



Guernsey Financial  
Services Commission

# **2021 Thematic Review: Sanctions**

## **Financial Crime Division**

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# Overview of Today

- Introduction & background
- Effectiveness of Screening Systems
- Oversight of Screening Systems



# SLIDO Question

What's your primary role?

- Director
- Operational (1<sup>st</sup> line of defence)
- Compliance (2<sup>nd</sup> line of defence)
- Accountant
- Sales/Marketing
- Lawyer



# SLIDO Question

Is sanctions compliance more on your radar since the Russian invasion of Ukraine?

Yes

No



# Why did we pick this topic?

- Sanctions are important as they are attempting to limit terrorism, weapons proliferation and most recently war in Ukraine.
- Increasingly important & complex
- Previous issues reported to the Commission:
  - a. Certain types of customers not being screened
  - b. Outdated data being used in the screening process
  - c. Incoming SWIFT payments not being screened
  - d. Insufficient systems access granted to external provider

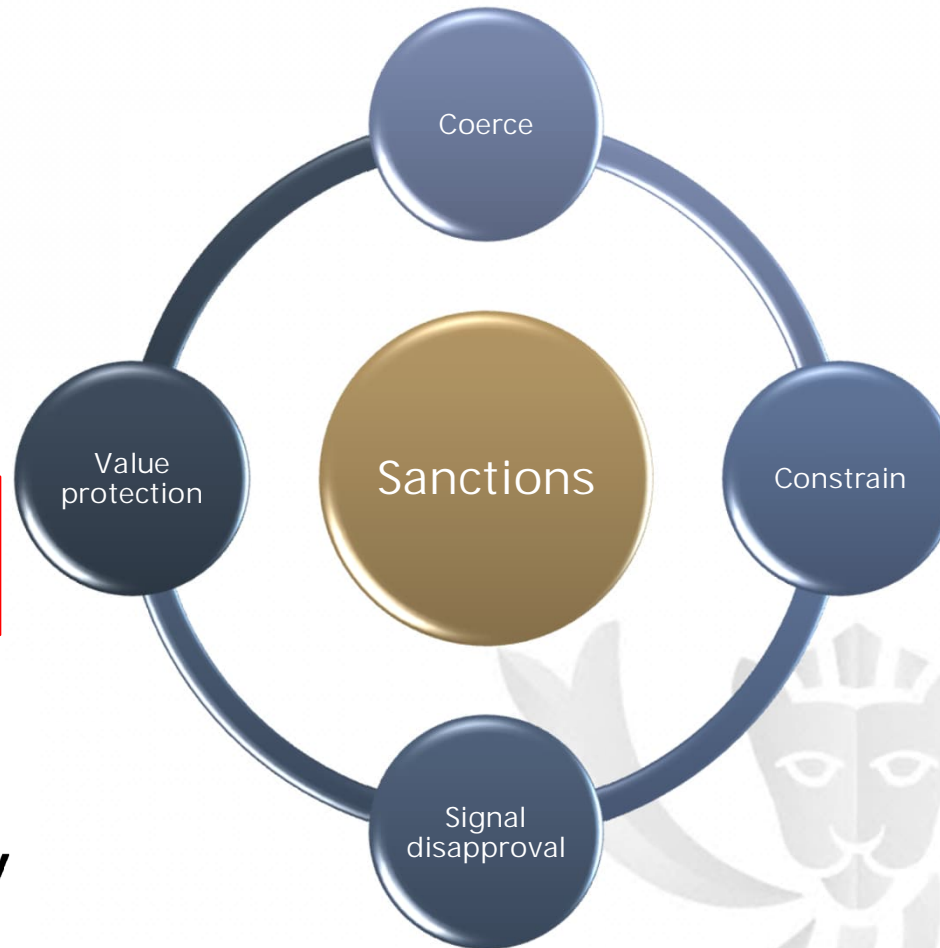
# Sanctions Framework



National  
Security Goals



HM Treasury



States of  
Guernsey

# UK Sanctions on Russia

- Covers finance, trade, aircraft, shipping and immigration.
- More than 1000 individuals
- More than 100 companies
- Oligarchs worth £117bn



(Source: UK Government Press  
Statement 13/5/22)

# Impact of Russian Sanctions on Firms

- 86% of firms use automated screening systems
- With hundreds of designations at a time is manual screening still an option?
- Be cognisant of length of time for external provider to update lists – mitigation?





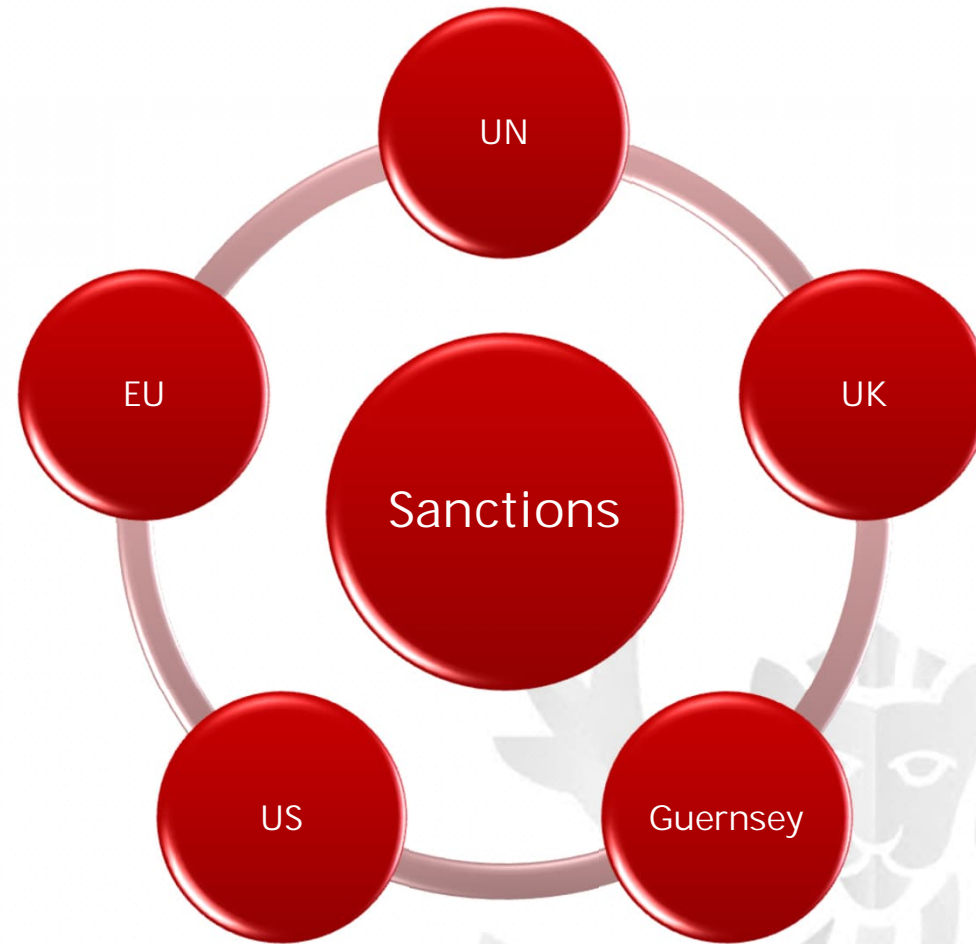
# SLIDO Question

Which sanctions lists potentially impact Bailiwick firms?

