



مصرف الإمارات العربية المتحدة المركزي
CENTRAL BANK OF THE U.A.E.

Sanctions Screening Testing Thematic Review

Lessons Learned and Expectations

AML/CFT Supervision Department
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Executive Summary

In September 2020 the Central Bank of the UAE (CBUAE) conducted a thematic review (the “Review”) of 30 supervised Financial Institutions’ (“FIs”) sanctions screening systems. In order to fulfil their obligation to comply with the provisions of Federal Cabinet Resolution No. 20 of 2019¹, as well as with the directives of the relevant Competent Authorities and Supervisory Authorities in regard to TFS and other decisions issued by the UN Security Council, and to manage their exposure to the risks associated with unilateral international financial sanctions programmes and restrictive measures implemented by other countries, FIs should take steps to ensure that they have adequate internal policies, procedures and controls in place, commensurate with the nature and size of their businesses. The Review was conducted by the CBUAE in order to assess the FIs’ compliance with these provisions and their sanctions screening systems’ effectiveness and efficiency levels. The Review was conducted as a first phase of implementing enhancements to the CBUAE’s onsite and offsite examination methodology to assess sanctions related controls. The testing capability which was utilized for purposes of this review has been sustainably embedded into CBUAE’s supervisory processes and will continue to be used on an ongoing basis for assessment of all FIs going forward.

The scope of the Review covered the primary name and transaction screening systems currently in use within the FIs. Testing included Control Tests (non-manipulated Sanctioned names as they appear in the source list) and Manipulated Tests (Sanctioned names that have been algorithmically manipulated in order to test the screening systems’ ‘fuzzy logic’ matching capability).

