LexisNexis® RISK SOLUTIONS

White Paper

Negative News Impact

Five Effective Practices for Adverse Media Screening

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Introduction

Reputational risks are very real and have a concrete impact on a financial institution. While not all negative news events involving an account holder are damaging to an institution, some crimes such as terrorist financing and human trafficking can significantly compromise reputational integrity if assets from these activities are found to be passed through an institution.

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In comparison to regulatory requirements on customer screening for sanctions and politically exposed persons (PEPs), guidance for screening against adverse media or reputationally exposed persons (REPs) has historically enabled financial institutions greater flexibility in instituting their own risk-based model. However, with that flexibility comes the potential for greater variations in approach between different firms and industry professionals.

These different approaches are further compounded by the seemingly endless array of web-based sources, including newspapers, magazines, newswires, television transcripts, social media feeds and public records. This can be a significant challenge to compliance departments trying to manage a financial institution's Know Your Customer (KYC) and Customer Due Diligence (CDD) obligations for reviewing adverse media.

The utilization of well-respected news aggregators, which put tens of thousands of news sources at our fingertips, can still feel like "drinking from the firehose" without a good strategy for screening. When incorporating searches against adverse media sources, challenges for compliance professionals often include:

- **Unsustainable volumes of matches and news sources**
- **Difficulty weeding through results**
- **Questions of source integrity**
- **Inconsistent investigative skills across the team**
- **Analyst fatigue**
- **Expensive and inefficient processes**

Developed by LexisNexis® Risk Solutions, this white paper discusses five effective practices for an efficient and effective approach to adverse media screening.

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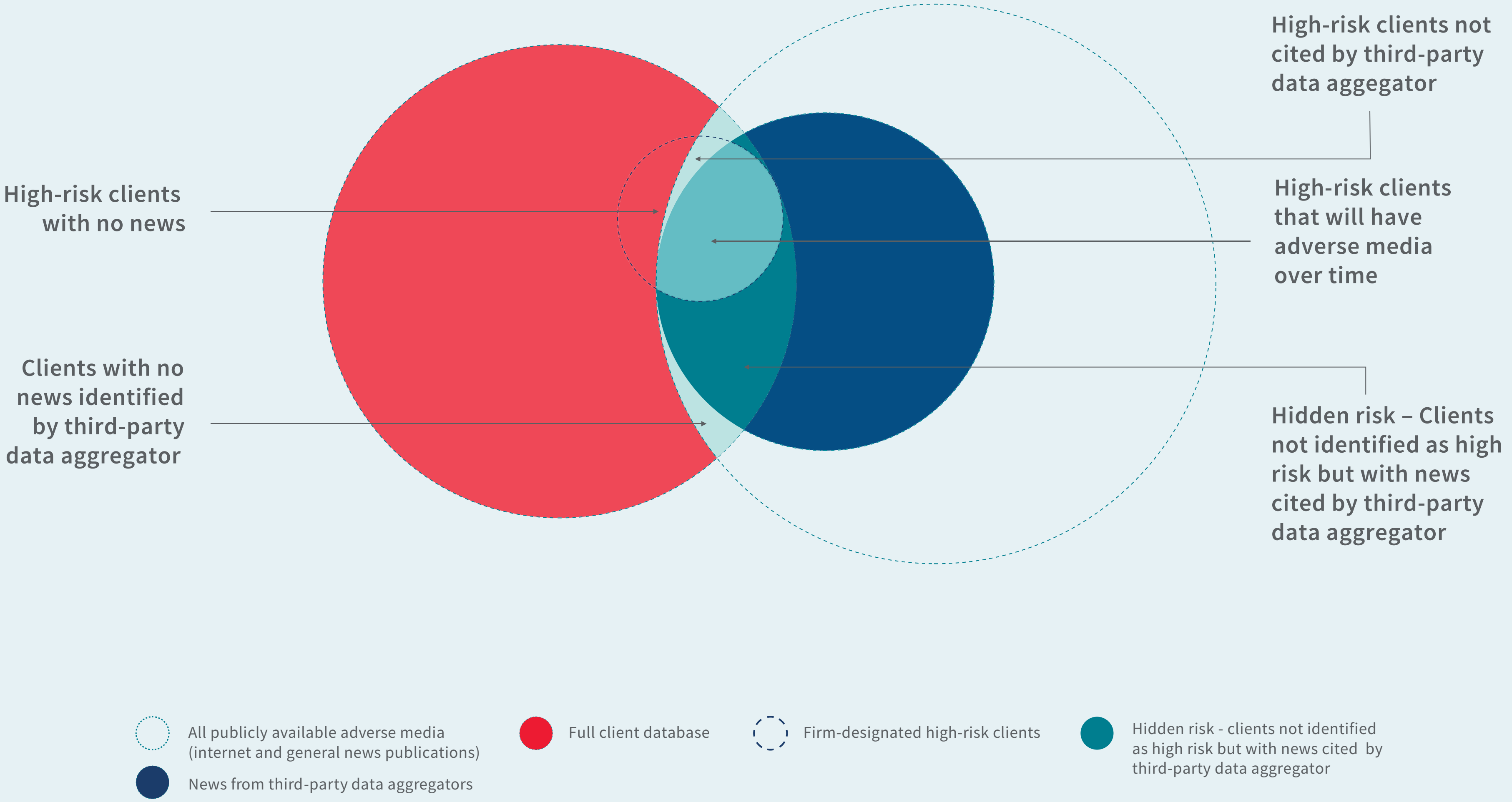
Identifying Reputationally Exposed Persons (REPs) in Adverse Media



