

**SANCTIONS
SCREENING FOR
INSTANT PAYMENTS**

**– A TECHNOLOGY
PERSPECTIVE.**

*SPEED AS THE NEW
CURRENCY: INSTANT
PAYMENTS AND FINANCIAL
CRIME COMPLIANCE*

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Jack Welch once famously said: ***"Speed is the new currency of business."***

This adage has never rung truer than in the rise of instant payments.

The last few years have seen a seismic shift in the payment landscape, with instant payments emerging as a dominant force. Instant payments allow for the transfer of funds between accounts in seconds, exceeding the limitations of traditional payment methods.

With over 60 markets now equipped with live instant payment infrastructures, the adoption rates are remarkable. Systems like the UK Faster Payments, which pioneered instant payments back in 2008, processed over 4.5 billion transactions in 2023 alone. While primarily focused on domestic transactions, initiatives like RT-1 and TIPS are also paving the way for cross-border instant payments.

However, as with any innovation, instant payments bring their own set of challenges, particularly in financial crime compliance. The need for sanctions screening amidst the rapid flow of funds poses significant hurdles for compliance teams. Deciding which payments to screen and implementing the appropriate technology to handle the sheer volume within tight timeframes are critical tasks.

The debate over which instant payments should undergo sanctions screening is ongoing, with regulatory bodies like OFAC advocating for a risk-based approach. European initiatives, such as the new instant payments regulation, aim to streamline sanctions controls while facilitating seamless transactions. Yet, policy decisions are just one piece of the puzzle. The technology underpinning sanctions screening must also evolve to meet the demands of instant payments.

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Factors like throughput, latency, efficiency, flexibility, and holistic transaction analysis come into play. Legacy systems are ill-equipped to handle the speed and volume of instant payments, necessitating the adoption of new screening technologies.

While consumers and businesses will directly benefit from this new payment instrument, it also comes with significant challenges for financial crime compliance teams in terms of how to handle the related sanctions screening aspects. These include deciding which of these instant payments should be screened (based on each bank's specific context, risk appetite, and policies) and implementing the appropriate technology solution to efficiently process the expected large volumes within the very limited time allowed.

[Deciding on whether/which instant payments to screen](#)

As for any new payment instrument comes the challenge of deciding on the appropriate risk treatment from a sanctions screening perspective and the debate is still ongoing in the industry.

OFAC issued a Sanctions Compliance Guidance for Instant Payments Systems in September 2022, in which “financial institutions are encouraged to adopt a risk-based approach to ensure their sanctions compliance controls and related technology solutions remain commensurate with the sanctions risks presented by instant payment systems”. While OFAC recognizes that a key feature of instant payment systems is the near real-time nature of transaction settlement, “the speed necessitated by this commercial feature should not discourage financial institutions from implementing risk-based sanctions compliance controls”. Financial institutions, adopting a risk-based approach, may therefore need to be able to handle sanctions screening controls for some of those instant payments.

Meanwhile, in Europe, the European Commission drafted a regulation in October 2022 to expedite the adoption of instant payments in euros. This proposal included a strategy to streamline the screening process by requiring payment service providers to check their clients against EU sanctions lists at least once a day, rather than screening each transaction individually. This approach initially led some stakeholders to believe it might eliminate the need for screening instant payments altogether.

However, the final regulation issued in February 2024 clarified that the simplifications were restricted to the EU sanctions list, leaving financial institutions to deal with other lists such as the US OFAC list and national mandatory lists, especially for euro payments that are initiated or terminate outside of Europe ("one-leg-out" payments).

In the end, as banks are now looking at the practical aspects of this regulation, the likely scenario is a risk-based approach, where financial institutions will continue screening instant payments with all lists, except for the EU list, while KYC screening will have to be considerably reinforced to meet the standards set by the regulation.

As instant payments gain prevalence globally and start to encompass more cross-border transactions, which carry a higher sanctions risk compared to domestic payments, the industry is likely to continue developing diverse strategies for managing these risks.