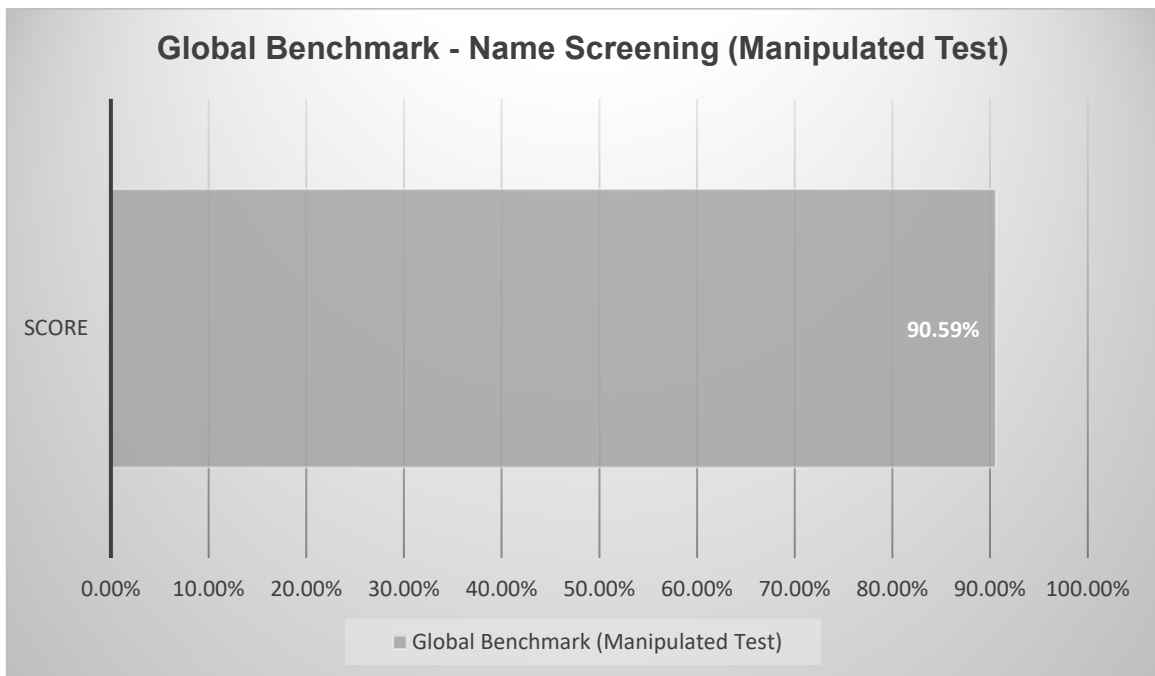
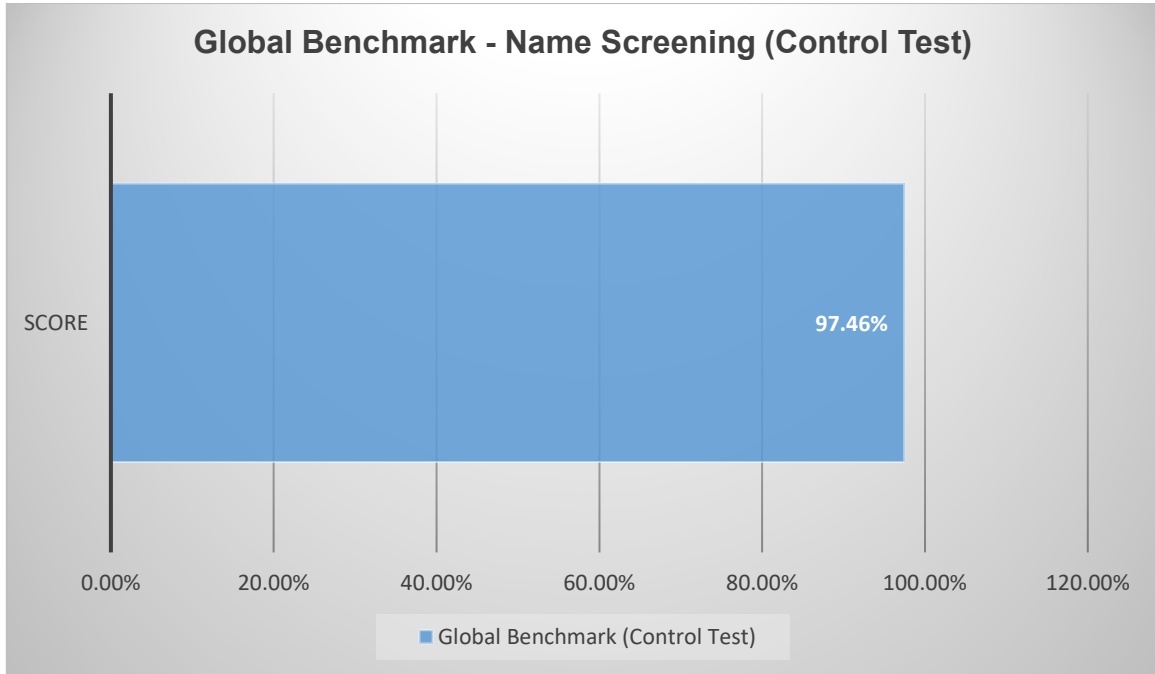
The CBUAE expects all FIs to achieve a high level of compliance with related regulatory obligations and meet global benchmarks to ensure performance is in line with global peers. Following the testing, feedback sessions were held with the 30 FIs to provide the Review’s individual test results and global benchmarks. In this report, the overall results are presented in an anonymized manner, which allows FIs to consider how their individual current practices fit within the CBUAE’s expectations, including where improvements are required.

¹ On Terrorism Lists Regulation and Implementation of UN Security Council Resolutions on the Suppression and Combating of Terrorism, Terrorist Financing and Proliferation of Weapons of Mass Destruction, and Related Resolutions. This Resolution was cancelled and superseded by Cabinet Resolution No. 74 of 2020 concerning the UAE list of terrorists and implementation of UN Security Council decisions relating to preventing and countering financing terrorism and leveraging non-proliferation of weapons of mass destruction, and the relevant resolutions.

