

**ADDRESSING THE
SANCTIONS SCREENING
CHALLENGES
OF THE NEW EU
INSTANT PAYMENTS
REGULATION**

*A CUSTOMER SCREENING
PERSPECTIVE.*



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Key Takeaways

- **The EU Regulation 2024/886** requires financial institutions to screen customers immediately upon new sanctions and at least once daily, creating significant operational challenges:
 - **Timely Data Management:** Loading updated sanctions data into legacy screening systems is time-consuming, often requiring manual checks and reformatting.
 - **Efficient Re-screening:** Re-screening large customer databases is slow, with some institutions sometimes needing over 24 hours for a "daily" refresh. Legacy systems are expensive and difficult to scale to meet these demands.
- Many legacy systems used by financial institutions today struggle to meet the regulation's requirements for speed and scalability in customer screening.
- Financial institutions must adopt modern screening solutions that offer fast, automated data updates, real-time customer screening, reduced false positives, and scalable infrastructure to comply with the new regulation efficiently.

Instant payments allow people to transfer money from one account to another account at any time of any day within a few seconds. While they do not offer yet the same ubiquity nor handle the same volumes as more traditional low-value ACH (Automated Clearing House) or correspondent banking payments, their take-up has been remarkable. At this stage, more than 60 markets already have live instant (or real-time) payments infrastructures.

Accelerating instant payments adoption has also become a policy objective in Europe, which is being actioned through the new EU Regulation 2024/886 (commonly referred to as EU Instant Payments regulation), which entered into force on 8 April 2024. As we will further illustrate in this paper, this regulation however creates a significant challenge for financial institutions active in Europe and - unexpectedly and likely unintendedly - not a transaction screening, but a customer screening challenge!

Our April 2024 White Paper (“Sanctions Screening for Instant Payments – A Technology Perspective”^[1]) already covered the sanctions screening aspects linked to processing Instant Payments at global scale. The current paper focuses exclusively on the challenges and consequences of the new customer screening requirements introduced by regulation EU 2024/886.

How does the EU Instant Payments regulation translate into a new and challenging customer screening problem?

Instant payments are inherently ... fast.

Each instant payment needs to settle in a few seconds, leaving no time for manual resolution of sanctions alerts: each screening alert unnecessarily raised (false positive) results in a failed delivery on the instant payments promise. Incumbent technology solutions typically have a false positive rate of around 3% to 5%, meaning that up to 5% of instant payments could fail as a result.

In an effort to address the issue differently, the EU explicitly states in sections 5d (1) and (2) of its Instant Payment Regulation that financial institutions should NOT screen euro-denominated instant payments against EU Sanctions. Instead, the regulation mandates that financial institutions conduct customer screening (a) immediately whenever new or amended measures come into force and (b) at least once every calendar day. Essentially, the EU aimed to shift from transaction-based screening to customer-based screening, which was perceived as easier to manage.

^[1] This white-paper can be downloaded at <https://neterium.io/insights/whitepapers/sanction-screening-for-instant-payments/>

This well-intentioned provision however has two major flaws:

- Limited scope: The regulation only applies to EU sanctions, excluding unilateral sanctions imposed by individual EU member states, and other regimes that could be relevant, such as OFAC.
- Overestimation of capabilities: The regulation assumes that existing customer screening systems can handle rapid (re)screening when sanctions are updated and perform daily screenings. In reality, most legacy systems face challenges in meeting these requirements.

Consequently, financial institutions in the EU will have to (a) continue screening euro-denominated instant payments against non-EU sanction lists (such as OFAC or national lists), and (b) comply with the EU regulation's more demanding customer name screening requirements.

As a result of EU Regulation 2024/886, what was once a transaction screening issue has now escalated into a more complex customer screening challenge. In the following sections, we will explore the technological and operational hurdles that financial institutions must overcome to comply with these new mandates.

Addressing the customer screening requirements of the new EU Instant Payments regulation - Key challenges

From a customer screening perspective, the new EU regulation introduces two main challenges.

Challenge 1: Getting up-to-date sanctions data into screening engines.

The term “immediately” used in the regulation (“PSPs shall carry out such verifications immediately after the entry into force of any new targeted financial restrictive measures, and immediately after the entry into force of any amendments to such targeted financial restrictive measures”) introduces a new complexity.

Collecting, structuring, and updating sanctions reference data is a demanding task, which is why most financial institutions rely on specialised watchlist data providers. These providers use large teams of researchers, offering economies of scale that are beyond the reach of most in-house teams. In the EU, the primary source for sanctions information is the Official Journal, which researchers must check manually—often several times a day—to capture new or amended data. When there are significant changes, this process can become very time-consuming.



Most major watchlist data providers aim to capture changes within 24 hours, though delivery to clients may be delayed depending on the frequency of updates and the volume of changes. Currently, providers offer updates between once and six times a day. Some are beginning to introduce data APIs, which could shorten delivery times, but these solutions have not yet seen widespread adoption.