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Clarify Timing

One of the best means for monitoring adverse media is to thoroughly examine every single news source available on a constant basis to ensure that you are fully up to speed on everything there is to know in the world. A more realistic approach however, might include considerations of when to search for adverse media.

For example, perhaps all newly added account parties are reviewed at the time of account opening and revisited based on a schedule guided by policy designated risk criteria (i.e., account type, jurisdiction, expected activity, etc.). In following such an approach, it is important for an institution to consider differentiating the type of review or depth of review for initial onboarding and ongoing monitoring.

If resources permit, it is well worth considering a "deeper dive" at the onset of a relationship. This will help with not only basic KYC regulatory requirements, but also a strong knowledge of potential histories or business dealings of the client that may be of interest.

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Although compliance professionals focus on searching for evidence of risk, it is important to create a robust KYC profile for the individual or entity involved, regardless of whether "adverse" information is identified.

For ongoing monitoring, the institution may utilize a risk-based schedule to refresh the media searches on account parties based on certain risk criteria such as account activity, product type, jurisdiction or unresolved media activity from the initial search. It is important to complement the "scheduled-by-risk-criteria-approach" with an ongoing re-evaluation both of the criteria used to determine the risk profile in general and the specific party's individually assigned risk rating.

An institution should also consider establishing clear guidelines for "event-triggered" media reviews. That is, the identification of activity that may warrant a prioritized, "unscheduled" investigation of news sources as a result of newly discovered account activity, law enforcement inquiries, knowledge of other adverse news, or higher-risk counterparty relationships.

Reliance on a risk-based schedule alone may not provide a sufficient safeguard for an institution that fails to act upon receipt of actionable knowledge obtained between scheduled reviews and the documenting of such action.

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Balance Manual and Automated Reviews

It is important to recognize the strengths that a unified and well-trained team of analysts bring to a compliance program in identifying and analyzing adverse media. Even the most effective automated system cannot perfectly replicate human behaviour and decision making to protect a financial institution from regulatory and reputational risk. Aside from obvious resource considerations related to manually reviewing volumes of adverse media searches, one of the greatest challenges of manual review comes from ensuring a consistent, standard approach.

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How can an institution effectively mitigate the risk of inconsistency across varying investigative skill sets and approaches of the staff?

Defining clear procedural guidelines for how to utilize third-party investigative resources for specific scenarios is key. When using news aggregators, does the investigative team have a clear and consistent direction of how wide a timeframe they are expected to search?