Global Benchmarks as at July 2020

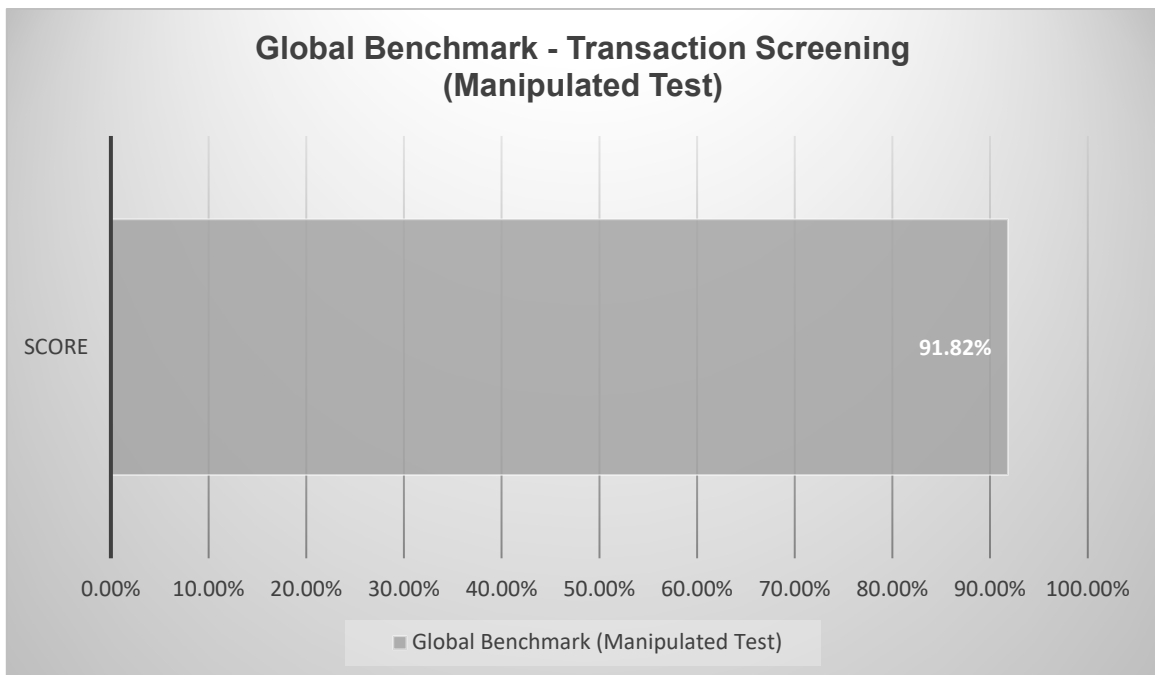
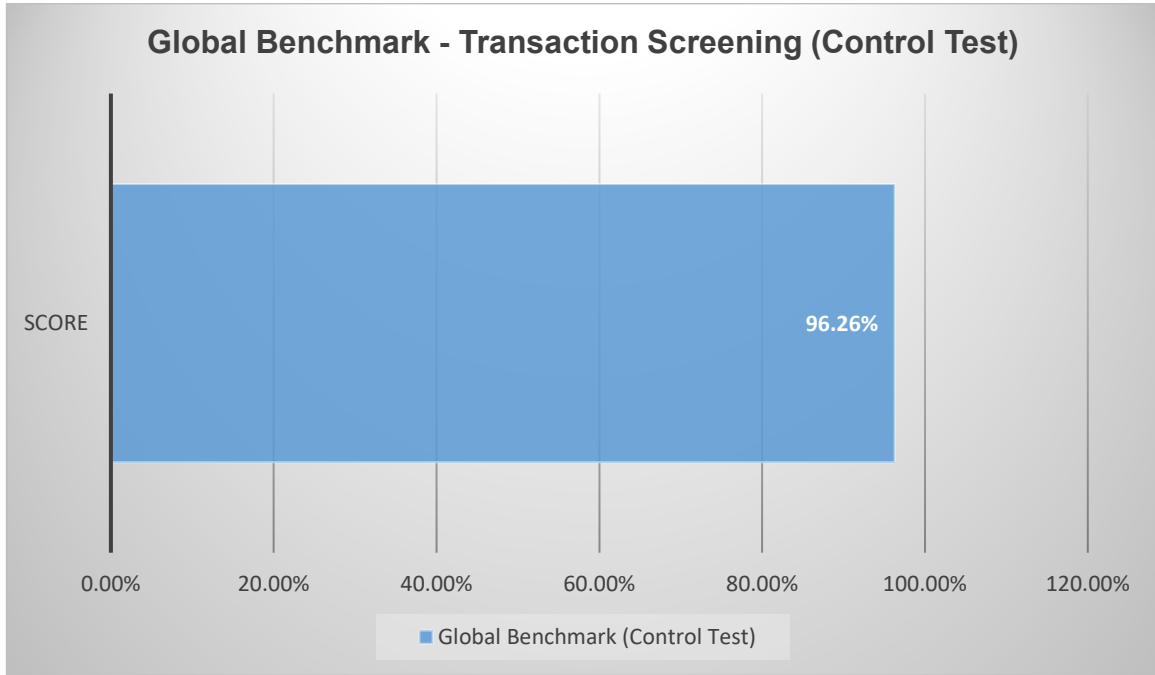
Name Screening:

