

AMI-Pay work related to sanctions screening for instant payments

1. Background

In December 2021, AMI-Pay participants were informed of the progress related to the analysis of challenges related to sanctions screening with respect to instant payments (SCT Inst) and actions which had been taken, were planned or proposed which could lead to a reduction in the number of false positives while ensuring compliance with AML/CTF regulations.

The European Commission has also been considering issues relating to sanctions screening as part of their deliberations on how best to accelerate the rollout of instant payments on a pan-European basis. The Commission is currently finalising their impact assessment in the context of preparing a legislative proposal on instant payments in euro. In addition to mandating adherence to SCT Inst by PSPs, possible measures in the area of sanctions screening of SCT Inst are analysed. It is anticipated that the legislative proposal will be adopted by the Commission in H2, 2022. It is acknowledged that the primary objective of the Commission is to ensure that the sanctions screening requirements are complied with in the first instance while allowing for increased operational efficiency for instant payments as secondary.

This note summarises the different workstreams considered by AMI-Pay and suggests a possible way forward.

2. Joint banking industry ad hoc task force on sanctions screening and instant payments

Following the AMI-Pay invitation,¹ the ECSAs set-up an ad-hoc task force to produce a comprehensive report evaluating various different measures to reduce the number of false positive alerts generated in the transaction screening process of SCT Inst payments, particularly cross-border use of SCT Inst, resulting in rejected transactions. The initial analysis concluded that focus solely on improvements to banks' own internal operational processes would not be sufficient as the banks had already having optimised internal solutions. Regulatory changes would be

¹ At the AMI-Pay meeting on 20 May 2021, the ECSAs were asked to coordinate the work on possible developments concerning banks' own internal operational processes (e.g., decision reapplication modules, transformation of the internal operation into a 24/7 manner etc.), which may contribute to a more effective sanctions screening of Financial Institutions, hence to the reduction of false positives.

desired as SCT Inst had uncovered issues with the underlying sanctions screening framework indicating that it was not conducive to a real-time world. To this end, two regulatory changes to address the high false positives rate were proposed:

- (i) The best way to resolve these issues would be to create a common EU sanctions framework where each payment service provider both screens its customers at onboarding and is required to check its customer database daily, rather than checking every single transaction, which requires time-intensive human intervention; the optimal approach would be to accompany client database screening by a single, harmonised EU sanctions list.
- (ii) Alternatively, putting SCT Inst transactions on an equal footing with card payments at the POI, requiring a similar or equivalent sanctions screening regime.

In February 2022, the ECSAs ad hoc task force prepared a [Report](#) on the proposed way forward, which according to their analysis is ‘the best way’ to overcome the challenges related to sanctions screening of SCT Inst transactions. The ECSAs ad hoc task force stresses that removing all friction from instant payments, while respecting sanctions regimes, is not possible. Accordingly, the proposed way forward aligned with the previously presented solution:

- To **introduce a common EU sanctions framework** where each payment service provider screens its customers both at the onboarding (which is already done) and is obliged to perform daily screening (which is also common practice for most banks and sufficient for this purpose) of its client database against the common EU and UN sanctions lists, instead of screening every individual transaction.
- The optimal approach would be to accompany client database screening by a **single, harmonised EU list**.

3. The European Payments Council

The EPC also reviewed the sanction screening issues, from the SCT Inst scheme manager’s perspective, and updated AMI-Pay accordingly. The EPC considered possible actions at the SCT Inst scheme level, for example the possible introduction of compulsory and standardised usage of purpose and reject reason codes or other additional data. Following a number of workshops, the EPC reported on the outcome of their analysis which concurred with the preliminary findings of the ECSAs work that only a structural solution (i.e. regulatory changes) would help progress on this matter. The EPC concluded that such regulatory changes were a necessary prerequisite to any complementary actions at scheme level.

4. SWIFT

In December 2021, SWIFT updated AMI-Pay on the progress of their sanctions screening programme. SWIFT had previously provided a detailed presentation to AMI-Pay on their roadmap for helping banks resolve some technical and operational challenges through improved screening practices and data quality, RFI and the future of screening.

5. Suggested way forward:

AMI-Pay is asked to consider how best to support the work of the Commission in respect of the timely consideration and publication of the legislative solution concerning sanctions screening for SCT Inst transactions. For example, the gathering and provision of evidence in support of the case for such a legislative change could be beneficial for the Commission as they proceed with their legislative process.

AMI-Pay is therefore asked to consider the feasibility of gathering evidence as regards the effectiveness of the approach proposed by the ECSAs ad hoc task force relative to the underlying sanctions obligations (including based on situations where such an approach is currently applied). In addition, AMI-Pay is asked to consider how best to quantitatively estimate the impact of that approach on: (i) operational savings for PSPs and (ii) impact of reduced rejection rates on increasing the volumes of SCT Inst, both domestic and cross-border.

The exact measures to be proposed by the Commission related to the sanctions screening of SCT Inst will only be known upon the publication of the legislative proposal expected in H2, 2022. The final nature of the measures will be decided in the process of negotiations with the European Parliament and the Council. In parallel, AMI-Pay could consider how best to deepen the work at scheme level as proposed by the EPC. This could be revisited at the November AMI-Pay meeting.