If they are empowered to narrow the scope of their search, are they incorporating keywords and phrases into their search string? If so, is there a standard set of criteria that analysts use consistently?

Is that criteria revisited regularly to ensure that the team is effectively targeting the areas of risk most pertinent to the business?

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One of the potential challenges confronting investigators when conducting an adverse media review would be to avoid "going down the rabbit hole" for an unfruitful search. In other words, how do you determine when enough time has been spent on a subject when research has thus far turned up no information of value?

The procedures might offer guidance on transferring the review to a colleague after 15 minutes of a fruitless investigation for a second set of eyes to either find something of use, or confirm the absence of material information. It is also important to consider when the absence of credible information itself may be cause for suspicion based on the customer profile, stated work history, or potential expectation of visibility in the public realm.

Even institutions with the most effective manual processes may not be able to dedicate adequate staff to review all account parties in depth. And, in contrast to a manual, scheduled review, a daily ongoing review should be considered for the monitoring of customers against newly identified media activity. As a result, automated processes should complement manual review as an integral part of adverse and media screening.

However, in order for an automated process to be effective, it must be reasonable in scope. To keep the scope in check, the compliance team should start by identifying expectations. Automated systems that simply cast a wide net scraping the internet or news source databases will likely produce ineffective alerts in overwhelming volumes.

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A better approach is to work with a third-party list provider that has a dedicated team of editors to collate relevant news into individual profiles on REPs or business entities. With this approach, the solution is more focused on the question of “Who in the customer base has noteworthy news already compiled on them by a reputable data provider?” versus “What information exists in the world that may be related to my customer?”

An effective solution for automating the ongoing review of news media sources should balance the obvious benefits of daily monitoring and surveillance while avoiding the pitfalls of overwhelming analysts with a sea of hits containing very few actionable items–or worse, missing those actionable items. This requires an automated solution that can adequately assess the quality of the alert output to allow for prioritization of risk.

Automated systems may serve as an initial, systematic front line to help avoid “the noise” associated with manually reviewing high volumes of low-quality alerts.

This is a problem that results in analyst fatigue and the potential of unintendedly marking a true alert as false.

Compliance professionals need to determine which aspects of the approach to adverse media searches would benefit from a “hands on” manual review versus an automated process.

Manual Review	Automated Review
Established Clear procedural guidelines	Set expectations
Define timeframe	Define scope
Determine scope flexibility	Use news aggregators for better targeting
Set standards for keyword/phrase search	Identify which client(s) already have news on them
Reevaluate criteria to target changing risk	Prioritize output by alert quality
Identify when to abort a search or transfer to a colleague	

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Apply Risk Categorization

Unlike uncovering a sanctions alert, the identification of adverse media does not result in a binary, black and white designation of "risk" or "no-risk." For example, if an individual is determined to be on the OFAC SDN List, there is no qualifying the risk levels associated with that party. The match is high risk, and the follow-up actions are clearly defined.

For adverse media however, there is a much greater depth of qualification to assess the level of risk. In other words, all adverse media findings are not the same.
As compliance professionals, it is easy to think of risk-level categorization as something that primarily relates to account parties.

However, modelling for the categorization and severity of adverse media can help to both prioritize the reviews and more effectively understand the appropriate level of risk associated with a client as part of the general KYC profile. An institution may consider a tiered assignment of risk based on the type of adverse media identified.

For example:

- **Level 1**

  A level 1 designation may relate to allegations of lower level, non-financial, non-violent crime.

- **Level 2**

  Level 2 may pertain to some flavor of financial crime, or street crime that poses a reputational risk to the institution.

- **Level 3**

  Level 3 may equate to egregious crime (both financial and non-financial) or connectivity to adverse behavior that might pose significant regulatory or reputational risk to the institution.

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Alternatively, a simpler mode might be to include just two tiers: “Medium Risk” for lower-level adverse media and “Elevated Risk” for matters posing a greater risk than medium. Establishing too many levels of risk categorization may only serve to confuse compliance analysts and over complicate the mission, so it’s recommended to keep things as simple as a firm’s risk appetite permits.