The following tables represent the global benchmarks for name screening for the Control Test and Manipulated Test, respectively.



Transaction Screening:

The following tables represents the global benchmarks for transaction screening for the Control Test and Manipulated Test, respectively.



Lessons Learned and Expectations

Lesson 1: Out-of-the-box solutions

It was evident that certain FIs that were using out-of-the-box solutions had limited knowledge of the solutions' capabilities and configurations. There are a number of potential issues that can occur when not customizing your solution, including not fully meeting legislative obligations and potentially increasing the number of false positives. The CBUAE identified that many FIs had limited skillsets and capabilities to operate and manage the systems independently. Additionally, these FIs were excessively dependent on external support.

Expectation

FIs should ensure that inputs and outputs of the solution should reflect legislative obligations as required by CBUAE. Specifically, FIs should understand which lists their systems have been set to screen against and the expected results produced by the system. FIs should also be able to demonstrate that they have adequate oversight on the suppressions lists or filters within the system. CBUAE expects that such functionalities are managed within the FI, as opposed to allowing the vendor to define it for your institution. This should also be part of the FI's regular testing and tuning exercises. Lastly, FIs must be able to demonstrate complete understating of the solution and adequate internal skillsets / capabilities to operate and manage the solution effectively without excessive dependency on the external support. It is the responsibility and obligation of the FI, not the vendor, to ensure that adequate controls are in place.

Lesson 2: Documented Methodology

FIs should have a clear, comprehensive, and documented methodology to demonstrate its approach in meeting its sanctions screening obligations. The methodology should be in line with the FI's policies and risk appetite.

Expectation

Senior Management must not only approve the methodology, but should also demonstrate a thorough understanding of the risks faced by the institution, including any decisions made. The methodology should articulate the system settings and configurations, including exceptions, if any. It is expected that by having a documented methodology, FIs will be able to have a holistic view of its sanctions screening obligations.

Lesson 3: System Effectiveness versus System Efficiency

CBUAE noted that certain FIs ignored system efficiency to ensure high effectiveness. Although effectiveness is the key to discharge your legislative obligations, a sole focus on this factor will negatively affect the efficiency of the system. Low levels of system efficiency will exhaust limited resources and reduce effectiveness levels at the alert clearing stage as a result. For example, if the FI is inundated with a significant number of false positive matches, the FI may miss potential true matches as a result. Additionally, this typically results in an undue buildup of alert backlogs that remain uninvestigated. Delays in alert clearing are not tolerated by the CBUAE.

Expectation

FIs are expected to take a holistic view when it comes to sanctions screening. FIs should be able to demonstrate that they have a clear understanding of their effectiveness and efficiency levels and make informed decisions in achieving a balance between the two. System tuning will assist in striking a good balance between effectiveness and efficiency. Additionally, should FIs decide to give preference to system effectiveness over efficiency as a policy decision, FIs should be able to demonstrate that adequate resources are in place to manage excessive alerts without compromising the quality of decision making on those alerts.

Lesson 4: Ownership and Accountability

CBUAE identified a few FIs where clear ownership and accountability of the various elements of the sanctions screening program was not evident. Conversely, there was a significant reliance on home office/centralised functions or vendors to manage the sanctions program elements for the FI.

Expectation

Clear ownership and accountability must be established within the institution with regard to the management of the sanctions screening program in order to minimise sanctions risks. The CBUAE expects that FIs document in sufficient detail the ownership and accountabilities of the various functions that are responsible for the program. This could include centralised functions, Centers of Excellence, technology units etc. that have a function or activity that is leveraged when managing sanctions risk.

