

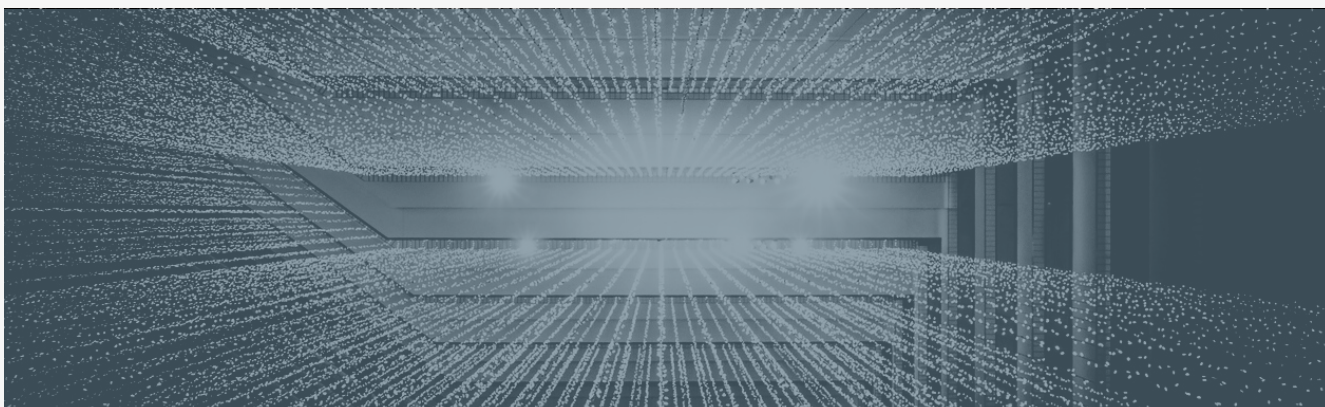
APPLYING BEST PRACTICES IN AML/CFT SCREENING

WHITE PAPER



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INTRODUCTION

Conducting an effective AML/CFT screening has never been an easy task for financial institutions (FIs). Moreover, the current sanctions landscape has become a real minefield for FIs due to the multiple loopholes that exist in the majority of the screening systems out there on the market. Empowering screening solutions to better tackle this challenge has become more important than ever.

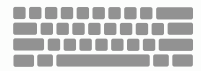
Regulators worldwide are applying tougher requirements upon FIs to adopt when performing customer onboarding, periodic Know Your Customer (KYC) reviews, ongoing batch screening, and transactions processing. This article draws on the supervisory expectations of major institutions, such as the Monetary Authority of Singapore (MAS), UK's Financial Conduct Authority (FCA), based on their thematic inspection of selected FIs' screening processes. It also brings particular examples of how Polixis, a Swiss RegTech company, specialized in developing automated AML/KYC solutions, tackles these types of screening challenges.

REGULATORS' EXPECTATIONS

Both MAS and FCA have highlighted specific supervisory expectations from FIs to improve their risk awareness and controls. These observations are similarly relevant for vendors, who develop and maintain solutions for more efficient and effective screening checks by FIs.

Below we present these recommendations, comparing them to the best practices adopted by Polixis when designing its screening solutions and systems.

1. NAME INPUT



In order to guarantee better name matching during the screening process, MAS recommends excluding certain parts of names from the name input. For example, the input of “*Company A Pte Ltd*” versus “*Company A*” may result in fewer matches or more false hits, depending on the system’s parameters.

The following name parts are generally advised to be skipped from the input: **People’s Titles** (*Sir, Honourable, Professor*), **Company legal forms** (*Pte Ltd, Inc, Pvt, Ltd, GmbH, SA, NA, PT, Sdn Bhd, Co., LLC, LLP, PLC*), **Punctuations and symbols** (“”, ..-), **Common words** (*&, and, or, the, generational designations e.g. Sr., Jr., II, III, familial relationships e.g. bin, s/o*).

