Overview

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1. Background information

- Instant payment processing makes it more difficult to detect ML/TF

- Increasing high rate of false positive matches and rejection rates
  - **Compliance operations in batch-mode**
  - **Lack of advanced screening systems**
  - **Lack of screening time**
  - **Lack of cross-channel customer data**
  - **Reachability and sanction screening obligations of the Beneficiary Bank**
  - **Lack of competent resources**
  - **Uneven implementation of regulatory regimes**

- Statistics
  - **Europe**
    - The % of rejected instant payments from cross-border transactions is much higher than from domestic ones - according to one Member, 3 times higher
  - **Worldwide**
    - In past 10 years, $27 billion in fines to financial institutions for non-compliance with AML, KYC and sanctions regulations
    - 51% of banks reported a high rate of false-positives
    - About 98-99 % of alerts are false positives with only 1-2 % of alerts from real suspects requiring further investigations
    - Even in a world operating in batch, traditional AML systems generate many false positives (typically between 2 and 15% of all transactions)
2. Fragmented EU market

- Most domestic payment solutions based on cards or instant payments do not work cross-border
- In case of a “hit”, the instant is immediately rejected: EPC SCT Inst Rulebook’s Risk Management Annex

- Issues as reported by market participants:
  - EU CTF obligations and exemptions: credit transfer versus card payments - Regulation (EU) 2015/847
    - National regulators have the possibility to exempt from screening domestic credit transfers, credit transfers that are exchanged within a single country and where CSM, payer account and payee account are located in the same country
  - National CTF regulation versus a Single European Payments Market
  - Differences in the interpretation of legal obligations at national level
  - Multiplication of embargo lists
  - ECB and National Competent Authorities require banks to have the highest level of payment transaction filtering as possible, but banks do not have common rules
- Lack of customer trust
- Customers do not get explanations for the rejects
3. Towards a solution…

- March 2018
  - AMI-Pay workshop
  - Sanctions screening identified as an area requiring further considerations

- Suggested short term approach
  - Beneficiary PSPs to reject SCT Inst transactions in the case of a potential hit

- Proposed medium to long term approaches
  - Creating an EU-wide asset-freeze list and abolishing national ones
  - Adopting common guidelines on sanctions screening
  - Making each PSP responsible for its own clients
4. Feedback from AMI-Pay members - Issues at stake

- Stock-take exercise
- 15 Ami-Pay responses

What are the issues with regards to sanctions screening?

- **High number false positive matches and rejections rate**
  - AML/CFT-related rejections are much more frequent cross-border than in domestic transactions
  - Lack of time to investigate any potential hits
  - Lack of compliance with multi-jurisdictional requirements and conflict of law
  - Unstructured and incomplete customer data

![False Positives are the #1 issue across Compliance Departments](chart)

- “Too Many False Positives” is the #1 pain point
- “Reduction in False Positives” is top priority in screening implementations
- “Too Many False Alerts” is the #1 reason to consider changing compliance solutions

SOURCE: FinScan
5. Feedback from AMI-Pay members - Implemented initiatives

- What has already been done in an effort to resolve the issues and what have been the results?

- **Review and adaptation of sanctions screening and AML/CTF systems, and sanctions screening rules enhancement**
  - Permanent review of filtering tools
  - Rejection of incoming x-border instant payments with a screening hit
  - Online sanctions screening
  - Reduction of the fields that are checked to a minimum
  - Written lists of specific customers
  - Automation of whitelisting
  - Increased internal staff members
  - Adoption of the black-or-white approach
  - Application of national sanction guidelines for Domestic transactions
  - Waiving controls for very small amounts, and for certain domestic payments between the client's own accounts
6. Feedback from AMI-Pay members - Proposals for improvement

- Harmonization of filtering processes in Europe
- Implementation of AI, robotics
- No screening for cross-border instant payments within SEPA area or EUR area
- Decision Reapplication
- 24/7 availability of screening engine
- Making each PSP responsible for its own clients
7. Possible next steps

- Impacts of implemented measures
- Possible initiatives consistent with current regulatory framework
- Possible follow-up stock-take on feasibility of suggested approaches
Thank you for your attention!