

WHITEPAPER

# RESTRICTED PARTY SCREENING

Managing Risk With Restricted (Denied) Party Screening



## ABOUT

If your company engages in global trade, you know that you have no choice but to screen every party to an export transaction. The Patriot Act and many government agencies require you to “know your customer”—as well as the banks, carriers and freight forwarders you do business with. Though companies have routinely practiced Restricted Party Screening (RPS) for years, error-free compliance has become increasingly important since 9/11. Effective RPS ensures that your company is not doing business with terrorists, money launderers, drug dealers or other denied parties.

Screening price quotes, export orders and quotes against restricted party lists was significantly easier a decade ago. U.S.-based exporters were required to review them against only three lists—those issued by the U.S. Departments of Commerce, State and Treasury. Today, each department produces multiple lists, many of which are updated almost daily, as well as its own criteria for determining commodities that can be shipped to each party. To further complicate the process, the UN, EU, Canada, Japan and other countries maintain their own lists. To be in compliance, exporters must screen orders and shipments against all relevant restricted party lists, typically those applied/issued by the exporting country.

This white paper shares best practices for managing the risks associated with restricted party screening and briefly reviews the strengths and limitations of current RPS processes and solutions.

## RESTRICTED PARTY SCREENING

Many companies screen purchase orders and sales documents against restricted party lists manually or with a partially automated solution. Regardless of approach or headcount assigned to the task, one of their biggest challenges is with constantly-changing lists published by a plethora of agencies. Clearly, this requires a team with the right combination of skills and experience. A customer list can include nicknames, aliases, alternate spellings and variations in word order. Solutions that lack the proper algorithms can miss matches completely, resulting in non-compliance.

Amid this complexity, organizations must be prepared to be audited. They must demonstrate accurate recordkeeping and a repeatable process that reviews likely matches immediately and prevents products from being released to confirmed matches. The time, cost, errors and indefensibility of many restricted party screening solutions has propelled organizations to seek technology that automates the process and improves accuracy and efficiency.

### What are your challenges?

- Do you need to screen a rapidly-growing customer list?
- Is your company in an industry that is under constant scrutiny by regulatory agencies .
- Do your information sources include spreadsheets and ad hoc "ship to" information?
- Have you outgrown your current solution.

## TECHNOLOGY BEST PRACTICES FOR RPS

Global Trade Management (GTM) solution providers such as TradeBeam can dramatically reduce or eliminate the problems

associated with restricted party screening. When evaluating these solutions, it is important to keep the following best practices in mind.

## ROBUST LIST MAINTENANCE

A GTM solution should enable companies to automatically screen orders and shipments against the most current restricted party lists. Service level agreements (SLAs) with solution providers should guarantee access to the latest restricted party list information and provide any changes within 24 hours or less. This significantly reduces the cost of list maintenance and practically eliminates the risk of non-compliance. In addition, an ideal solution should enable users to apply their own lists of restricted parties and embargoed countries. Some current solutions screen against a customer master list only and ignore other data sources such as spreadsheets and information associated with ad hoc transactions.

## PRECISE NAME MATCHING

Matching algorithms should ensure that similar-sounding names on a restricted party list are easily flagged. GTM technology should consider variations and similarities in names as well as nicknames, aliases, misspellings and different word order. Best-in-class restricted party screening employs mathematical matching algorithms to address these issues. To reduce the number of false positives and negatives, users should be able to customize and refine the behavior of the algorithms they use to:

- Match words exactly
- Detect similar-sounding words while ignoring repeated characters
- Handle the basic rules of English pronunciation
- Filter common words such as "street" to reduce noise and effectively lower the incidence of false positives

### Soundex and Metaphone: A Crash Course

Developed by Robert Russell and Margaret Odell and patented in 1918 and 1922, Soundex is a phonetic algorithm that indexes names as they are pronounced in English. It encodes similar-sounding names in the same way despite minor spelling differences. Soundex is the most widely used of all the phonetic algorithms and is the basis of more modern phonetic algorithms, such as Metaphone.

Metaphone is a phonetic algorithm developed by Lawrence Philips in response to limitations in the Soundex algorithm. It uses a larger set of rules for English pronunciation and produces variable-length keys, rather than Soundex fixed-length keys. Philips later developed Double Metaphone, to produce even more accurate results.