POLIXIS' APPROACH

This simple, yet important, detail has long been addressed in our solutions. Our search algorithms automatically filter the above-mentioned parts from the name, in order to achieve better screening results. This eliminates the possibility of a human mistake, who may simply “forget” to omit the unnecessary part, and get poorer results.

Moreover, it is unlikely that one person will know all possible titles typical of various exotic jurisdictions and languages, such as ‘awang’ or ‘datuk’, honorific titles in Brunei. Our data team, who are native speakers of various exotic languages, work closely with our IT professionals, making sure the algorithms are well-trained to distinguish such nuances in data input.

2. FUZZY MATCHING



MAS and FCA have equally addressed the importance of using 'fuzzy matching' in automated screening systems. This means that systems need to be calibrated to include name reversal, digit rotation and character manipulation. The inbuilt fuzzy matching logic in screening tools helps identify partial matches in case of minor name permutations, abbreviated names or typographical errors.

POLIXIS' APPROACH

Our 'fuzzy matching' algorithms, based on Levenshtein distance metric and other custom-made approaches, offer various degrees of fuzziness to choose from. This gives an opportunity to the user to perform exact searches, when needed, or choose between 'low', 'medium', and 'high' degrees of fuzziness.

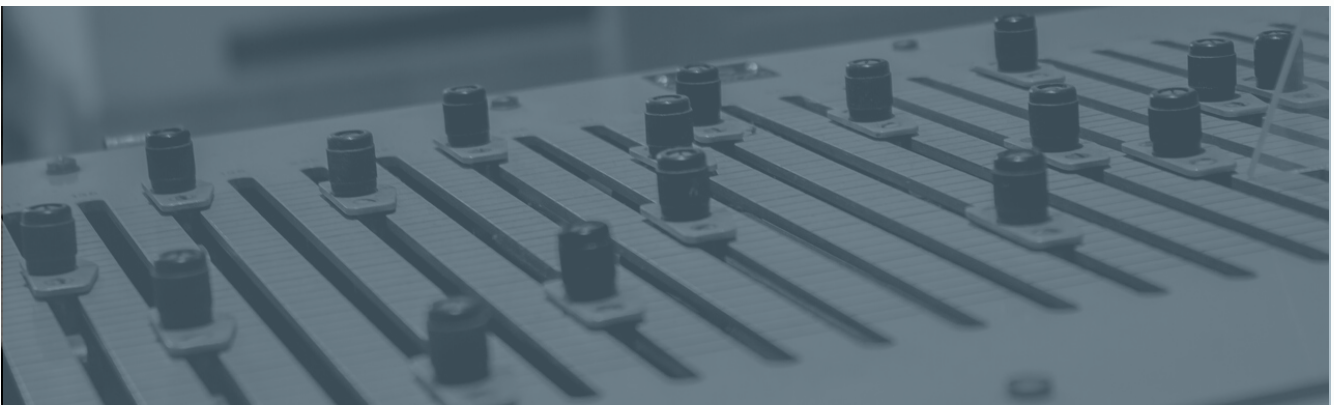
3. PARAMETERS SETTING



Both MAS and FCA urge FIs to work with their vendors to calibrate parameter settings for specific circumstances. Screening systems need to allow calibration in accordance with each FI's risk appetite, rather than rely on the initial settings suggested by external software providers.

POLIXIS' APPROACH

As a fully independent Data Operator, Polixis takes a personal approach and is able to adapt its offering to each client's requirements and operational use. Our screening solution allows for the possibility to set specific parameters for scenario screening, ranging from the 50% rule affecting sanctions, layers of exposure, etc.



4. SIZE AND QUALITY OF DATA



MAS recommends FIs to regularly assess if the vendors' databases are adequate, or should be supplemented with other relevant data sources, to ensure better screening experience. FIs, in turn, need to ensure that customer data used for ongoing screening is up-to-date and accurate.

