WHITEPAPER

Five Ways Advanced Sanctions Screening Pays for Itself

sardine

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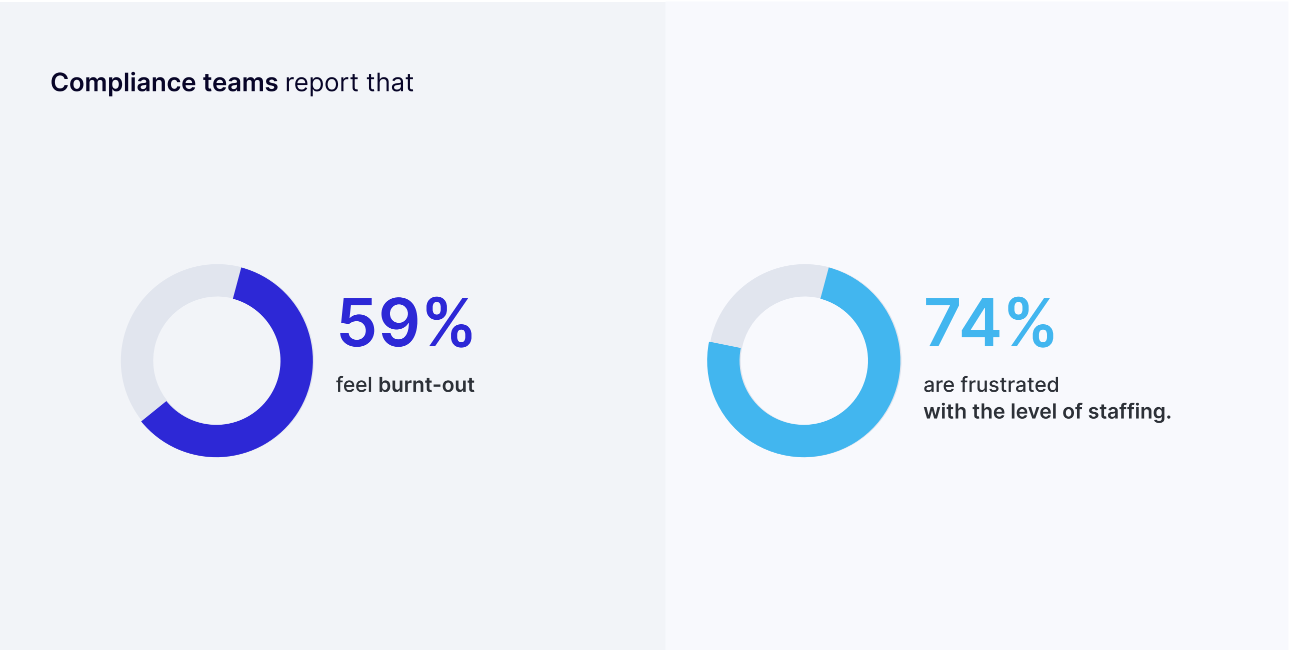
With sanction list ramp-ups and growing regulatory scrutiny, stress levels for compliance teams are through the roof. Nearly three in five (59%) feel burnt-out and 74% are frustrated with staffing levels, highlighting the challenges of maintaining regulatory compliance efficiently amid these pressures.



Working on manual tasks is no fun.

Across the front and middle offices, there's a different pressure. Shrinking industry profits are taking their toll. For established financial institutions, the thinly spread resources mean dissatisfaction for both employees and clients. While for fintechs, the possibility of scaling-up gets crushed as investors and partners pull back, slashing funding for future innovation.

At the heart of this chaos is the delicate balance between thorough due diligence and profit-creation. Every false alarm-especially those caused by outdated fraud detection technology- can waste resources, but any sign of non-compliance can lead to hefty regulatory fines, reputational damage, and – indirectly – human suffering.

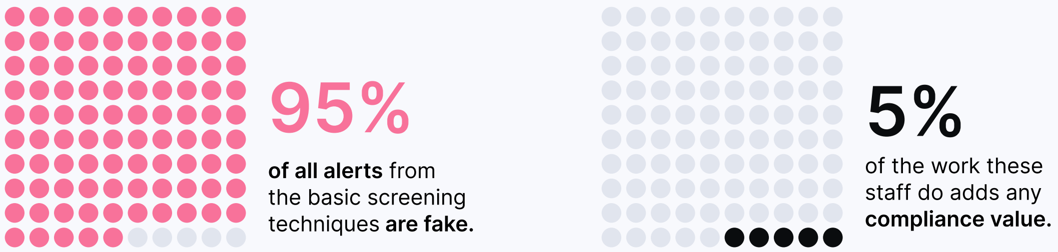
In this article, we're exploring how advanced sanctions screening reduces stress, risk and workloads for compliance teams.

