

LexisNexis® Risk Solutions on the Power of the LEI in Sanctions Screening

Introducing [LexisNexis® Risk Solutions](#)

[LexisNexis® Risk Solutions](#), a global provider of risk decision technology, delivers purpose-driven solutions to help accelerate end-to-end risk decisions and enable businesses to create more seamless and secure experiences across every interaction. Our information-based decision tools provide a more precise and actionable view of risk to help the world's leading organizations and most innovative startups facilitate swift identity authentication, combat fraud, strengthen compliance and improve business outcomes.

Our anti-financial crime and anti-money laundering (AML) compliance products deliver a more dynamic view of global consumer and business risk that enables businesses to efficiently execute critical due diligence and sanctions screening processes. We support end-to-end financial crime compliance programs by combining advanced analytics and global identity intelligence with innovative financial crime technologies like machine learning, artificial intelligence (AI) and technology automation. Our configurable tools enable businesses to accelerate decisions and proactively manage the challenges of today's rapidly evolving global sanctions and regulatory climate.

The Challenge

A variety of supervisory authorities around the world maintain publicly available sanctions and watchlists to combat fraud and other illicit transactions. These lists typically comprise the names of persons and legal entities whose transactions warrant further investigation. In recent years, sanctions have grown as a primary foreign policy tool for various international organizations and countries, including the UN, EU, U.S. and the UK. This trend has resulted in the size and scope of sanctions lists increasing year over year. This development, combined with an increasingly complex regulatory environment, makes sanctions compliance a challenging process.

A major challenge for businesses is confidently identifying entities listed in sanctions lists as most are published as lists of names and aliases alone. This lack of verified identifiers can make it very difficult for firms to identify the right individual or entity to which sanctions must be applied. To comply, businesses may be required to implement fuzzy matching logics that identify similar but not identical elements in data sets, which are used to detect potentially sanctioned entities. To identify relationships between companies and links to financial instruments, a significant amount of manual research is required which can be costly, inefficient and prone to human error. Once relationships have been identified, confirming whether a match is indeed correct is often a challenging manual process. This process can be further exacerbated when entities on the lists have generic terms in their names, which can raise false positives.

As sanctions lists change regularly, with updates often being made monthly, the tracking and reviewing of sanctioned entities is substantial, requiring multiple steps and close coordination with external parties. The lack of standardized identification in sanction lists makes it difficult to tie subsidiaries to their parent companies unless the subsidiary has a similar name. The process relies on firms running their own searches and having high quality and well-maintained parent-subsidary links in place in their internal databases, which is often not the case.

The Power of the Legal Entity Identifier

Current sanctions compliance processes are both expensive and inefficient which opens significant opportunity for improvement. The Legal Entity Identifier (LEI) would allow the current system to be replaced with one based on identity. This would make sanctions screening faster, more effective and less expensive to administer for all stakeholders. At LexisNexis® Risk Solutions, we endeavor to augment our risk datasets with LEIs wherever possible.

LEIs play an important role in understanding the counterparties engaged in a financial transaction and are already well embedded across the industry, which makes them very useful for sanctions compliance purposes. Utilizing LEIs means that transacting parties can be unambiguously identified, greatly reducing the number of false positives that the matching process generates today.

By embracing an LEI-based system where legal entity identification can be assured, in an open, interoperable and instant digital format, stakeholders would be able to transact with far greater confidence. Most importantly, the opportunities for financial criminals to cheat the system will be dramatically reduced on a global scale.

Future value of the Legal Entity Identifier

The LEI has the potential to be highly valuable for sanctions screening. Much like the use of BIC Codes for financial institutions, entity identifiers enhance the quality of screening results and help limit the number of false positives. As use of the LEI and LEI data becomes more frequent, both from a regulatory and business perspective, for example, through transactions messages and customer files, we anticipate increased demand from financial institutions for use of the LEI. This will also have the effect of increasing use of the LEI in associated watchlists as well.

Moving forward, LexisNexis® Risk Solutions has identified two primary ways the LEI can be implemented in sanctions screening. The first is using the LEI to enrich the official records of “primary” sanctions targets which will make it easier to identify additional sanctions targets that are primarily associated with ownership/control. More broadly, implementation of the LEI as a widespread identifier would improve sanctions screening by ensuring better effectiveness through triggering additional real correspondence and better efficiency, by helping to discard and minimize false hits.

"We believe sanctions authorities can include the LEIs of sanctioned entities in their lists to make the accurate identification of sanctioned entities faster, cost efficient and simpler. The LEI is a promising initiative to support more efficient cross-border payments and more effective risk management decisions. We are monitoring global regulatory initiatives led by the Financial Stability Board, the Committee on Payments & Markets Infrastructure and others to maximize the adoption of the LEI and are confident of its potential for reducing compliance frictions in payment processing." - **Matt Michaud, Global Head, Financial Crime and Compliance, LexisNexis® Risk Solutions**

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