

# 4 ESSENTIALS TO KNOW TO BE COMPLIANT WITH PEP AND SANCTION SCREENING

Navigating the complexities of PEP and Sanction Screening compliance is crucial for financial institutions seeking to mitigate risk and maintain regulatory adherence. Understanding the four essentials, identifying key individuals and entities and determining relevant sanctions and regulations for the organization, will empower institutions to effectively safeguard against financial crimes and maintain a strong compliance posture.

## What are key terms for PEP and Sanction Screening processes in financial institutions?

### Politically Exposed Persons (PEPs)

Politically Exposed Persons (PEPs) are individuals or entities having a risky position for holding a crucial public function and are vulnerable to corruption and to get involved in criminal financial activities such as money laundering, bribery and terrorist financing.

### Relatives and Close Associates (RCAs)

Relatives and Close Associates (RCAs) are the individuals or businesses that are closely connected to a Politically Exposed Person (PEP). Similar to the PEPs, the RCAs are considered to entail risks in terms of criminal activity.

### Specially Designated National (SDN)

A Specially Designated National (SDN) can be an individual, group, business or entity that is classified under non country-specific programs and sanctions such as the narcotics traffickers or terrorists.

### Sanctioned Entities

A sanctioned entity can be any kind of business on which individual countries or intergovernmental bodies impose sanctions. The main global regulators are the United Nations, Office of Foreign Assets and Control, EU and the Office of Financial Sanctions Implementation (OFSI).

### Sanctioned Countries

Sanctioned countries are having limited or comprehensive trade sanctions and prohibitions imposed by other countries or entities for the purposes of anti-terrorism, anti-money laundering, non-proliferation, fighting drug trafficking etc.

### Adverse Media Screening

Adverse media screening is an important part of KYC and AML compliance programs to ensure an effective customer onboarding. The aim is to detect and stop unlawful financial activities such as terrorist financing, corruption, and fraud.

### High-risk Industries or Business Areas

A high-risk business area or industry is one that is considered to have a higher risk of conducting fraudulent or criminal activity within the umbrella of business operation. Such as online gaming, gambling, adult entertainment, cryptocurrency and financial services.

### Entities Identified by an Organization as High-risk

Any kind of entities that are detected by an organization as having a potential to get linked to criminal activities such as: money laundering, drug trafficking or fraud.

## Why are PEP and Sanction Screening necessary for financial institutions?

PEP and sanction screenings are essential steps for effective Customer Due Diligence (CDD) and Know Your Customer (KYC) processes in the fight against financial crimes. Regulatory bodies acknowledge the critical position of the PEPs and demand financial institutions to spare special attention to the PEPs and how to recognize them for efficient checks and screenings.

**It is in a financial institution's own responsibility to make sure that they are operating PEP screening regularly and their Anti-Money Laundering (AML) related checks include PEP sanctions as well.**

## How does PEP and Sanction Screening work?

<b>Searching</b>	Entering the name of the individual, business or entity in the screening solution system.
<b>Matching</b>	Screening solution searching through the sanctions and watch lists and matching the names entered.
<b>Hit scoring</b>	Every hit getting scored by the solution depending on the similarity of it to a truly screened name.
<b>Filtering</b>	After the scoring, irrelevant hits being removed from the search results.
<b>Alert Scoring</b>	Remaining hits getting incorporated in an alert which is defined by the accuracy of the match and risk.
<b>Payment Restrictions</b>	Risky or suspicious payments being suspended until results are assessed.
<b>Assessment</b>	An analyst reviewing the alert to decide if the alert is risky or not.
<b>Action</b>	Based on the decision of the alert assessment, the payments getting operated or ceased.

## How to determine relevant Sanctions and Regulations for your financial institution? What are the main sanction lists for global financial institutions?

In order to operate a fully functioning sanction screening, financial institutions need to ensure that they are screening all the parties involved with the entity in question such as the managers and Ultimate Beneficial Owners (UBOs). By getting the support of a screening solution, FIs can eliminate the extra operational work of reviewing the relevance of the sanctions each time as they can set rules to determine the relevant ones automatically.

Global financial institutions should closely follow the updates and scan the sanction lists of the UN, EU, OFAC and OFSI as those are the main four international regulators that define the trends and alterations in policies.

**109**  
Number of Updates  
2021

**614**  
Designation Additions

**193**  
Number of Updates  
2022-H1

**3.854**  
Designation Additions

**In the first six months of 2022, the sanction lists of these four main regulators have undergone 193 number of updates and 3.854 designation additions while these numbers were 109 and 614 in the previous year.**

### References

· The Association of Certified Anti-Money Laundering Specialists (ACAMS). (2018). PEP and Sanction Screening: A Practical Guide.

Request a Demo | [fineksus.com](https://fineksus.com)

