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Why Sanctions Screening Testing Matters - And How to Get It Right

In today's evolving regulatory landscape, financial institutions face increasing pressure to ensure that sanctions screening systems are not just operational, but effective. As sanctions screening is a core pillar of AML compliance, regulators such European Banking Authority (EBA) now expect institutions to continuously test, calibrate, and enhance these systems. The key question is no longer whether sanctions screening exists, but whether it works as intended.

In this insight, we introduce certain services that PwC offers to help financial institutions answer that question with confidence: **Sanctions Effectiveness Testing** and **Sanctions Efficiency Analysis**.

1. Effectiveness Testing: Can Your System Catch What It Should?

Effectiveness means the ability of the sanctions screening system to stop sanctioned names and their variations. Effectiveness testing is an independent assessment of sanctions screening systems supported by our internally developed PwC application. The purpose of the effectiveness testing is:

- 1 Indicates the effectivity of the screening, i.e. how good the system is at identifying sanctions
- 2 Validates the list-management process
- 3 Supports the identification of the optimum level of fuzzy matching thresholds and false-positive reduction functionalities of the systems

Process of sanction effectiveness testing:

Define scope

The scope for testing may include various sanctions list data and formats to be tested (e.g. SWIFT / SEPA messages and Customer names) based on your regulatory requirements and obligations.



Create test files

PwC creates a set of customer and transaction records infected with real sanctioned entity names in one of the available fields in the format used. The set contains more than 30 unique sub-scenarios (variations of names, additional characters, replacements, etc.).

Run in screening

The format of the testing files is adapted to the requirements of the client's screening system. The records are screened in the testing environment with the same parameters that are used in production or with a new configuration after optimisation.



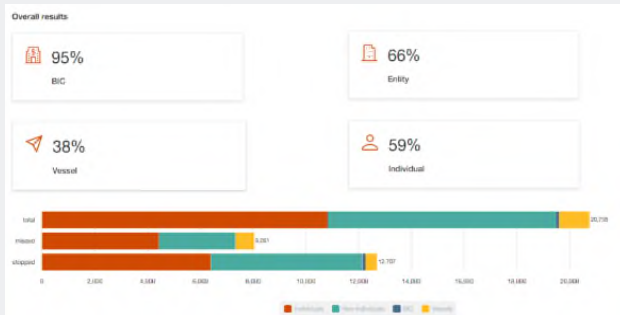
Analyse & interpret results

The results of the screening are compared with the expected outcomes to indicate potential deficiencies related to how the screening filter was set up. Using a what-if analysis, the configuration adjustments and other methods of preventing sanctioned names from being missed by screening are recommended.

Benefits of Sanction Effectiveness Testing:

Collaborating with PwC and leveraging the dedicated application for sanctions effectiveness testing offers the following advantages:

- **Ready for the regulatory requirement**
- **Comprehensive benchmark against peer results & 10% average improvement of the effectiveness metric**
- **Built-in OpenSanctions license (300+ daily updated sanctions/PEP lists)**
- **Testing various message formats including the new ISO 20022 standard**



Test results detail

ACTIMIZE

Modified term	Field	Test name	True positive	Test ID
Queen's Counsel Abdallah ABDU	None	Add leading title	YES	
Abdallah ABDU	None	Duplicate random character	YES	
Abdallah ABDU	None	Exact	NO	
A ABDU	None	Initials of first name(s) and full last name	NO	
Abdallah ABDU	None	Insert random letter at random position	YES	
A b d a l l a h A B D U	None	Insert space between all characters	YES	
Abdallah ABDU	None	Remove all spaces	YES	
bdallah ABDU	None	Remove random character	YES	

2. Sanction Efficiency Analysis: Reducing the Cost of False Positives

A screening system's true power lies in its precision - **minimizing false positives with maximum accuracy**. PwC's Efficiency Analysis consists of a series of exploratory data analyses, allowing for data-driven insights uncovering the root causes behind false-positive hits, therefore helping compliance teams act smarter and faster.

Decomposing the historical hits by screening component, parameter and reference data category

Identifying the drivers behind false positive hits and the responsible system set-up

Defining possible edits in screening configuration to prevent the false positive hits from reoccurring

Insight examples

Formats, screening matrix, watchlist selection

- Screening of irrelevant SWIFT/SEPA message types
- Overlapping or irrelevant watchlists

Screened fields, rules, exemptions

- Screening of irrelevant customer details or message fields
- Missing business rules
- Ineffective exemptions list

Matched data categories, accuracy

- Irrelevant hits on codes or IDs
- Screening of customer portfolio against sanctioned vessels
- Inappropriate weights and fuzzy thresholds

Entity type justification, quality of aliases

- Screening of individual names against entities on sanctions lists and vice versa
- Screening of weak aliases

Benefits of Sanction Efficiency Analysis:



By reducing the occurrence of unnecessary or obvious false positives, the system mitigates operational risks associated with excessive manual reviews, thereby improving workflow efficiency and optimizing resource allocation.



Regulators have already begun requiring such testing. The EBA Guidelines issued on 14 November 2024 includes the following clauses:

1. "... to calibrate the settings of an automated screening system"
2. appropriate parameters of matching that is likely to generate a reasonable alert"
3. "... should be neither too sensitive, causing a high number of false positive matches.