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Sanctions Screening - Feedback from Recent Thematic Reviews

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Sanctions Overview

► Increasingly complex and dynamic sanction programs

► Regulations are rapidly evolving

► Significant risks for non-compliance

► Controls need to match developments
Sanction Compliance

► Adequate Risk Assessment

► Good Quality of Data

► Integrity of Source Lists

► Effective sanctions screening system
  - Evaluation of parameters and thresholds on an on-going basis
  - Adequate and effective re-assurance processes
Thematic Review by HKMA

► Thematic review on a number of AIs’ sanction screening systems in June 2017

► Engaged a leading global service provider to assist in conducting review

► Purpose of the review:
  - Assess *effectiveness* and *efficiency* of Al’s screening system
  - Where required, work with AIs to ensure appropriate remedial plans implemented to address material deficiencies
How the test was conducted

- AIs selected based on risks, volume of payments processed etc.
- Workshop, guidance provided to participating banks
- Scope: customer and transaction screening systems
- Individual feedback provided to AIs based on testing results
- Highlighting observations identified from the review
Most AIs’ performances when screening against un-manipulated data were within expectations

Results less consistent on manipulated data; a few AIs performed below expectations

AIs must be able to demonstrate an adequate understanding of their systems

System settings varied between AIs
Observations (Cont’d)

► Most AIs monitoring / testing effectiveness, but less on efficiency

► Effectiveness issues
  - Low matching capability
  - Weaknesses in matching algorithms

► Efficiency issues
  - High volumes of returns → system is inefficient.

► Some AIs may be subject to re-test
Way Forward

- Industry wide guidance to be issued subsequently
- Thematic review to be extended to cover more AIs
- Improve understanding of risk and system operation
- Expectation is ongoing enhancement: screening systems should be subject to regular reviews and kept up-to-date
Thank You