- Guernsey
- UN, UK & Guernsey
- UN, UK, US & Guernsey
- UN, UK, US, EU & Guernsey



# Extraterritorial Sanctions



# Tougher Action

- Authorities are becoming tougher on non-compliance
- US has led the way for many years with huge fines for OFAC breaches. Largest fine - \$8.9 billion levied on BNP in 2014
- In 2020 the UK started to take a more aggressive approach

*"Standard Chartered fined £20.47 million; OFSI finally showing its teeth?"*

International Compliance Blog

# New OFSI Enforcement powers

- Following the Russian invasion of Ukraine, the government brought forward the Economic Crime (Transparency and Enforcement) Act 2022 which included two important changes to OFSI's powers
  - A new strict civil liability test for imposing monetary penalties
  - The new OFSI ability to publish details of breaches where a monetary penalty has not been imposed
- These measures will commence on 15 June 2022

# What did we do?

## Questionnaires

- 175 questionnaire sent to banks, fiduciaries and fund administrators.

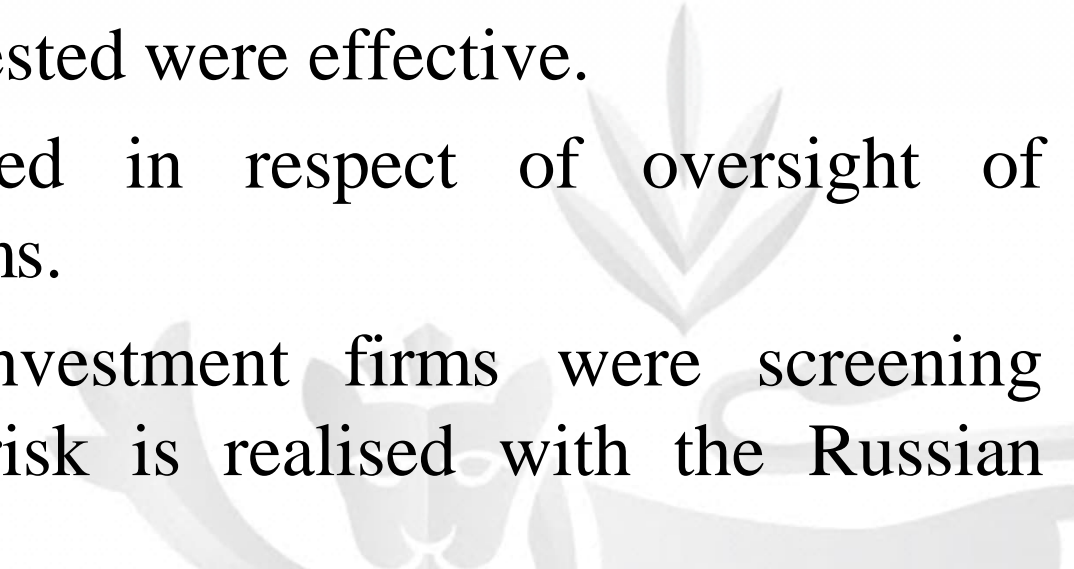
## Testing by Regtech Firm

- 21 firms were selected for effectiveness testing, the majority of which were banks.

## Onsite Visits

- The same 21 firms were visited by the Commission.

# Key Findings

- Those tested were responsible for 260,000 business relationships and banks tested were responsible for 99.8% of inward transactions and 99.6% of outward transactions.
  - Majority of those systems tested were effective.
  - But improvements required in respect of oversight of outsourced screening systems.
  - Only 56% of fiduciary/investment firms were screening underlying assets. This risk is realised with the Russian sanctions.
- 



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# Automated Sanctions Screening Systems (Darren)

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# SLIDO Question

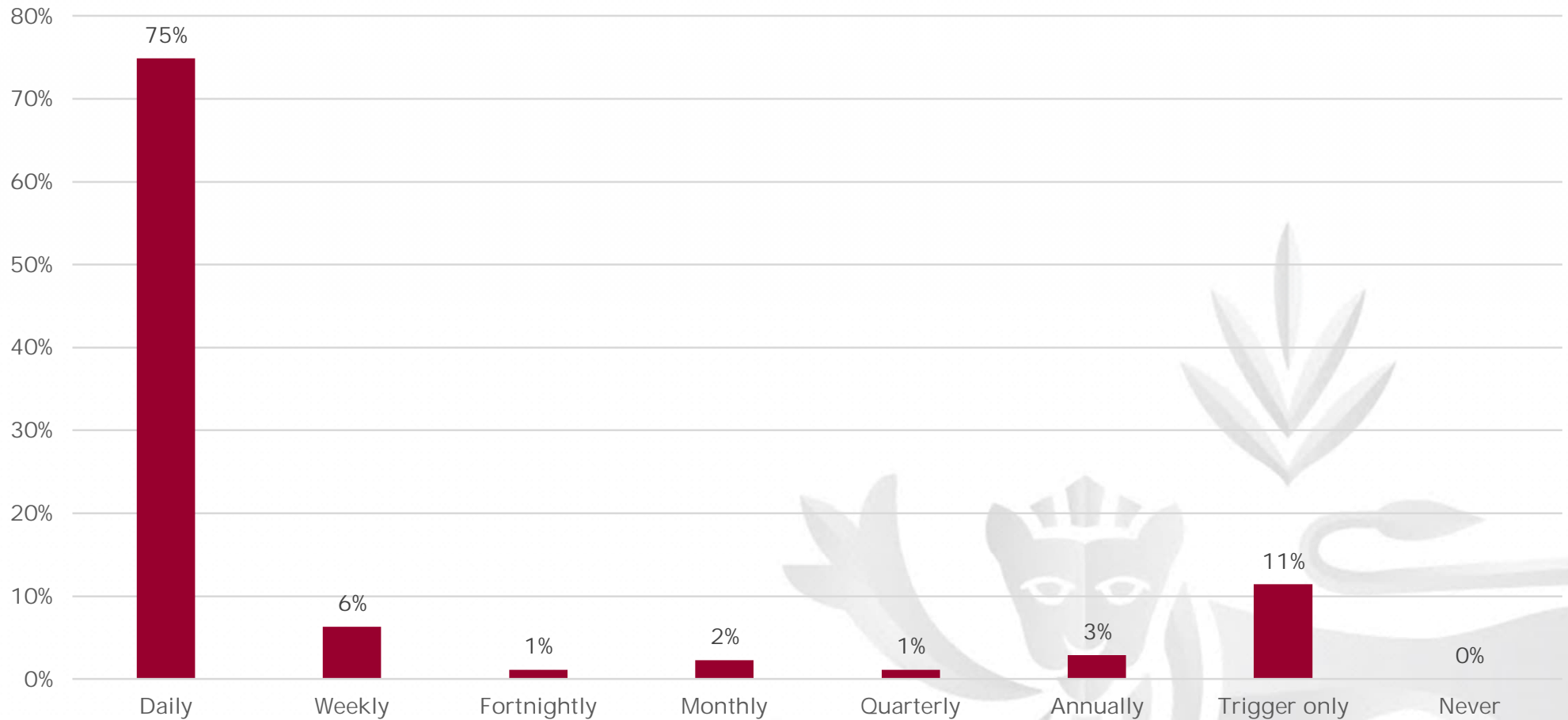
At what frequency do you screen your customers for sanctions?