Here are five reasons why basic screening is a false economy.

1. Basic screening creates +90% more false alarms

False alarms – known as "false positives", plague the industry. When any transaction or entity is falsely flagged as suspicious, resources are consumed, revenue is lost, time is spent... and devastatingly, the client may decide to go elsewhere.

What's worse, the number of false positives is eye-wateringly high. Experts predict that around 95% of all alerts from the basic sanctions screening techniques are fake.



Imagine if 95% of your job was zero value add and manual

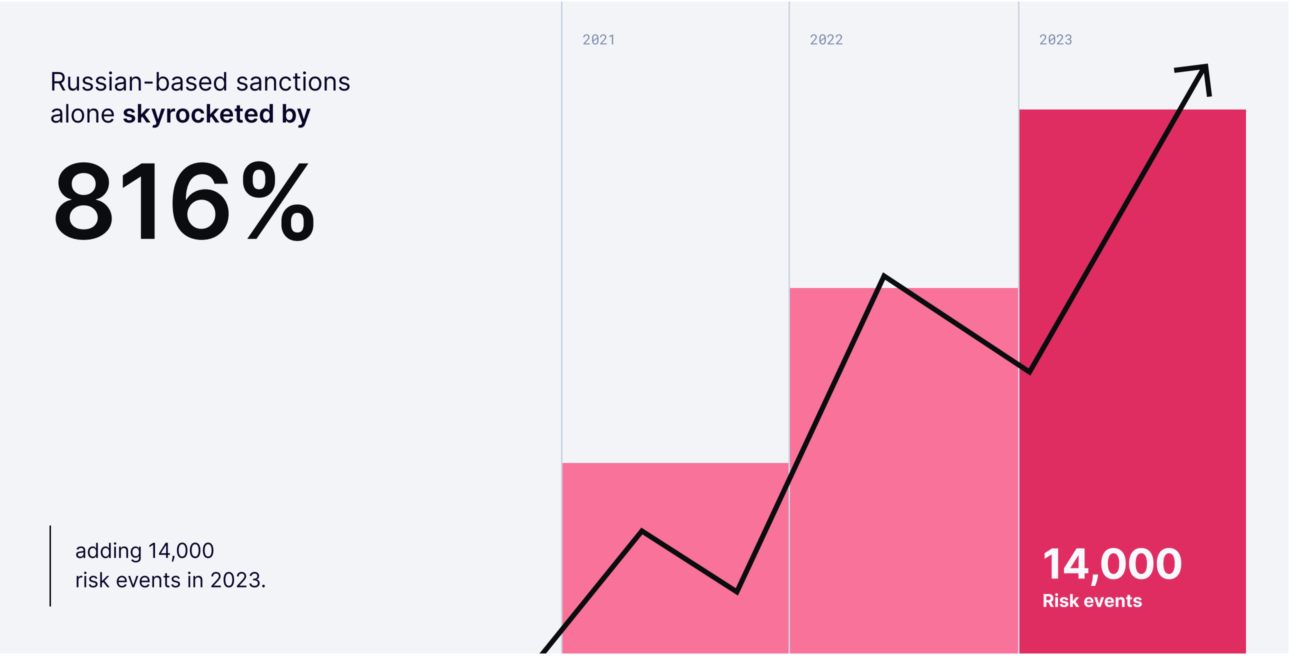
With basic screening, a large bank would probably expect to get around 1,000 suspicious transaction alerts a day. And there may be ten dedicated compliance professionals on hand to deal with them, the average annual salary for this role is £38,565 ($48,887). This would mean that just 5% of the work these staff do – or £19,282.50 ($24,438) - adds any compliance value. The remaining 95% - or £366,367.50($464,496) annually – is wasted on false positives. For example, manually checking different spellings for the same name.