[A technology overhaul to handle the new instant payment-specific requirements](#)

Beyond the policy-related decisions that financial institutions will need to take to decide which instant payments should be screened, their sanctions screening technology solutions will also need to be adapted to cope with the specificities of instant payments, along several dimensions:

- **Throughput** - Domestic payments represent 20 to 50 times more volumes than the cross-border payments typically screened by financial institutions today (even significantly more when also considering card or cash transactions). A lot of these payments will become instant in the years to come. In addition, the convenience of instant payments and the continuous digitalization of commerce will further boost those volumes. Even if financial institutions decide to only screen a low percentage of their instant payments, it will represent a significant stretch on today's screening systems. At peak times and depending on its screening policy, a large bank's screening system may need to sustain a throughput of up to several thousand or more payments per second.



- **Latency** - Screening of instant payments will also introduce a new complexity in terms of sanctions screening: speed. Today for most ACH or cross-border payments, the time required by the solution to screen a payment (i.e., the latency) is often not an issue. With instant payments -and the related expectation that settlement occurs within a few seconds- speed will be essential. Financial institutions should ensure that their screening technology allows for screening to happen in a few milliseconds on a 24/7 basis, even at peak times.
- **Efficiency** - Given that each instant payment needs to settle in a few seconds and therefore does not leave time for manual resolution of sanctions alerts, each screening alert unnecessarily raised (i.e., a false positive) will result in a failed delivery on the instant payments promise. Financial institutions will need extremely efficient screening technologies to avoid unnecessary friction in their clients' payment experience, especially as Open Banking allows customers to easily switch providers if they feel their experience is not optimal.
- **Flexibility** - Not all instant payments will represent the same sanctions risk. Financial institutions will want to dynamically change the parameters of their screening systems (e.g., threshold, policies, sanction lists being applied) depending on the specific nature of each instant payment (e.g., amount, origin/destination). Screening technologies need to be extremely flexible and allow financial institutions to dynamically change screening parameters for each transaction, even during peak times.
- **Know-Your-Transactions** - Transaction screening systems are used to look at transactions as atomic decisions (i.e., deciding to raise an alert based only on the parameters of that specific transaction). However, given the very high volumes of instant payments, it will become increasingly important to understand the broader context of a transaction by also taking into account the customer's transaction history. It will help not only to decide whether a specific payment should be screened but also – for those payments that will be screened - reduce the number of false positives by leveraging the broader transaction context. This could include identifying in real-time payments inconsistent with a customer's prior history, such as significantly higher value or higher frequency payments or payments made to entities with whom the customer has not previously dealt.



- **API Integration** - Instant payments are part of interconnected systems and transaction screening solutions need to be easy to interface with, leveraging Application Programming Interface (API) technology. Multi-channel is indeed the new norm for payment initiation and financial institutions will need to be able to interact with their screening system easily and efficiently across all these channels. In addition, screening will only be one of the many tasks to perform when processing instant payments. As examples, payment validation, fraud detection, confirmation of payee will also need to be handled and API-based systems will significantly ease the integration of these complementary systems.

[Innovative technologies in support of today's financial crime compliance challenges: The instant payments revolution is here](#)

The growth of instant payments has been remarkable, and consumers and businesses will benefit from this new payment instrument.

Instant payments, however, come with a series of new challenges for banks and fintechs' financial crime compliance teams, including imposing demanding requirements on their screening systems. While legacy screening systems are ill-suited to cope with these challenges, new screening technology solutions have fortunately emerged over the last few years. Such new solutions will allow to unlocking the full potential of instant payments by helping financial institutions effectively and efficiently address the related financial crime compliance risks.

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The EU Parliament and Council Regulation on Instant Payments of February 2024 marked a significant milestone, making instant euro payments available around the clock within the EU and EEA countries. However, nuances within the regulation, such as the scope of screening obligations and the challenge of daily customer screening, underscore the complexities facing financial institutions.

While the regulation aims to foster innovation and efficiency, concerns linger regarding its impact on compliance teams. Additional controls, such as daily KYC screening and confirmation of payee, strain resources without necessarily reducing the payment screening burden. **The balancing act between regulatory compliance and operational efficiency remains a delicate one.**

In the fast-paced world of finance, speed is indeed the new currency.

As instant payments reshape the payment landscape, financial institutions must adapt their compliance frameworks and technology infrastructures to navigate the challenges and seize the opportunities that lie ahead.

CONTACT NETERIUM



<https://neterium.io/>



[/company/neterium/](https://www.linkedin.com/company/neterium/)



info@neterium.io



<https://twitter.com/neterium>