- Daily
- Weekly
- Monthly
- Less frequently than monthly
- Only upon release of new sanctions notices
- Every time you read the Guernsey Press
- Never

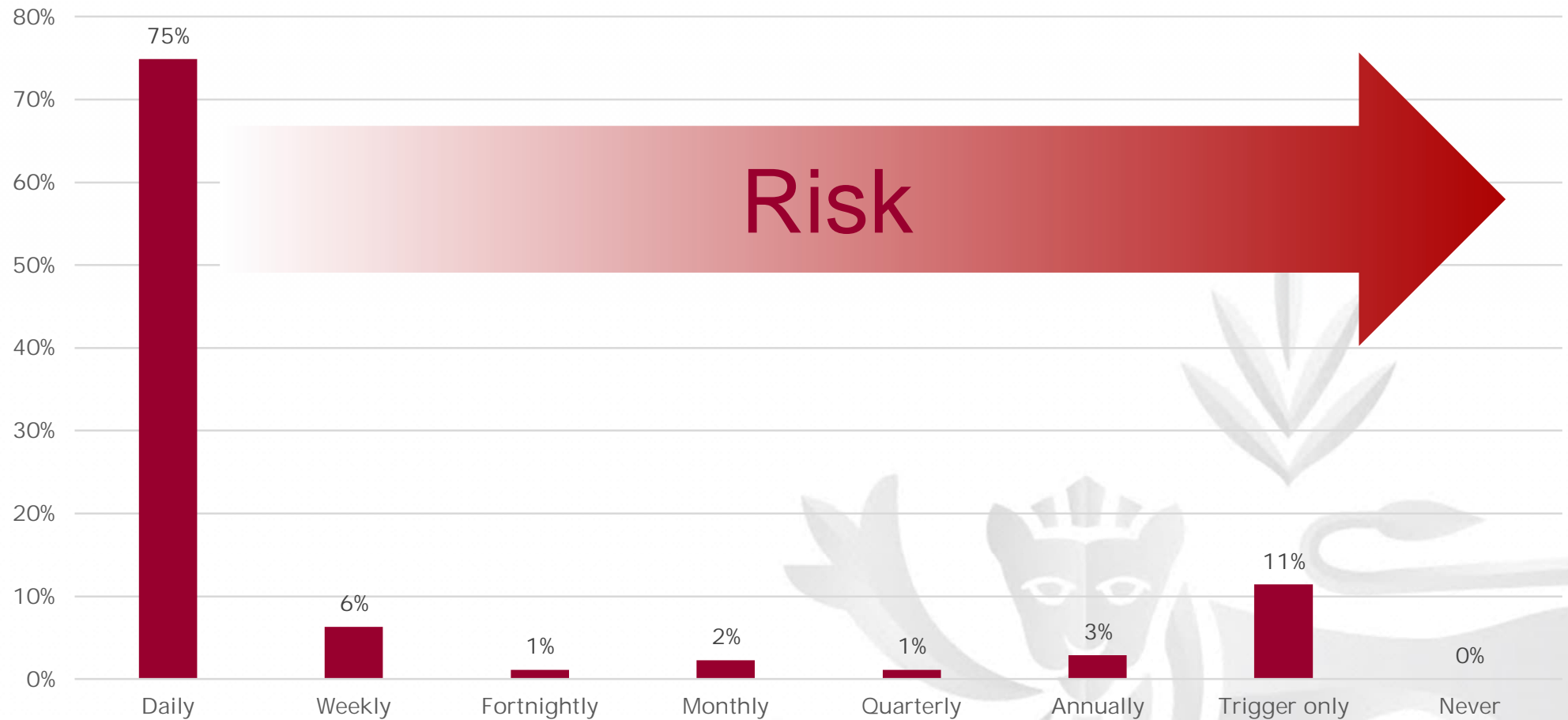




# Frequency of screening customers



# Frequency of screening customers



# Effectiveness of Automated Sanctions Screening Systems

- Thematic effectiveness testing background
- Data integrity
- Thematic test results
- Screening system efficiency



# How we tested effectiveness

- The Test file:

10,100 names

Control data

- 5000 names from sanctions lists
- Companies and natural persons

Manipulated data

- 5000 names from sanctions lists and then manipulated
- To test 'fuzzy logic'

Clean IDs

- 100 names
- To test Efficiency / cheating

# Fuzzy Logic

**TO BEER?  
OR NOT TO  
BEER? 🍷  
THAT IS THE  
*question.*  
-SHAKESBEER**

# Fuzzy Logic

- The set of rules the system uses to identify potential matches of client names against sanctioned names
- Requires careful implementation and adjustment
- Informed by risk appetite and operational capacity



