Sanctions risk monitoring and control framework
EY’s sanctions risk monitoring framework can be customized to a financial institution’s particular environment based on internal objectives and the business model of the institution.

Understanding sanctions risk

Many multinational, multi-business line organizations face challenges in understanding where sanctions risks exposures exist due to tremendous amounts of data, disconnected systems, and local regulation and risks. As governmental bodies develop new sanctions and regulators continue to expect firms to account for and adhere to complex sanctions rules, it is vital that these challenges are addressed through methods beyond traditional customer and payment screening.

Financial institutions need to evolve their programs to:

- Apply sanctions risk to the overall compliance control process
- Incorporate sanctions risk in customer, geography, and product risk ratings
- Create a consistent, global, and cross-functional approach to identify sanctions risk

Identifying advanced sanctions evasion tactics

Sanctions risk monitoring dashboard

EY has developed an innovative method to identify and monitor sanctions risk across a financial institution by leveraging available data to produce key risk indicators (KRIs). In order to identify and develop valuable KRIs, a comprehensive sanctions risk monitoring framework must be developed. Once a framework is established, data can flow through to create dashboards; these can be used to visually display KRIs so that compliance officers can observe regions, countries, or business lines that have increased sanctions risk and determine appropriate actions to mitigate or eliminate those risks.

This risk monitoring framework provides a dynamic complement to the annual Office of Foreign Asset Control (OFAC) risk assessment by offering detailed insight into risk areas and providing the necessary metrics to assess inherent and residual risk. The risk monitoring framework will continuously ingest data and provide compliance officers with a multitude of views and drill downs that extend far beyond the capabilities of most risk assessments. Sanctions risk is fluid and can rapidly change based on geopolitical events, business decisions, or expansion of regulatory requirements, which makes the sanctions risk framework’s adaptability desirable. The framework’s flexibility allows for KRIs to be visually displayed in multiple formats depending on user requirements. New or revised KRIs can be quickly implemented and monitored as sanctions risks emerge and evolve.

Diagram 1.1 portrays how EY’s sanctions risk framework will take data inputs from various systems within the institution, create visual dashboards to highlight risk areas and utilize those KRIs to better manage the risks that exist.

<table>
<thead>
<tr>
<th>Data inputs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Customer, transaction, other)</td>
<td></td>
</tr>
</tbody>
</table>

Customer information
- KYC/EDD
- Customer risk rating

Transaction information
- Wires
- Counterparty information
- Product risk

Alerts/investigation
- Sanctions alerts
- Blocked transactions
- Suspicious activity reports
- Closed/restricted account

Regulatory information
- SDN lists
- Executive orders
- OFAC/EU advisories

Regulatory hot topic
- Negative news
- New product
- New location

Sanctions risk monitoring dashboard

Areas for customization

<table>
<thead>
<tr>
<th>Key risk indicators</th>
<th>Risk trending analysis</th>
<th>Quality control reports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derive risk indicator based on transactional and risk information:</td>
<td>Identify trending risk based on:</td>
<td>Identify quality control opportunities:</td>
</tr>
<tr>
<td>- Customer risk</td>
<td>- Current and historical organizational changes</td>
<td>- Business quality control</td>
</tr>
<tr>
<td>- Product/channel risk</td>
<td>- Sanctions trends</td>
<td>- Data quality control</td>
</tr>
<tr>
<td>- Geographical risk</td>
<td>- Industry news</td>
<td>- Identification of internal control failures (e.g., list updates)</td>
</tr>
<tr>
<td>- Transactional risk</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Benefits of sanctions risk monitoring

Identification of sanctions risk throughout the organization helps place tighter controls in areas of increased exposure to potential sanction violations. Proactive identification of sanctions risk will help create a firm-wide view of risk areas and provide a vision into future state risk. Targeted improvement areas include:

- Improved and targeted sanctions risk control measures
- Enhanced sanction screening
- Integration of sanction policy into business processes

Many KRI dashboards will begin with a high-level view and allow the user to drill down as far as the customer level, which will allow compliance officers to make high-level decisions as well as manage specific customers, products or geographies. This dynamic approach strengthens sanctions risk management, which takes on increasing importance as regulators become ever more focused on sanctions compliance.

Development of sanctions risk monitoring framework

EY’s sanctions risk monitoring framework seeks to leverage compliance and business data already contained within the organization such as customer information, KYC and risk rating, transaction monitoring and investigations, sanction screening and investigations, watch lists, suspicious activity reports, and negative news. Specific data feeds can be merged and visually displayed to highlight very specific areas of sanctions risk that require either immediate action or enhanced oversight.

Given the amount of data required to develop a truly robust sanctions risk monitoring framework, beginning with a pilot region, country or line of business where good data exists can be a useful approach. A pilot approach will allow the organization to understand how valuable the framework can be and help define requirements for a rollout plan to the entire organization.