In addition to prioritizing the review of initial findings and helping to better assess internal risk, clearly categorizing levels of adverse media (i.e., whitecollar financial crime, street crime, violent/non-violent crime) is also important. It will enable an institution to provide effective guidance on the appropriate steps for establishing a process for ongoing monitoring and surveillance of the client profile.

Finally, it is crucial to have an effective process in place to periodically assess the adverse media categorizations to ensure they most effectively address the risk within the financial institution.

In addition to prioritizing the review of initial findings and helping to better assess internal risk, clearly categorizing levels of adverse media is also important.

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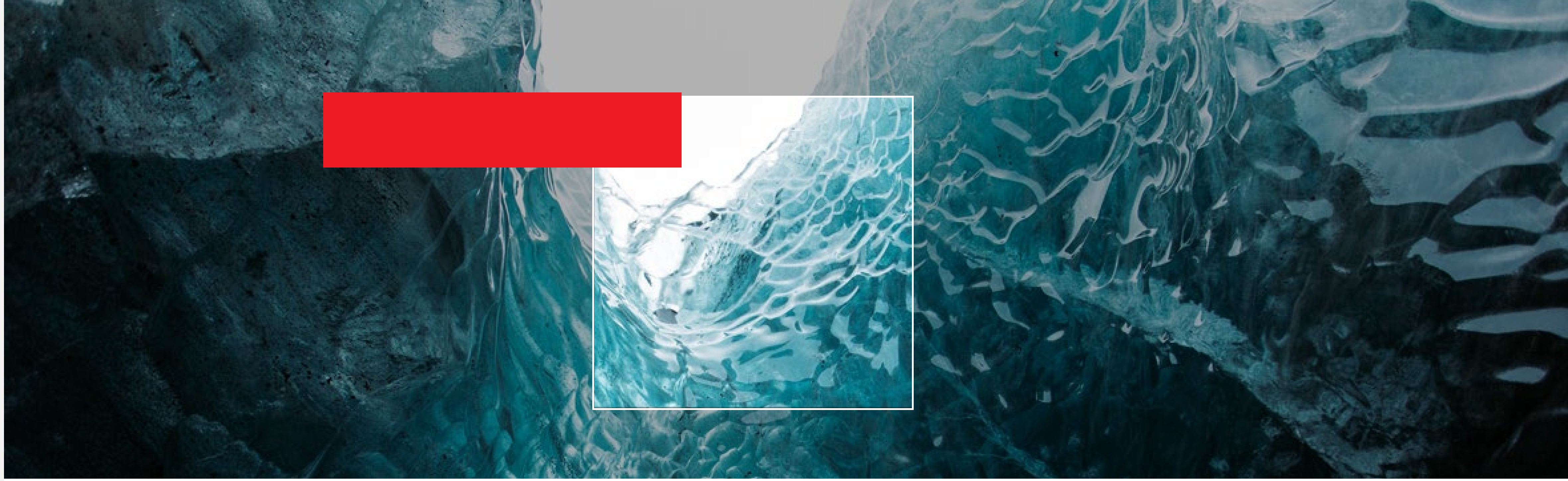

Consider the Timeliness

In addition to categorization of various "flavors" of adverse media, consideration of the age or freshness of the material identified may be warranted. A firm may want to determine whether certain types of adverse media may be looked upon as lower risk with the passing of time.

This concept of news decay could be considered for findings that may have normally qualified an entity at a higher level of risk, but in consideration of both the passing of time and the absence of subsequent adverse media, might lower the risk level.

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To the extent possible, the application of freshness criteria should be clearly defined in order for analysts to make informed decisions. Determining the materiality of adverse media based solely on age would surely be ineffective, as there will likely be types of severity related to adverse media for which time is not a factor.

For example, negative news surrounding corruption or other serious financial crimes may be relevant for decision making many years after the actual events. By the same token, more minor events may be discarded as irrelevant after some period of time.

Institutions should categorize negative news and include age of news as one of the documented criteria for each category.

It is in partnership with approaches to adverse media categorization previously identified that one can most effectively (and efficiently) consider whether the timeframe of the findings have any bearing on a team's response to them.