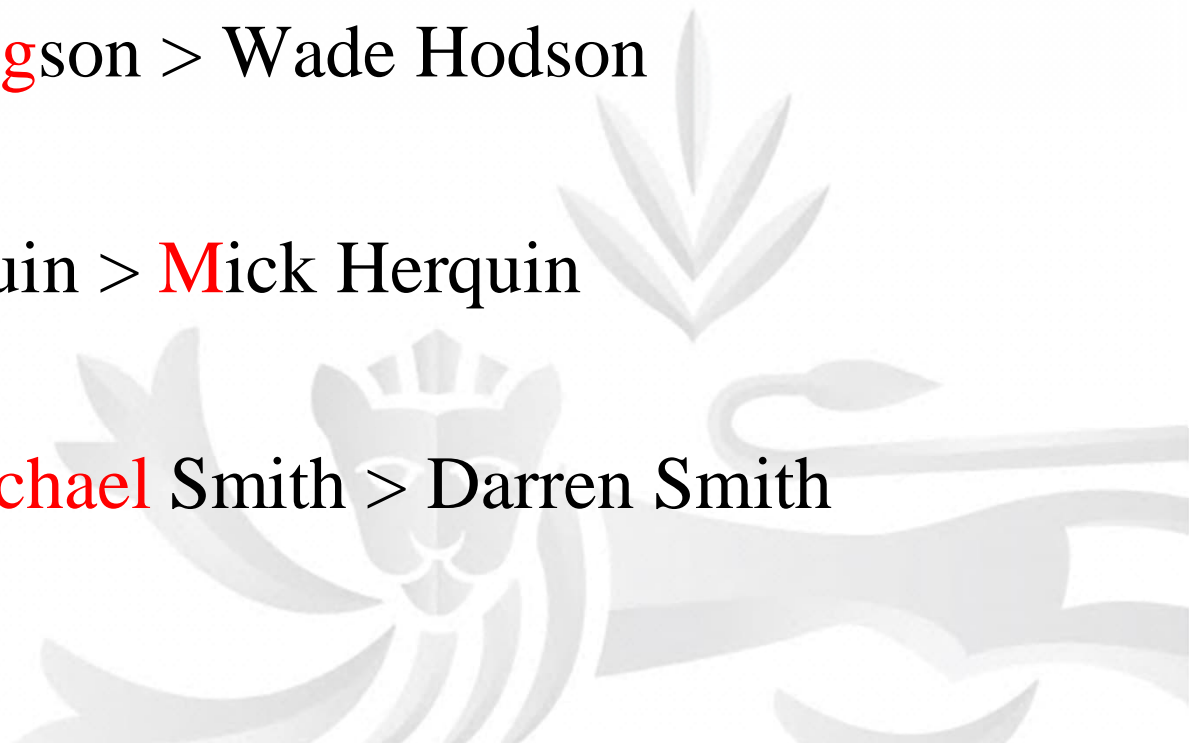


# Fuzzy Logic – a basic example



# Manipulated data

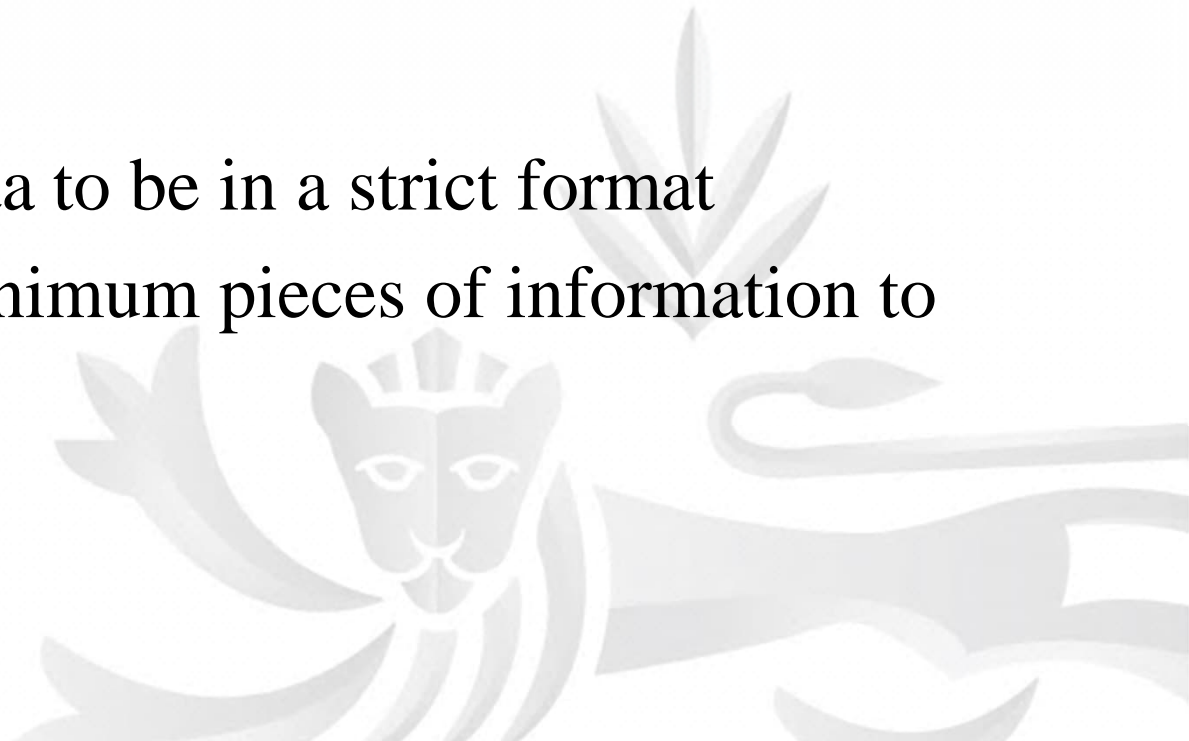
- Only one manipulation was made per name
- Remove a letter: Wade Hodgson > Wade Hodson
- Replace a letter: Nick Herquin > Mick Herquin
- Remove a word: Darren Michael Smith > Darren Smith





# Data Integrity

- Data integrity is the accuracy, completeness, and consistency of data
- In our thematic we found:
  - Systems may require data to be in a strict format
  - Systems may require minimum pieces of information to screen accurately