Advanced screening, however, uses fuzzy logic and contextual analysis to determine if, for example, the different spellings are suspicious or not. So, an extra accent on a name or a missing document detail does not render the transaction suspicious by default, vastly reducing the number of false positives. Every platform is different, but speaking for ourselves, Sardine's Business Advanced Sanction Screening has reduced false positives between 80% and 95% for existing clients. One of the ways we achieve this is by conducting a thorough entity verification in advance. Meaning more bad actors are caught prior to KYB, and you have a full picture of risk.

2. Entity verification before screening reduces regulatory risk

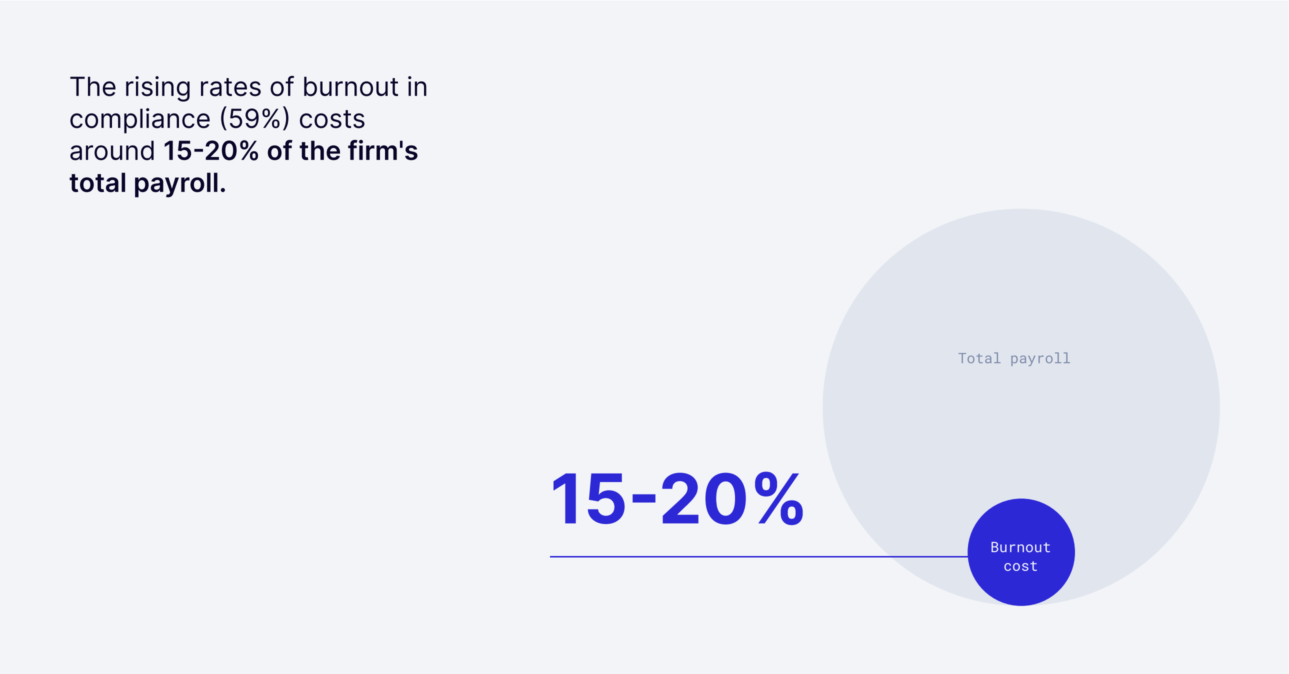
Conducting entity verification before utilizing screening processes significantly reduces regulatory risk for organizations. Advanced Know Your Customer (KYC) screening further extends this verification, ensuring financial institutions understand complex ownership structures before flagging transactions.

In a recent investigation, UK regulator, the Financial Conduct Authority (FCA) uncovered that "resource strain" was problematic, causing "significant backlogs". As of 2023 data, the average compliance department contains 15 people, which has been increasing year-on-year. However, without advanced screening technology the number of professionals has not matched the exponential rise in sanction lists.



Now imagine if you had exponentially more alerts to manage

Russian-based sanctions alone skyrocketed by 816%, adding 14,000 risk events in 2023. Hong Kong companies are under scrutiny too. For example, in the EU's June 2024 14th sanctions package. The FCA noted in its analysis that the resource strain was caused by "increased volumes and pressure on sanctions teams". The rising rates of burnout in compliance (59%) costs around 15-20% of the firm's total payroll. This problem goes hand-in-hand with the high numbers (95% as above) of false positives from basic screening models.



