

LIMITATIONS IN ONLINE SCREENING SYSTEMS

FOR AML/CFT

First Paramount Modaraba

107 - 108, P.E.C.H.S. Community Office Complex, Block No: 2, P.E.C.H.S,
Karachi, Pakistan | +92 213 4381037-8 | aml@fpm.com.pk | www.fpm.com.pk



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1 Introduction

1.1 Purpose of Document

Since the beginning of the year, FPM has been extensively engaged with numerous businesses in Pakistan, facilitating their AML/CFT compliance teams in addressing common challenges. During this time, FPM got valuable insights about the screening practices of the industry and was able to identify hindrances that fail businesses in adequately mitigating the risks associated with financial crimes and financing of terrorism. This document outlines the limitations in current screening practices of the various verticals, and suggests the right strategy to address them.

2 Limitations in Current Screening Systems

There are a number of third party online screening systems available in the market at present. These systems have following in-built limitations in common:

2.1 Screening Against Proscribed Individuals Lists

2.1.1 Unavailability of data from Pakistani Authorities

Majority of the online systems have originated from western part of the world and they have limited understanding of domestic regulatory requirements. For instance, very few of them have enlisted Pakistani authorities such as NACTA and FIA in their sanctions sources.

2.1.2 Missing Key Identifiers

In most of the foreign online systems, key identification attributes such as CNIC, Father Name and District of a proscribed person are simply ignored while indexing of the records, thus the records cannot be searched through these key attributes.

2.1.3 Limited Understanding of Domestic Naming Practices

Due to missing key identifiers foreign systems are bound to match records solely on the basis of Name of a person. However, they also have limited understanding of domestic naming practices thus they fail to match them with precision. For instance, in NACTA proscribed persons list, caste of a person is included in the name of an individual, which shall be excluded while matching records. Likewise there are common religious postfix or prefix (e.g. Abdul, Mohammad, Syed, Ali, Qadri, and Rizvi) which system shall be able to recognize and cater for, during its matching process.

2.1.4 Unavailability of Intermittent Updates

Regulatory bodies in Pakistan quite often notify businesses of updates in proscribed persons' database. Foreign system do not have any mechanism in place to incorporate those amendments in their database, thus their lists remain outdated most of the time.

2.2 Screening Against PEPs' Lists

There are several international research bodies which provide detailed listings of politically exposed persons. FPM thoroughly examined the ones which are most famous and found out following common deficiencies with respect to domestic PEPs.

2.2.1 Inaccurate Risk Assessment

Due to vast difference in cultural norms, foreign research bodies often fail to assess the true potential of AML risk associated with a specific public office in Pakistan. For instance, there is little or no emphasis on office bearers of land, revenue, or law enforcement government departments which are of far more importance for PEPs screening with regard to domestic norms. Likewise the relationship between biological ascendants and decedents in consideration to financial crimes is completely absent in most of such PEPs listing.

2.2.2 Lacking Depth

Foreign sources provide information about top office bearers and senior management of entities such as Judiciary, Law Enforcement, and Government Ministries, however they fail to gauge the level of influence middle and lower level of bureaucracy can exercise by virtue of their office. Thus, such sources severely lack the depth in their databases.

2.2.3 Incomplete Coverage

The overall volume of domestic profiles available in global PEPs databases is scant and is insufficient to cover any vertical adequately. Most of the research bodies have no permanent correspondent placed in Pakistan. Moreover, they are heavily dependent on digital media houses, rather obtaining the information direct from the official sources.

2.3 Cyber Espionage

2.3.1 Geographical Presence of Datacenter

The data centers of third party online screening systems available at present are all established in USA, Europe or in India, thus these systems pose a serious threat of cyber espionage on the Pakistani entities who depend on these systems for the verification of their customers.

2.3.2 Legal Reach

None of the popular online screening systems has any permanent establishment in Pakistan, thus in every practical sense they are beyond the legal reach of Pakistani entities. This puts the confidentiality of the customers' information at huge risk.