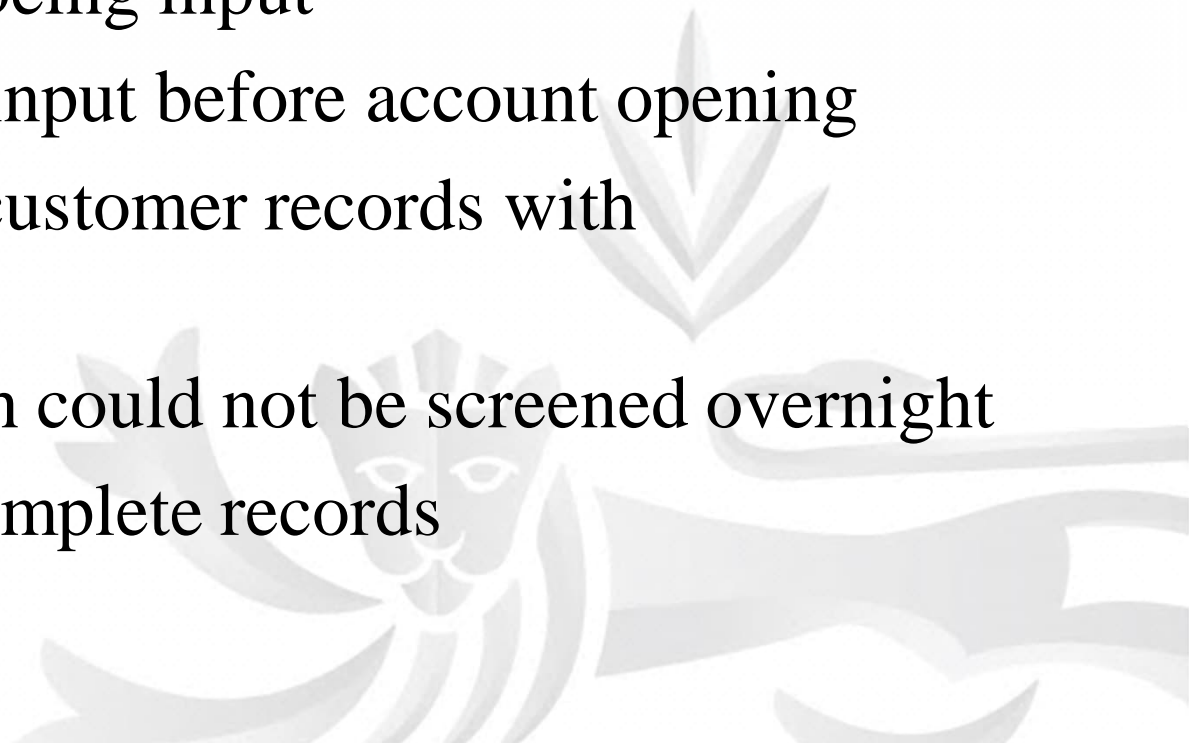


# Data Integrity



# Data Integrity Controls

- Good practice seen within the thematic
- Controls to assist with data integrity:
  - Limitations on the data being input
  - Mandatory information input before account opening
  - Exception reporting on customer records with missing/incorrect data
  - Reports of records which could not be screened overnight
- Alternative process for incomplete records



# SLIDO Question

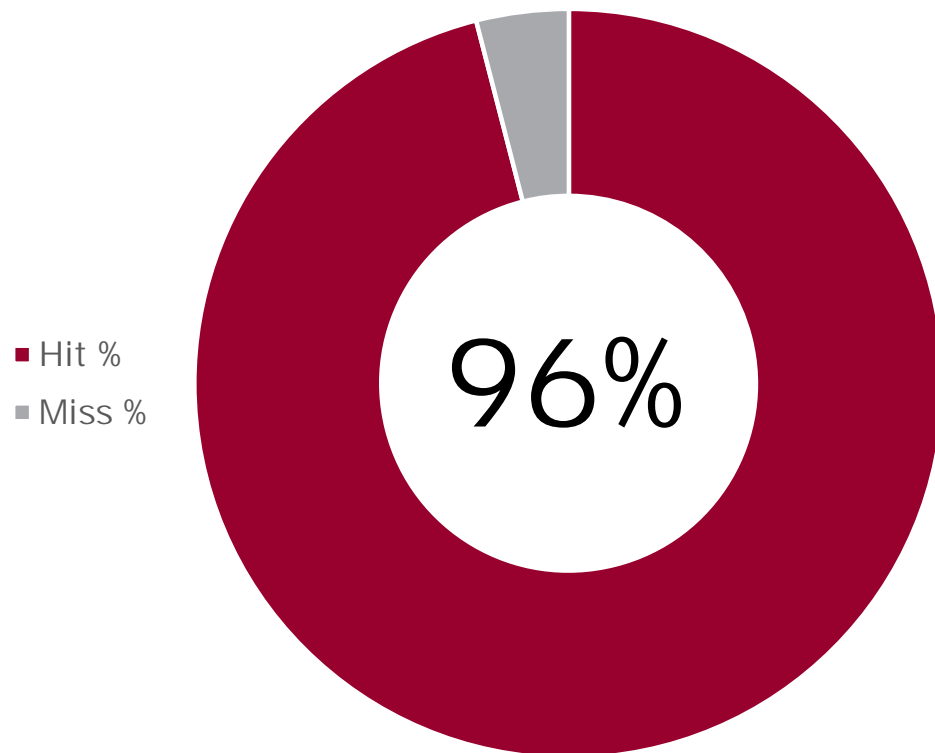
What percentage accuracy should be aimed for in effectiveness tests?

