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Top 5
Denied Party Screening Mistakes

Every commercial relationship has hidden risks. Screening your local and global business partners is an essential part of protecting your company's reputation and safeguarding the organization from violating denied entity regulations. You may think your company is safe from legal ramifications as long as you're screening your global trade transactions. But the question here is not simply "Are you screening?" The real question you should ask yourself is whether you are screening thoroughly and effectively.

Many companies today are making five critical mistakes in their screening process. Are you?

1. Believing that screening is not needed

Violations for conducting business with a denied entity can result in significant fines, loss of export privileges, and criminal penalties. Average penalties are on the rise, and recent fines have been the largest on record. With the growing number of denied party lists and entities worldwide, companies cannot ignore their obligation to perform due diligence when vetting their customers and suppliers. The best way to ensure compliance with these regulations is to use a software solution that allows you to automatically screen against restricted persons, embargoed countries, and companies that are owned by denied entities.

2. Manually searching denied party lists

The burden of manually searching denied party lists is too great in the midst of a dynamic regulatory environment. For a company to ensure compliance with denied entity regulations, you would need a dedicated team and a substantial investment of time and resources. Even then, you run the risk of noncompliance simply because of the volume of data, the number of lists, and the speed at which regulations can change. The responsibility for compliance rests fully on the organization engaged in doing business. And when fines can reach tens of millions of dollars, you can't risk making a single mistake.

3. Screening too infrequently

Some organizations perform their screening only when they place a purchase order or are preparing to ship to a customer. But considering the pace of regulatory change in trade, it's critical for companies to implement a more routine screening process. Consider this: If your system does not spot a violation until you are ready to ship, the results will be incredibly disruptive to your business. Internal tensions may rise as your supply chain team pressures you to move forward with the shipment while the trade compliance department insists that you cannot. The best way to sidestep these pressures is to simply screen your supply chain partners regularly — on a daily basis, if possible. Your ability to frequently screen will be impacted by the number of supply chain partners you have and the volume of denied party lists you are screening against. It's important to remember that even if your supply chain partners don't change, the lists often will.

4. Overlooking sanctions ownership regulations

The "50% Rule" from the US Department of the Treasury's Office of Foreign Assets Control (OFAC) is one of the most problematic areas of screening. The rule states that you cannot conduct business with any entity that is controlled or owned — 50% or more — by a sanctioned country or by one of the entities on the Specially Designated Nationals (SDN) list and the Sectoral Sanctions Identifications (SSI) list. However, those business relationships are not listed anywhere as public information, and they change often. Furthermore, the financial penalty for conducting business with a person or entity on the SDN or SSI list is high — higher than any other area of trade compliance.

5. Using outdated search engine technology

New developments in automation, such as advanced search engines with built-in trade data, can help save your team time and ensure compliance. Modern technology solutions can do more than check regulatory lists for a potential hit. A type of search technique known as "fuzzy logic" is a complex piece of software that applies sophisticated queries and multi-step algorithms to return the best possible results. By using fuzzy logic, the search engine attempts to compare names and addresses, taking into account common reasons for mismatches. This search technique allows you to account for anomalies like misspelled words, punctuation issues, common words, word order, abbreviations, and more. With this approach, you're able to minimize false positives without missing real hits.