



EUROPEAN CENTRAL BANK

EUROSYSTEM

# Instant Payments and Sanctions Screening

---

03/12/2020

AMI-Pay meeting



# Overview

- 1 Background information
- 2 Fragmented EU market
- 3 Towards a solution...
- 4 Feedback from AMI-Pay members - Issues at stake
- 5 Feedback from AMI-Pay members - Implemented initiatives
- 6 Feedback from AMI-Pay members - Proposals for improvements
- 7 Possible next steps

# 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

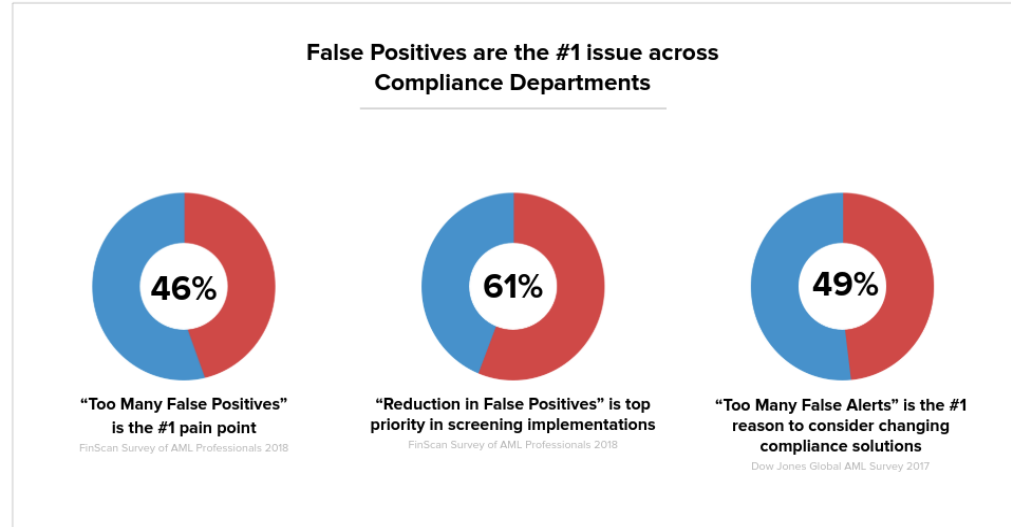
### 3. Towards a solution...

- 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*



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***

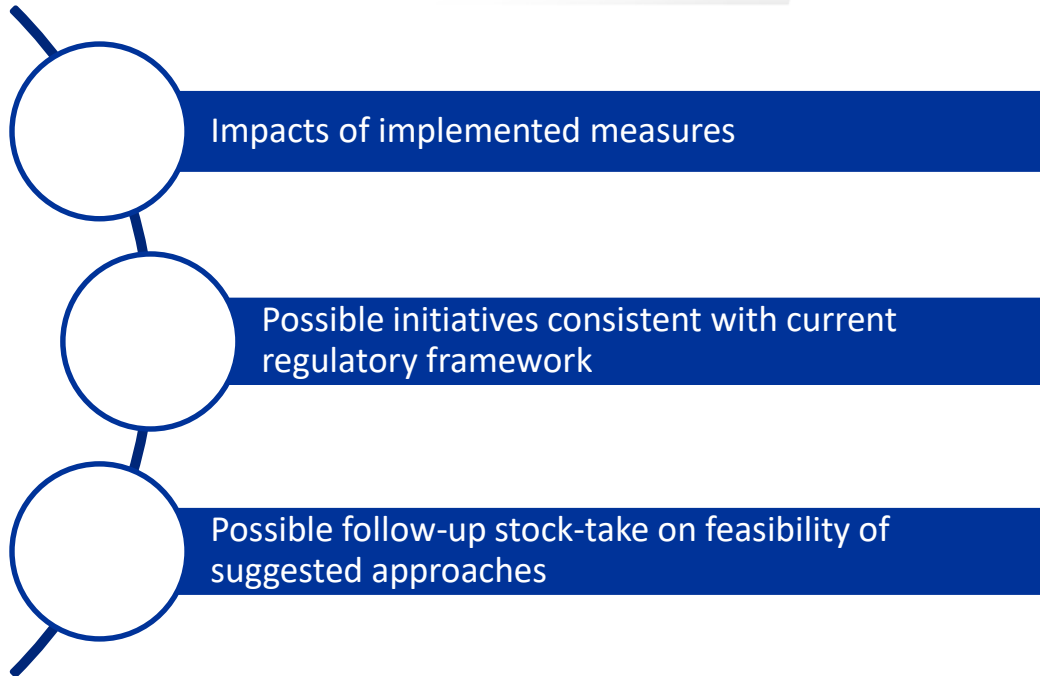
- *Permanent review of filtering tools*
- *Rejection of incoming x-border instant payments with a screening hit*
- *Online sanctions screening*
- *Reduction of the fields that are checked to a minimum*
- *Written lists of specific customers*
- *Automation of whitelisting*
- *Increased internal staff 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



**Thank you for your  
attention!**