- ☐ 80 - 85%
- ☐ 85 - 90%
- ☐ 90 - 94%
- ☐ 95 - 99%
- ☐ 100%
- ☐ Other

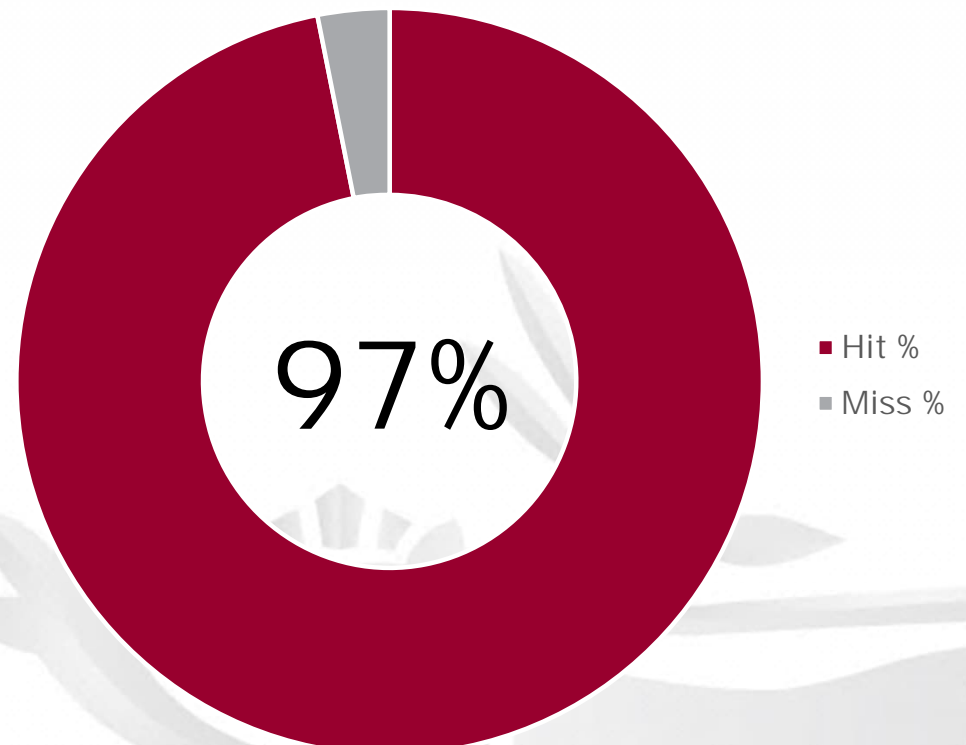


# Test results – Control data

*Customer screening accuracy*

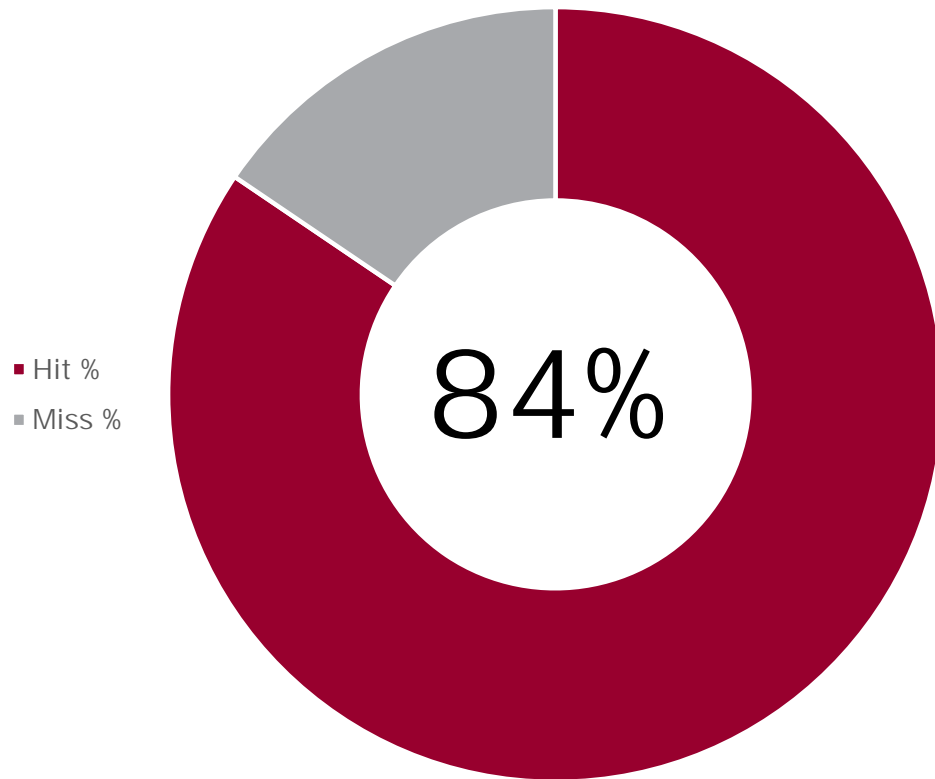


*Transaction screening accuracy*

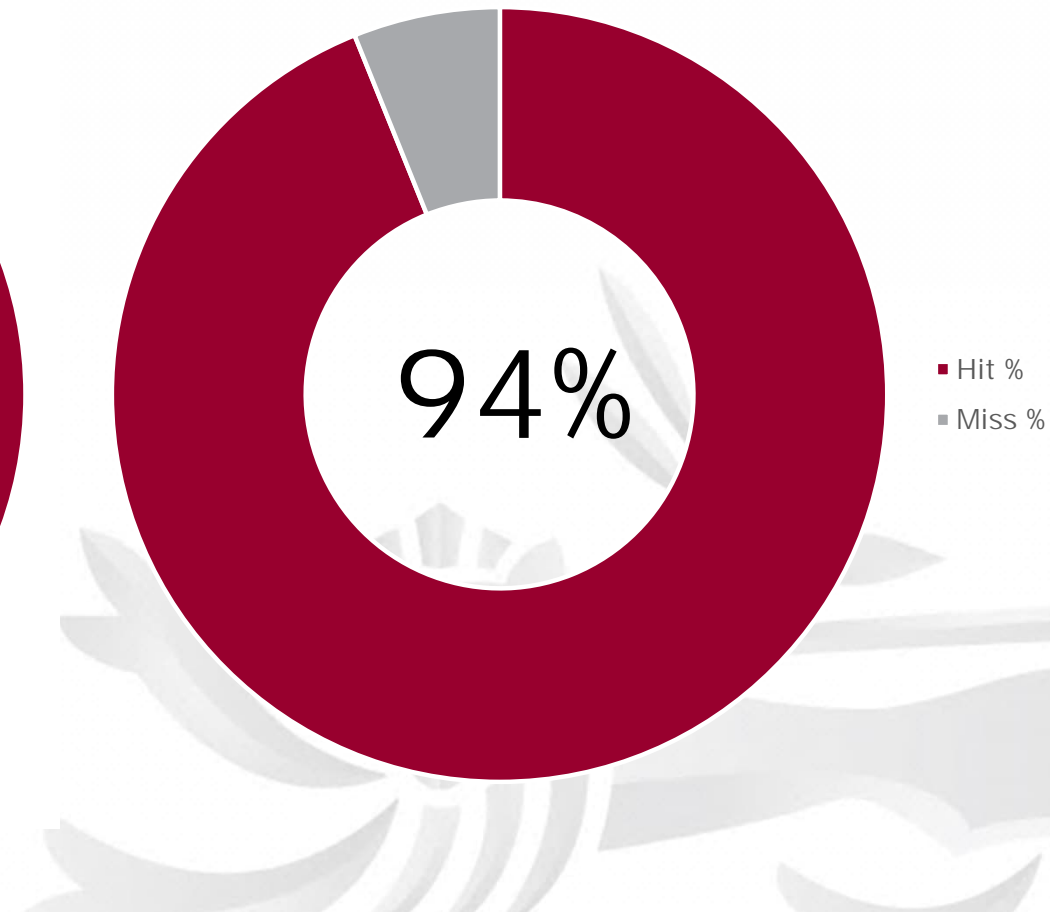


# Test results – Manipulated data

*Customer Screening accuracy*

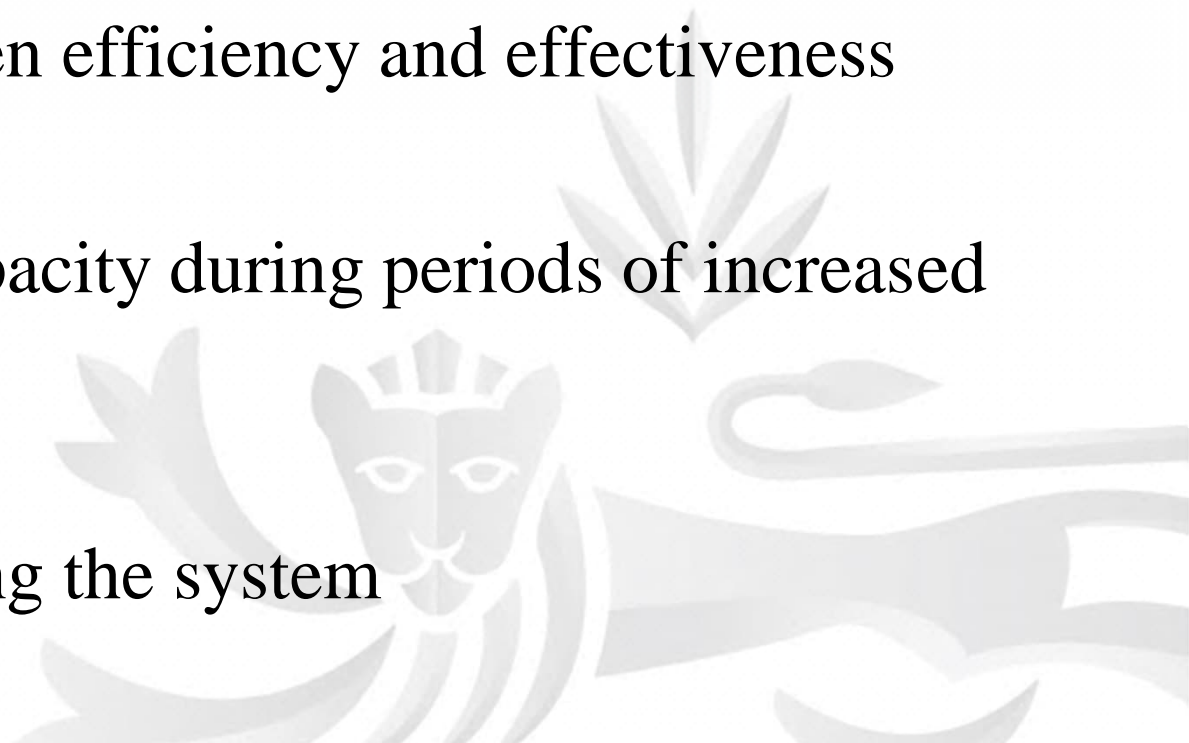


*Transaction screening accuracy*



# Screening System Efficiency

- The number of alerts generated by the system
- Balance to be struck between efficiency and effectiveness
- Be aware of operational capacity during periods of increased sanctions designations
- Also be aware of over-tuning the system







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# Oversight of Sanctions Screening Systems (Wade)

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# Oversight of Sanctions Screening Systems