Even when the financial institution receives the updated reference data, loading this into its customer screening tool can be a lengthy process. Financial institutions typically perform quality checks and an impact assessment before uploading to avoid issues such as unnecessary spikes in alerts. Additionally, the data often needs to be reformatted to meet the screening system's requirements, which may involve truncating some data fields, thus limiting the system's efficiency. Depending on the system, this process can take several hours to complete.

Challenge 2: (Re)Screening the customer database.

Once the updated sanctions data is loaded, screening solutions can trigger the screening refresh of the customer database. The duration of the (re)screening process depends on the number of customer records, the magnitude of the changes in the sanctions lists and the speed of the financial institution's screening system itself. In addition, the process is often far from immediate: it can take several hours or even longer. At large institutions, it is actually not uncommon for a "daily" refresh to take more than 24 Hours. Legacy screening systems were designed before the development of cloud computing and usually run on the financial institution's own infrastructure. Scaling these systems to manage the frequency and timeliness of the sanctions updates is both difficult and costly.

An example to illustrate:

As a concrete illustration of the challenges, consider the following traditional customer screening scenario:

- Monday afternoon: authorities publish new sanctions information.
- Tuesday morning: the new list version from the reference data provider includes the changes.
- Tuesday noon: the financial institution finishes quality-checks, reformatting and loading the data and begins the re-screen process.
- Tuesday evening: the customer screening tool takes several hours to perform the re-screen and finishes providing alerts.
- Wednesday morning: the alerts are now ready for the analysts to be processed.
- Wednesday end of day: depending on the alerts volume, the alerts are cleared by end of day, or carried on the next day.



Note: this is the optimistic scenario where the volume of changes is manageable, and the data provider is able to perform all the changes before the publication cut-off.

This example shows there is no possibility of conducting screening "immediately," and even "at least once daily" is difficult. The challenge is even more acute when the updates in sanctions lists happen during or just before a weekend as customer screening analysts are currently typically not organised to review possible screening alerts during weekends. Unless financial institutions adopt faster, more flexible solutions, customer screening will remain an "almost" daily process. While the EU may have intended to lower the burden of sanctions compliance on financial institutions for instant payments, they have imposed an obligation that many financial institutions cannot fulfil with their current systems.

As a consequence, many financial institutions will have to completely rethink their operational process for customer screening, from list management to screening to alert resolution. As changing any process in a highly regulated environment always takes time, it is probable that interim solutions will be deployed to mitigate the delay in list updates and comply with the regulation.

Leveraging modern solutions to address the challenges.

As part of the solution to these new challenges, a new generation of screening solutions has recently emerged, specifically designed to address the challenges of fast, accurate customer screening. These solutions leverage cutting-edge technologies to introduce a fundamentally new approach to the problems discussed earlier.

Here are a few key aspects of these solutions:

- **Fast and automated List Management.** Solutions now have the capability to load updated reference data timely, completely, and accurately, utilising the highest update frequency offered by data providers. They also have the capability to increase the update frequency as soon as additional download windows or real-time data APIs become available. With this approach, list update is transparent and frictionless: no download/conversion/repair/upload process is required anymore.
- **Real-time and high-throughput customer screening.** These systems are highly scalable (screening millions of customers per minute) and 24/7/365 available to conduct customer screening in real-time and support immediate re-screening as updated sanctions data becomes available.



- **Differentiated screening and custom configuration.** Customer screening systems often screen against more than the sanctions data in scope of the new EU regulation: they also detect against Politically Exposed Persons and/or adverse media lists. New solutions give financial institutions the option to screen on the specific lists in scope of the new regulation. New systems are so flexible they can support custom configurations tailored to financial institution-specific risk scenarios.
- **Reduced false positive rates.** With the continuous and significant increase in the sanctions data and the velocity of sanctions updates, efficiency (i.e., raising as few false alerts as possible) has become even more important. New solutions offer optimised detection techniques, harness advanced technologies, and comprehensively leverage all elements of customer record data to drastically reduce the number of false positives.
- **Model validation.** With a stricter regulatory framework for model management, financial institutions must regularly assess the performance of their screening models. Modern solutions come with integrated model validation tools, allowing institutions to monitor and ensure that their screening processes align with their risk appetite.

As a conclusion

The growth of instant payments has been remarkable and its adoption in Europe will further accelerate with the new EU Instant Payments regulation. Consumers and business will greatly benefit from this new payment instrument.

While legacy screening systems are ill-suited to cope with the customer screening requirements mandated by the new EU regulation, new screening technology solutions have fortunately emerged over the last few years. Such new solutions will facilitate the full potential of instant payments by helping financial institutions effectively and efficiently address the related financial crime compliance risks and obligations.

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