
- Thomson Reuters – provide an enhanced data file: World-Check, which consolidates a number of Sanction lists, PEPs and Adverse media records with improved data quality and completeness.
- Innovative Systems – providing FinScan List Management service for improved data quality for specific sanction lists.
- Other Similar Vendors:
 - RDC
 - World Compliance

PEOPLE INVOLVEMENT AND ACTION

HMT – implement Enhanced Sanctions Data Model. The Office of Financial Sanctions Implementation (OFSI), part of HM Treasury, ensures that financial sanctions are properly understood, implemented and enforced in the United Kingdom.

<https://www.gov.uk/government/organisations/office-of-financial-sanctions-implementation>

NEXT STEPS

We propose that the solution will be formally handed over by the Forum to UK Finance, and following the handover, UK Finance would continue to work with Government and the Industry to progress this solution. Assuming the handover is completed, the recommended next steps to progress this solution are:

- UK Finance to work with member organisations to include sanctions data quality more consistently as a priority in their interactions with HMT/FCO.
- UK Finance to work with the payments industry to provide clear examples of problems encountered with existing sanctions lists and distribution processes, to support the case for the proposals here. This should be completed by the end of Q1 2018. UK Finance should then work with HMT/FCO to identify the specific actions and timelines for progress.
- UK Finance to work with HMT/FCO to assess whether there is an opportunity to pursue the adoption of the UN's advanced data sanctions model linked to the timescales for development of the New Payments Architecture (led by the New Payments Systems Operator, NPSO). If agreed, a plan should be created identifying the necessary steps to ensure interlock.