POLIXIS' APPROACH

In this regard, we recommend FIs to pay particular attention to whether the provider merely integrates publishers' lists, or does extra big data or manual enhancements. In other words, does their data just reflect that company XYZ is under sanctions, as listed in OFAC's data, or its network as well (50% rules, below 50%, subsidiaries, branches, etc.)? The difference may be 20 times larger sanction data, than the one contained in the official sanctions lists.

At Polixis, we operate one of the biggest and most sophisticated risk datasets on the market, and in some areas, such as the international sanctions data, we may be one of the biggest data operators. Yet, we believe there is no one universal solution out there on the market that can address all the issues. For major Institutions, we recommend combining two different providers, with completely different technology and methodology, into one screening solution, so that blind spots are filled with each other's data. We believe Polixis' level of automation and innovations gives us totally different perspectives, as compared to other legacy players out there.

5. ADVERSE PRESS SCREENING



Another recommendation of MAS to FIs is inquiring about the news sources (international, regional, local news outlets) included in a vendor's screening database, as well as the news types (sanctions, legal proceedings, other adverse information) covered.

POLIXIS' APPROACH

Our in-built adverse media screening solution gives an opportunity to filter the news by topics (e.g. sanction, judicial, corruption, fraud) and target-based sentiment. It utilizes the entire internet for the news search, but also uses Polixis' internal archives of compliance-relevant news. Moreover, non-English language press is automatically translated into English, helping the client make sense of local press coverage on the subject.

ASPECTS MISSED OUT BY MAJOR REGULATORS

During the analysis of the regulators' assessments and best practice recommendations for screening, we have discovered some aspects that are definitely worth mentioning in the list above. These come from our own experience as a data provider, and the feedback received from clients regarding our approach.

POWERFUL TRANSLITERATION MODELS



Poor transliteration always leads to many issues, including fewer matches or false hits. The most serious one would be failure to detect sanction exposure risk due to inability to correctly transliterate the original company or person name. We are proud to have created our own powerful Natural Language Processing (NLP)-based transliteration tools, that are able to accurately reproduce in English the names of persons and entities in complex languages, such as Arabic or Farsi, where vowels are normally omitted in written script.

EXAMPLE: If we were to transliterate the Arabic name of *Company ABC International Limited* through conventional rules, we would get something similar to *Cmpn BC ntrntnl Lmtd*. Our AI-based algorithms, trained in customized datasets, are able to successfully tackle this challenge, giving an accurate name of the Arabic company in English.

COLLATERAL SANCTION EXPOSURES



A robust verification of beneficial ownership is particularly important in the process of sanction risk assessment and screening. Having well-interconnected data is a key factor in this process. Our screening solutions, thanks to the depth of its linkages, gives a possibility to track the ownership chains and person-to-entity and vice versa connections at least up to 7 degrees.

EXAMPLE: A major Russian bank is designated by the Office of Foreign Assets Control (OFAC) as a Specially Designated National (SDN). OFAC has officially communicated the names of 24 subsidiaries. Meanwhile, Polixis holds information on 10,063 persons and entities directly (e.g. 50%+ rule) or indirectly (boards, less than 50% etc) linked to that very entity. In total, our database of collateral sanction risk includes over 550,000 entities & persons.

LITERATURE

“Strengthening AML/CFT Name Screening Practices”, Monetary Authority of Singapore, Information Paper, April 2022

The UK’s Financial Conduct Authority has released a Handbook on “Financial Crime Thematic Reviews”

ABOUT POLIXIS

Polixis is a best-in-class RegTech and advisory firm, headquartered in Geneva, Switzerland. We are proud to have served some of the world’s most demanding companies since 2012, ranging from Tier 1 Global Banks to more localised companies in need of Risk & Compliance solutions.

We offer software and data solutions, as well as advisory services to our clients.

We own and operate some of the market’s largest AML Compliance datasets, available both as API, and as FTP Bulk Downloads.

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