

Sanctions – can Regulators make course correction

What is Sanctions?

An action taken against an Individual, Group, Company or a Country which prevents them to transact freely and curbs the movement

There are different kind of sanctions viz. Diplomatic Sanctions, Economic Sanctions, Sports Sanctions, Military sanction

Sanctions are generally imposed through a country regulation change, UN resolution or any other body to prevent trading, movement of funds, preventing arms race, terrorist financing

How the Sanctions has worked in financial world?

Sanctions has been in history for long time, many a princely states or countries have imposed restriction against the other country or province. As a united world sanctions have started to play a major role post 1990 Gulf war, where large no of countries cooperated against Iraq when Kuwait was invaded. All the financial institutions were directed to control the flow of money. As the world started to get closure as an economy and with rise of various organization, the laws became stricter. UN, US and EU are 3 main organization who have imposed large sanctions and to prevent flow of money/respective currencies . This has further spread and most of the countries have imposed sanction basis the alliance or for their own domestic need.

With spread of sanctions, Banks/Financial Institutions were to adopt and initiate control within the organisation for the flow of money. The speed at which financial institutions were to adopt the change was pretty steep as Banks had already holding relationship with individuals/organsiation or had branch in those countries which were making decent money for the organization.

What has been the challenge which has hit the sanctions world?

The sanctions are based on currency like US with Cuba, EU did allow the transactions.

Lack of coordination among Government bodies

Understanding of financial institutions varied

Implementation plan was different

SWIFT messages did not cover to control all the requirement and still missing

Revenue versus regulation

Different service provider/software in industry with different standard

Cash still available in hand of citizens, which has limited control on the flow

What are the present challenge which are faced by regulators?

Large work is done on country sanction, putting lot of stress on how to stop funding of money in a specific currency. However, with freely convertible money available plus currency notes still available in large, make restriction of sanction a great challenge.

Today, basis the learning from the past, both regulators and banks are trying to get all the systems and control in place. In 2009, we had 202cov introduced to ensure that MT202cov are used for cover messages, which was one of the gap.

Banks have worked to bring in control using various system enhancements, which includes more artificial intelligence to the sanction system and along with it bring in more message type to the screening remit.

However, the challenge still persists as each bank are working in silos to help control the flow of funds. The logic used by banks are not the same, different software rules and each one follows different way approaching each of the regulation like we have seen in way Banks have been penalised. It simply goes by the understanding of the each Banks individuals and the finding they have got from Auditors Regulators.

One of the major challenge which Banks running with today is how the account holder are identified and how banks are doing the business with various account holders. With internet and world opening up, now the people are more connected and information are more available for individuals just by searching the web, this makes restricting entities/Individuals to get money is very difficult.

Migrants moving from various countries where limited information available about individuals, this further possess greater challenge for countries and banks to identify, EU is one which will have greater challenge in days to come. With no specific controlled data, there is every possible way individuals get into Banking system. With also currency notes available, this provides movement of funds much more easily and it is very difficult for Regulators and Banks to control.

What Regulators can do?

Take cash of the system, get accounts mandatory for all citizens along with transact electronically.

Get a central agency each country/province to own the KYC, work with various government agencies like Passport Office, Police, National ID agency, Tax department and other agencies to ensure

Get a specific a/c structure and have the A/c to carry Nationality, ID along mandatory for the a/c to help get control over the a/c and the transaction.

Sanctions are to be use this a/c to help restrict the flow of funds

Create a central organization which will scan for each currency instead of each bank to perform, the agency will scan for all electronic transaction and also work with a/c agency to ensure a/c of sanctioned entity are controlled and help any transaction flow.

The cost of the unit will be borne by banks, mainly like SWIFT method of charging will be used to help each of the bank for their traffic.

What it will do for the Banking World?

It helps standardizing for each currency and for country, this will help Banks to concentrate more on enhancing Operation control, improving Client delivery, enhancing credit to needy and most importantly avoid cost. Today, same activity is done by each bank, there is duplication of effort and cost, this can be minimized. Most banks have invested billion plus on compliance and control around transactions, this can be greatly minimized.

The other most important aspect which comes up is having looked at the past different practice and understanding of the law had resulted in varied control by banks, this in turn hit banks for various breaches. With Central Bank and Government owning it, there is more control on the flow and there is a second check. More importantly, the law enforcing is directly with the law maker then looking at Banks to control it.

This practically takes away each banks interpretation and there by resulting in more control on the flow of funds and improve the health. This also helps take some of the negative perception which has been built in the society around Banks and their behavior.

What is needed?

Building a central utility (a subsidiary of regulators) with regulators having greater oversight and handling of daily activity gives more control on the flow and also helps in bringing down the cost of regulation which are put on the banks. Hope we will have regulators managing it in the interest of all – Together we WIN.