Burnout on a highly manual, headcount intensive task is hurting banks bottom line

Compliance teams are aware of the need for more advanced technology with almost two-thirds (65%) reporting that "streamlining and automating manual processes would help reduce the complexity and cost of risk and compliance". Advanced Know Your Business (KYB) screening could fix this.

Sardine works to perform entity verification and unravel complex international ownership structures before we perform sanctions, Politically Exposed Persons (PEPs) and adverse media checks.

3. Continuously update global and local lists with advanced screening

Staying on top of all the sanctions lists around the world is a huge job, far more than one person can do alone. The Office of Foreign Assets Control (OFAC) for example, updated its sanctions list 129 times in 2023, often several times in a day. The EU list was amended 49 times, while for the UK it was 55 and the UN made 16 updates. Basic screening solutions struggle with this demand, leading to inaccuracies and compliance risks.

However, individual regions and states have their own policies too, which may overlap or even contradict other lists. For example, while upholding the UN's sanction list, China has also created its own with countermeasures against other states. Even with an experienced expert in every state, it would be impossible to stay abreast of all the changes as soon as they come in. With basic screening, this is essentially what happens. Lists are usually manually uploaded, creating delays, false positives and time lags which criminals can exploit.

By contrast, advanced screening continuously scans and updates all global, regional and local sanctions lists in the background, all in real time. Employees are alerted when a breach is flagged, otherwise they can continue to deliver value-adding work.

4. Real-time device intelligence means firms can be proactive, not reactive

There are different kinds of advanced screening technologies on the market. At Sardine, our advanced sanctions screening solution leverages machine learning fraud detection to give you a competitive edge. It can pre-empt suspicious behaviour in real-time even before any attempt has been committed.

Using machine learning and device intelligence technology, the solution picks up on the use of Virtual Private Networks (VPNs), proxies or other attempts to disguise location or origin.

For example, if an entity is onboarding in the USA or UK, and appears to be locally registered with an identity that has passed all customer due diligence checks, we may spot that their True Location or True IP is in a sanctioned country. This would then generate an alert for investigation or, better yet, automated enhanced due diligence.

This means teams can be proactive rather than reactive. As the FCA explains in its recent investigation, being prepared is a huge advantage. *"Firms that had taken advanced planning for possible sanctions before February 2022 were in a better position to implement UK sanctions at speed"*, the report reads.

5. Advanced screening is scalable and elastic to the firm's needs

Each firm has its own unique risks. For fintechs eager to scale, it can be the pressure to become profitable which tempts them to override compliance, as we saw with former BaaS provider Synapse and challenger bank Mercury. Since the fallout, almost all major regulators, including the US agencies and FCA have been extremely focused on mitigating the compliance risks of rapidly growing fintechs.

As the agencies sternly remarked, "Failure to scale compliance and risk management functions and resources with the growth resulting from the bank-fintech arrangement may increase the likelihood of the bank violating applicable laws and regulations". To avoid getting slapped with enforcement actions and fines, financial institutions must prove that their screening capabilities can expand with the customer base.

Screening which grows with the firm keeps things moving and helps the firm to become profitable without taking up more resources.

Advanced sanctions screening ... who can afford not to?

Basic screening is expensive. Consider employing multiple compliance experts to deal with a rate of 95% of false positives, the firm-wide impact of burnout, the vast number of professionals needed to continuously update sanction lists and the stress of constantly reacting - all while under vehement regulatory focus.

With costs this great and results so poor, has there ever been anything as ineffective? It's impossible to put a final overall figure, as each firm is different. But with average compliance employees earning £38,500 and allowing for extensive overtime, we believe the true cost stretches into millions over the years. And that's before factoring in the likely regulatory fines. In 2023 the OFAC alone fined 17 firms $1.54 billion. Not to mention, the lost resources and missed opportunity costs which fintechs can ill afford to waste.

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Advanced sanctions screening pays for itself multiple times over in a single year. It reduces tension for compliance teams, while maximizing resources for middle and front offices. What's more, with Sardine's advanced screening, entity checks are completed in advance using Moody's criteria, further reducing workloads.

In this article, we've listed five efficiencies, however each case is unique. The alerts avalanche is overwhelming teams. Pre-screening prior to KYB can make a massive difference to team morale and effectiveness. If you would like to discover the bespoke cost benefits for your firm, we're just a few clicks away.