Monitor risk via KRI dashboards

Visual dashboards can assist the identification of areas within an institution that are more susceptible to sanctions risk based on the defined KRI. The dashboards will provide compliance officers with the tools to make necessary improvements to the sanctions program by giving them a holistic look across an organization as well as providing a multitude of different views on risk. Below are examples of KRI dashboards and brief descriptions of how they could be used to enhance a sanctions program.

KRI example 1: Previously blocked / rejected transactions per geography

1. Blocked transaction risk indicator heat map
   - The highest level view representing the KRI of blocked / rejected transactions per geography. The atlas view highlights regions with the greatest percentage of blocked transactions based on historical data from the sanctions screening tool. This tool enables quick evaluation of regions presenting increased sanctions risk based on actual transaction history.
   - Key action: Evaluate regions experiencing the most blocks/rejects to determine if they align to expectations based on the region's risk profile and geographical location. Utilize additional information to reassess country risk.

2. Drill-down to country profile
   - When identifying a high-risk region based on a particular KRI, it is useful to understand the risk profile of that country. Available data ranges from risk rating, to total volume of transactions, to the amount of transactions per destination country or product type. This tool visually presents a country's key attributes in a consolidated page.
   - Key action: Assess the country's current risk rating to determine if it reflects an accurate depiction of the sanctions risk it presents. A region rated as low risk but experiencing a high volume of blocked transactions may indicate the need for further evaluation.

3. Drill-down to customer profile
   - Additional information for analysis or investigation is available to assist a number of compliance actions at the customer level. Views into the risk ratings and transaction detail for customers with previously blocked transactions can be highlighted. The tool can reduce the number of systems requiring access to view a customer's profile and all of their activity.
   - Key action: Assess if customers with previous blocks are being appropriately risk rated and determine if their transactions are being scrutinized at the correct level. Assess customers with blocked transactions against policies and procedures such as freezing of accounts or, automatic escalation of risk rating.

1 Dashboards are based on hypothetical scenarios and do not reflect real events.
Monitor risk via KRI dashboards continued

Sanctions KRI s can also be utilized to measure risk based on internal controls, technology, and data that reside at the institution. Evaluation of monitoring controls will assist the prioritization of delivering enhanced screening measures to highest risk areas.

**KRI example 2: Risk coverage based on source system mapping**

1. **Number of transactions monitored in screening tool vs. number of transactions not monitored in screening tool**
   
   This dashboard can be produced by assessing transaction and data mapping. The chart will highlight regions, countries, or business lines that have increased sanctions risk due to a high percentage of transactions manually monitored or not monitored at all. To aid the assessment of the KRI, the dashboard also includes the total amount of transactions being conducted monthly within the region and business line.

   **Key action:** Assess technology and data mapping in regions and line of business with a high percentage or a large amount of transactions not being monitored via an automated sanctions monitoring tool.

2. **Drill-down to source system data**

   Having a high level view into automated screening gaps is important; however the drill-down dashboard allows for detailed source system evaluation. This dashboard will display the volume of transactions and the dollar amount of those transactions that are not reaching automation sanction monitoring tools.

   **Key action:** Having source system level data will allow compliance to pinpoint targeted source systems which require mapping to a sanctions tool. Compliance officers can deep-dive into source systems located within high risk areas based on customer type, product type, or geographical location.

3. **AML risk vs. sanctions coverage risk**

   This dashboard summarizes the sanctions risk per country based on the coverage its sanctions tools are providing. Countries which have a high percentage of transactions monitored manually or not monitored at all will be assigned a high risk coverage rating. The dashboard also provides the AML risk as reference.

   **Key action:** Evaluate countries which have a high AML risk and a high screening coverage risk. These areas may require sanction lists. While AML risk does not also equate to sanction risks, it is a good indicator of a risky customer portfolio or geographic location, and transactions in these areas should be automatically screened against sanction lists.

---

**Key contacts**

**Ron Giammarco**  
Partner, Financial Services  
Ernst & Young LLP  
renato.giammarco@ey.com  
+1 212 773 3409

**Paolo Bas**  
Senior Manager, Financial Services  
Ernst & Young LLP  
paolo.bas@ey.com  
+1 212 773 8064

**Steve Beattie**  
Principal, Financial Services  
Ernst & Young LLP  
steven.beattie@ey.com  
+1 212 773 6378

**Jonathan Burke**  
Senior Manager, Financial Services  
Ernst & Young LLP  
jonathan.burke@ey.com  
+1 404 817 5529

---

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2015 Ernst & Young LLP.  
All Rights Reserved.

SCORE no. CK0902  
1506-1560768  
ED None

ey.com