A transaction that fails the screening—i.e., a “match” occurs—should remain on hold. An exception alert is then sent to the compliance department for further evaluation and logged in the restricted party screening system. Exception alerts ensure that staff spends time only on flagged transactions.

When a match occurs, review staff researches the matched party to determine its RP status. If the hit is a false positive, the GTM solution should make it possible to ignore an identical hit unless the match results from updates to the restricted party list. Ideally, compliance staff should be easily able to customize the system to ignore a hit once, multiple times or for a specific time period.

The right automated solution offers the opportunity to develop or enhance policies, procedures and governance to deliver a very high degree of compliance. It should also maintain a complete audit trail of individual screenings and resolutions.

## RAPID EXCEPTION ALERTS

Analyst firm Gartner recommends that companies screen for restricted parties throughout the relationship lifecycle and periodically review master lists to determine if existing customers, prospects, employees or suppliers have been put on restricted status. GTM technology should enable automated screening and make it possible to control when screening takes place—whether at vendor and customer set-up or when issuing quotes, taking orders and initiating shipments.

When a transaction is screened, it is usually placed on hold in the source system until the restricted party screening technology responds, a matter of a few seconds. Rapid cycle time—no more than 2 seconds—is vital for organizations whose customer interactions are highly automated. A company that provides trial software downloads, for example, wants fast, direct integration with its GTM solution in order to halt downloads when restricted party matches occur. A further refinement might be the capability to screen IP addresses and email messages to identify embargoed countries or parties.

## LICENSING VS. SOFTWARE-AS-A-SERVICE (SAAS)

Deploying RPS software behind a corporate firewall requires an organization to license it and in many cases, purchase hardware on which to run it. A company must also allocate resources for system configuration, maintenance and management. In addition, it is critical to update restricted party lists daily and to plan for software upgrades, patches and bug fixes. The significant upfront investment required by licensing software as well as the demands placed on already-burdened IT resources can create delays and even indefinitely postpone projects. It can also negatively impact compliance status.

Software-as-a-Service (SaaS) solutions, by contrast, do not require companies to purchase software or hardware or commit IT resources for systems management and maintenance. They require only Internet access. With SaaS, users pay a monthly fee, and the provider is responsible for ensuring reliable, trouble-free service. This sharply contrasts with the license model, which enables the vendor to collect

### Improving Security Across the Enterprise

HR, corporate security operations and other organizations within a company can also leverage RPS capabilities. For example, HR can screen job applicants and current employees. On-site security can screen corporate visitors. M&A organizations can determine whether or not targets for acquisition have committed trade violations.

the entire license fee upfront and gives the user very little leverage in the relationship.

Interestingly, content maintenance differentiates the traditional and SaaS models and further illustrates the strength and flexibility of the SaaS approach. In this context, licensed software, to be successful, must mimic SaaS. That is, users must be able to interface with third-party vendors of RPS information through a pre-configured integration solution—or manage content upload themselves. In either case, they must rely on their own efforts or those of others to provide content the licensed software is unable to deliver.

Because the restricted party screening system is hosted outside a company's firewall, the SaaS model also enables secure third-party access. Thus, if order entry or shipping is outsourced, a vendor can easily access the restricted party screening capabilities while processing orders or generating a pick list.

## SCREEN EVERY TRANSACTION

The ability to screen every transaction against restricted party lists is critical, especially for enterprises in highly regulated industries such as aerospace, defense, electronics, financial services and semiconductors. Screening every transaction ensures compliance with U.S. Bureau of Industry and Security (BIS) as well as other countries' requirements.

Some solutions initially screen a company's customer information master against restricted party lists and then rescreen it every 24 hours against differences that have appeared. This approach is cheaper and possibly faster than screening every transaction, because it generates relatively few matches. However, it frequently does not address parties who may be associated with a transaction on an ad hoc basis or every source of data.

Perhaps the best way to clarify the issues around screening every transaction vs. simply screening the customer master list is to review the pros and cons of each approach.