- Board understanding and consideration of sanctions risk
- Sanctions screening policies and procedures
- Outsourced functions
- Implementation of screening systems
- Ongoing monitoring of sanctions screening systems

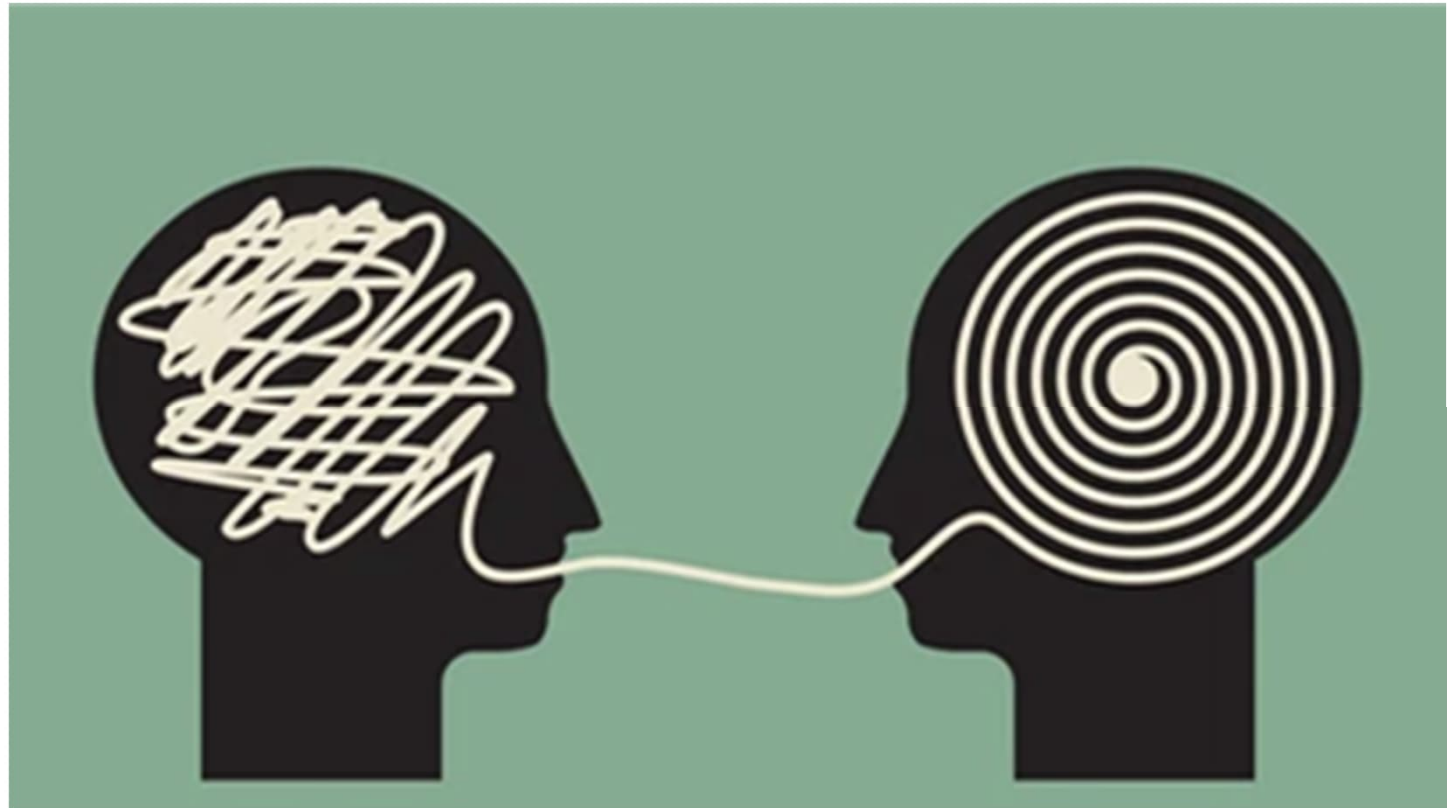
# SLIDO Question

What are the top 3 jurisdictions with a heightened sanctions risk that your business is exposed to?



# Board understanding and consideration of sanctions risk

How are your customers, your products and services impacted by Sanctions?



# Board understanding and consideration of sanctions risk

What is your Risk Appetite towards Sanctions exposure?

What controls does your firm have in place to mitigate Sanctions Risk?



# Board understanding and consideration of sanctions risk

Are we confident that all relevant data is being screened?

Does the system generate an alert when a sanctioned name is screened?