That being said, the reality is that very often it is harder to qualify than expected.

Therefore, it is important to consult other non-news information related to the client profile such as account activity, known associations with higher risk entities, geographic location, and source of wealth.

This will help to determine whether it would be appropriate to reduce any standard risk considerations of adverse media findings based on timing.

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Ensure Ongoing Monitoring and Suveillance

Even after determining when to search, what to search and how to evaluate results, there is still much to consider going forward. Engaging in the “hunt” for adverse media is just part of a team’s responsibilities. Once that is executed and a determination has been made on whether information pertains to the client and whether the findings are important, the next question is: “What is to be done with the information?”

Having robust documentation and a clear forward plan is key. If the information is not documented, it might as well not have happened. Also, if an assessment has been made on a finding today, that does not replace the need to monitor for changes going forward.

Both of these scenarios are crucial to an effective program as they support the three main analyst decisions related to adverse media searches:

- Matching/linked MATERIAL findings confirmed
- Matching/linked IMMATERIAL findings confirmed
- No matching/linked findings

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A one-and-done screening of any given account party will at best identify risk related to historic activity. Whether findings are material or immaterial (i.e., not severe enough to align with a program's calculation of risk), monitoring of those initial findings for future updates is required.

Perhaps the best way to accomplish this is to have the findings managed in a separate process in order to both monitor for new information and build upon known information. For ongoing monitoring, effective automation may be the best approach. Having a separate, automated process to review updates and changes to already known findings, will make more targeted use of resources.

Otherwise, there is greater potential for losing sight of updates within the overall results of a more volume-heavy general adverse media screening platform.

Think of these updates not as alerts or findings, but more as notifications of changes to information that is already being tracked. Not only should this be incorporated into "Matching/linked MATERIAL" findings, but perhaps even more importantly, the "Matching/linked IMMATERIAL" findings.

After all, if it is confirmed that the findings do in fact connect to the client, it is also important to know if any updates to those findings will impact the initial determination of materiality.

> Financial institutions are highly exposed to reputational risks. The Wall Street Journal reports that "a reputation incident that caused a two-point drop in a bank's index score slowed its revenue growth by about 22%."
>
> The Wall Street Journal

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Knowing what to do with "Matching/linked MATERIAL" findings is paramount. Similar to the handling of a law enforcement inquiry, the initial finding of material adverse media may warrant a more robust investigation into public records sources and past account activity. Whether this results in a SAR filing, closing the account, submission to an executive risk council or committee, or a higher-risk profile surveillance model, will ultimately depend on the results of the investigation and guidance outlined in the firm's procedures.

In the case of an adverse media review that results in "No matching/linked findings," a well-defined process is needed to ensure periodic revisiting of that review in order to (1) monitor for more recent findings that may present themselves, and (2) incorporate any newly identified information on the client into the results of the initial review.

For example, consider an initial adverse media review that resulted in no findings related to the client. If the KYC profile was subsequently updated to reflect newly identified information such as a former name or alias having been used, a date of birth correction, or knowledge of business dealings outside the local jurisdiction, this may warrant another review of media sources.

The review should incorporate both the newly acquired identifiers and more recent source publications in order to potentially identify previously undiscovered findings.

1 Monitor for more recent findings

2 Incorporate new information

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Conclusion

Institutions should develop policies and procedures to identify and address high-risk entities such as those exposed through adverse media (REPs). This includes defining when to perform searches, how to best make use of automation, what information to search for, what information is relevant, and how to respond to the information received. Many financial institutions have difficulty handling the abundance of alerts that can be generated as they do not have a clear direction on prioritization of resources and results.

Solutions providers must have the ability to effectively prioritize matches based on real risk so that institutions can surface to investigators the most relevant information. The LexisNexis® Risk Solutions approach to screening for REPs uses likelihood and severity of a match to prioritize risk and reduce the operational burden institutions face when managing CDD processes.

Contact us

To find out more, please visit our product website:

risk.lexisnexis.com/fcc-en

LexisNexis® RISK SOLUTIONS

About LexisNexis Risk Solutions

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