### Screening Every Transaction

#### *The Pros:*

- Responds to mandates of both U.S. and non-U.S. regulatory bodies
- Screens transactions against all data sources to provide complete coverage
- Reviews matches at time of transaction—particularly helpful to companies with large master lists where most parties are shipped to infrequently

#### *The Cons*

- Should be integrated with ERP and other best-of-breed enterprise applications that serve as sources of export transactions for optimal performance
- Potential compliance issues are resolved only at the time of a transaction, unless entire customer master is screened in advance

### Screening the Customer Master List

#### *The Pros:*

- Does not require a specific transaction to trigger screening of an entire company master list
- Requires a lower level of integration with enterprise ERP solutions

### *The Cons:*

- Does not create a transaction audit trail and therefore does not meet BIS or other compliance standards
- May require significant compliance maintenance—resolving compliance issues in the absence of a transaction—which can be burdensome for companies with large master lists
- De-links (separates) restricted party screening from specific transactions—based on the assumption that the company master list is clean
- Makes it difficult, if not impossible for companies to use data sources such as spreadsheets or handle unusual transactions such as shipping to an existing customer at a different ship-to address or sending samples to noncustomers

Clearly, each methodology has strengths and weaknesses. Companies with significant application integration capabilities, multiple data sources and large customer master lists have found transactionbased screening indispensable. Companies with relatively small customer lists, a small operational footprint and tight control over customer data sources may find that customer master list screening methodology is sufficient. Best practices would dictate supporting both approaches—as embodied by the TradeBeam solution.

## THE TRADEBEAM RESTRICTED PARTY SCREENING SOLUTION

### Screen Every Transaction

TradeBeam, a market leader in GTM, provides a comprehensive, SaaS-based solution that supports trade compliance, import and export management, global supply chain event management, letters of credit and supply chain finance. The solution delivers:

### Content Breadth and Quality

TradeBeam's embedded and continually updated trade content includes classification trees, duty rates, tariffs and restricted party lists that include—but are not limited to—U.S., EU and UN, ECCN/ ECN classification trees, documentation requirements/templates and license requirements. TradeBeam sources content directly from relevant local sources through a worldclass network of trade experts, researchers and translators. TradeBeam backs its service with SLAs that ensure updates to restricted party lists are delivered within 12 to 24 hours of any changes.

### Expanded Internationalization

The Restricted Party Screening also includes expanded internationalization and localization language support. The new internationalization features create improved RPS matching capabilities under Section 326 of the USA Patriot Act. Specifically, enhanced Western European language handling for precise translation, allowing for straightforward matching of words using accent marks in restricted party lists, and accommodates other languages, including those requiring double-byte (as many Asian languages do), ultimately improving accuracy in screening.

### Screening Speed and Accuracy

TradeBeam restricted party screening offers sophisticated matching capabilities that include exact word match, Soundex and Metaphone algorithms and the ability to fine-tune the sensitivity of screening engines, significantly reducing the incidence of false positives and negatives. In most cases, screening produces a match with a restricted party in two seconds or less.

### Support for Manual and Automated Workflows

The TradeBeam solution automatically screens parties on a per-transaction basis at user-defined points in the order life-cycle, such as time of quote, issuance of purchase order and shipment. A restricted party match results in notification of the source system, which places a transaction on hold immediately wherever it occurs. Robust resolution/escalation logic seamlessly handles alerts, approvals, holds and

outbound messaging. For maximum flexibility, the TradeBeam solution also supports any manual screening and resolution procedures a company has put in place.

This comprehensive workflow-driven exception management process dramatically increases staff productivity and prevents restricted party screening from becoming a bottleneck, while also ensuring that nothing slips through the cracks. In addition, logs generated by the application can support both internal and external audits.

## ABOUT TRADEBEAM GTM

TradeBeam GTM, a Global Trade Management software and services company, streamlines global trading processes for enterprises and their partners. Comprehensive, integrated solutions delivered via the on-demand SaaS model provide import and export compliance, inventory management, shipment tracking, supply chain event management, and global trade finance solutions.



More than 9,000 customers around the world rely on us to give them a competitive edge. By providing innovative, industry-driven enterprise application software, Aptean helps businesses to satisfy their customers, operate most efficiently, and stay at the forefront of their industry.

For more information, visit: [www.aptean.com](http://www.aptean.com)