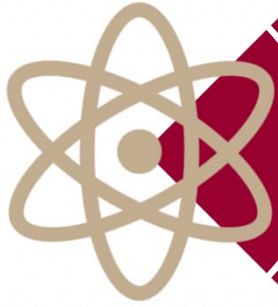
Are the fuzzy logic rules effective in generating alerts for close matches?

Are the fuzzy logic rules and threshold settings documented?

Are the levels of alerts generated within operable levels?

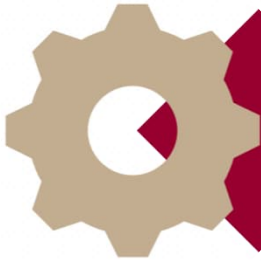
Are the alerts generated being investigated appropriately?

# Sanctions screening policies and procedures



## Fundamentals

- What systems are used?
- Who is responsible for their maintenance?
- Who are the stakeholders?



## Configuration

- What lists are screened against?
- Which parties are screened?
- What thresholds/rules are in place?
- How do the thresholds/settings tie into the firm's risk appetite?



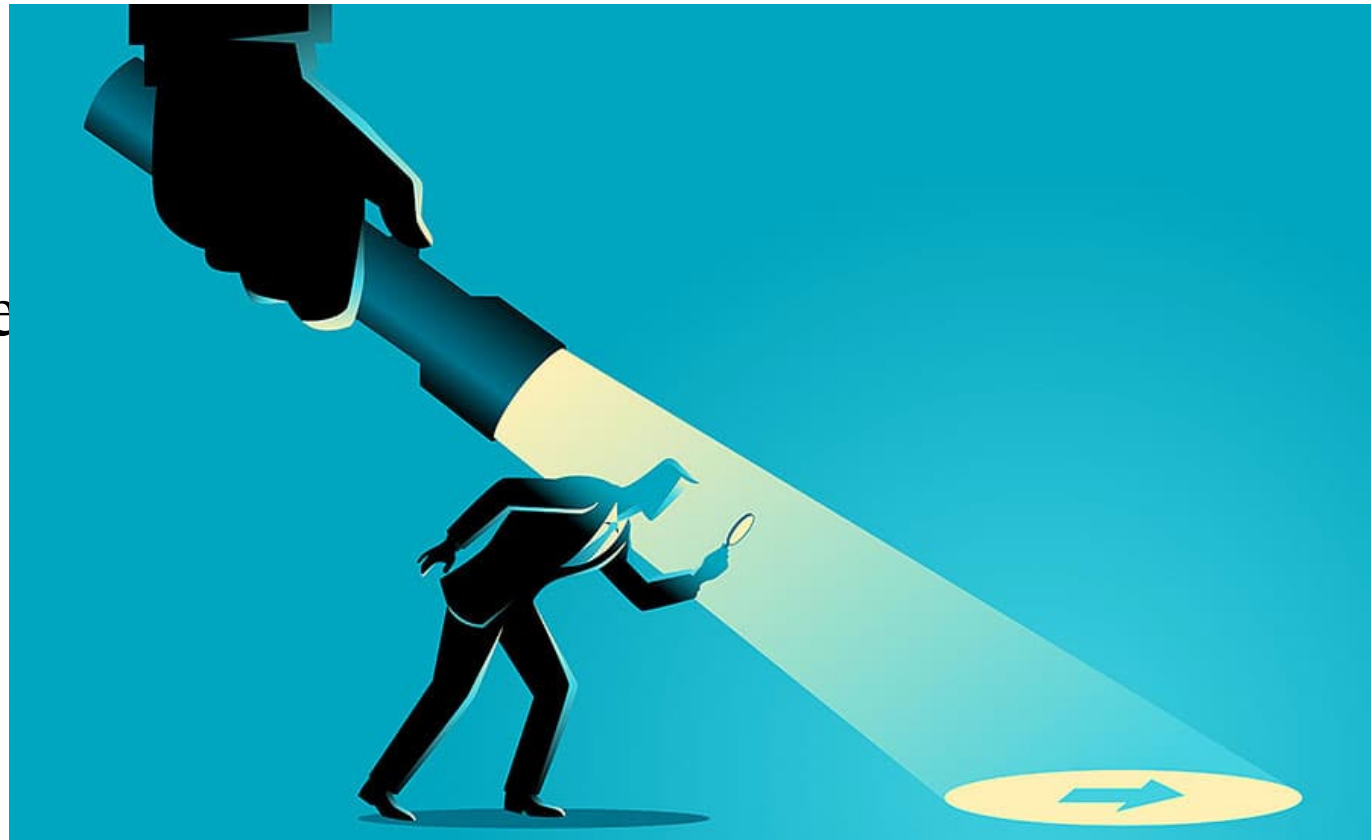
## Oversight

- What testing is undertaken to ensure the system works?
- How often is testing undertaken?
- What reporting is in place?
- What is the process when issues are encountered?



# Sanctions screening policies and procedures

- Investigating and discounting alerts
- Appropriate timeframe for investigation
- Escalation plan



# Sanctions screening policies and procedures

Which parties within the system are screened?

How is the data extracted?

What format/structure should the data be in?

How is it fed into the screening system?

How are the matching rules/thresholds configured/maintained?

Which parties are responsible for the different steps in the process?

How is the process overseen, monitored and tested?





# Outsourced functions

Do your due diligence

Test the system yourself

Know who is responsible locally

Know who is responsible within the Group / external vendors



# SLIDO Question

Where is your sanctions screening system expert located?



# Implementation of screening systems

The data  
content/structure  
requirements

How the system  
works in practice

The limitations of  
the system

Any assurance  
testing  
undertaken by  
the vendor

The level of  
ongoing  
maintenance &  
support provided

The level of data  
and reporting  
that can be  
extracted

# Ongoing monitoring of screening systems

how many hits  
were generated  
during the  
period

how many hits  
are outstanding  
and awaiting  
resolution

average time to  
investigate hits

how many true  
matches

how many false  
positives

any records  
failing to load  
into screening  
system

ANY QUESTIONS



# Sanctions Thematic Public Report

- More in the Public Report – go read it!
- GFSC.gg > Financial Crime > Thematic Reviews

The screenshot shows a web page with a breadcrumb trail: [Home](#) > [The Commission](#) > [Financial Crime](#) > Thematic Reviews. Below the trail, a paragraph states: "Listed below are the Thematic Reviews undertaken by the Financial Crime Division of the Commission." Another paragraph says: "Please click on the individual links to view the reports:". A table lists the reports, with the first row highlighted by a red box. The first row is for the "Sanctions - Thematic Review" (616.9KB - 11th May 2022) and includes a download icon. The second row is for the "Reporting Regulators' Thematic Review" (101.4KB - 11th May 2022) and also includes a download icon. The third row is partially visible and shows "Sanctions - Thematic Review" (616.9KB - 11th May 2022).

Report Title	File Size	Date	Download
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