Lesson 5: Regular Testing and Tuning

It was evident that a number of FIs did not test and tune their systems on an ongoing basis, as some FIs that had significant efficiency issues including the number of false positive hits.

Expectation

Regular testing (internal/external) and tuning of sanctions screening systems can identify potential issues, including efficiency issues on an ongoing basis. Frequency of testing and tuning will lead to better overall effectiveness and efficiency of the system as well as a better understanding of the system. Irregular testing and tuning may result in issues being long standing until identified that could lead to a potentially significant regulatory breach.

Lesson 6: Data Quality Issues

From previous onsite/desk-based reviews, the CBUAE acknowledges that some FIs faced data quality issues with respect to customer information. To this regard, incomplete and/or inaccurate customer information could not effectively be used for screening for sanctions. The end-result may pose a risk of potential sanctions breaches.

Expectation

The CBUAE expects that FIs account for data quality issues within the system, especially if the institution caters to wide range of customers and offers a wide range of complex products. Using manipulated data to stress test your systems using various techniques, such as 'fat-finger' error and word omission, allows for preparation of real life scenarios. This type of testing should be part of your regular testing and tuning exercises. The institution should also pay attention to possible issues such as list data quality and completeness, integration failure, etc.

Lesson 7: Risk-based Approach

The CBUAE identified certain FIs that were using an ineffective risk-based approach to sanctions screening. While sanctions screening is a legislative obligation, a documented risk appetite with a supporting view of the understood risks involved should supplement the approach decided upon by the institution. For example, the CBUAE identified in many instances that FIs were not able to demonstrate an understanding of the risks involved with weak aliases, strong aliases, vessel names, domestic payments, Business Identifier Codes (BICs), etc.

Expectation

FIs must evaluate their risk appetite to understand the risks they face to ensure execution of informed decisions. FIs must be able to demonstrate complete understanding of their risks whether originating from the customer base or the jurisdiction of operations. Effective implementation of a risk-based approach requires continuous involvement of senior management. The FI must keep senior management informed about the developments within the sanctions screening framework including the risks and exceptions. The CBUAE expects FIs to screen for strong aliases, have a defined policy position on the approach to the inclusion or exclusion of weak alias names from sanctions lists as well as demonstrate alignment to the sanctioning authority's guidance or policy.

Lesson 8: Internal Skill Set

The CBUAE identified that some FIs lacked the appropriate skillset to effectively and efficiently manage its sanctions screening systems, but instead significant reliance was placed on vendors, externally located centralised functions, and insufficiently trained employees.

Expectation

Ongoing training is a key element of the overarching AML and Sanctions Program for all FIs. Specifically for sanctions screening, FIs are expected to have an appropriate skillset within the institution as a prerequisite for an effective and efficient sanctions screening system. The benefits of a well implemented and managed system has the potential of becoming redundant if the inappropriate resources are tasked to manage the system. Investment in systems and human resources are necessary to ensure strong sanctions screening controls. The CBUAE expects that employees are well-trained and have the appropriate skill set to manage sanctions screening system on a day-to-day basis.

Lesson 9: Vendor Dependency

As mentioned above, the CBUAE noted a significant reliance and dependency on vendors' software with little to no customisation (tuning) or ongoing testing of the procured solution.

Expectation

The selection of an external vendor to provide sanctions screening solutions is a key component to the success of the sanctions screening framework. The one-size-fits-all approach is never recommended as each institution is unique, therefore FIs are to ensure that the selected vendor matches specific requirements in order to deliver a solution that meets your institution's unique risk profile, along with continued support. As part of your selection, you should be able to test or audit the solution that the vendor is providing to your

institution as the latter is ultimately responsible for meeting your sanctions screening obligations.

Lesson 10: Weak Manual Systems

The CBUAE noted a number of instances where FIs were utilising manual processes in order to discharge the legislative obligations concerning sanctions screening. The CBUAE noted that certain systems offered limited functionality, such as alert generation using different algorithms etc. as well as used certain automated systems that were not fit for purpose, due to their limited capability to cater to different variables while configuring screening rules.

Expectation

The CBUAE expects FIs to use systems that provide end-to-end functionalities to discharge the legislative obligations concerning sanctions screening. The systems should be robust and must have the capacity to cater to all the variables in screening rules.