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## Financial Crime

LEADERS' NETWORK

FORECAST 2025

# Overcoming Challenges in Real-Time Sanctions Screening and Compliance

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## Key Takeaways

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### Real-Time Sanctions Screening Remains Operationally Challenging

While financial markets are moving towards real-time transactions (T+0 settlements), pre-trade sanctions screening still lags behind due to legacy systems, fragmented data, and regulatory barriers.

2

### Scaling Compliance Without Sacrificing Accuracy Requires a Hybrid Approach

Traditional manual review processes cannot keep up with increasing transaction volumes, making artificial intelligence (AI)-driven automation essential.

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### Export Controls and Supply Chain Due Diligence Are Expanding Compliance Obligations

Financial institutions must not only screen direct transactions but also assess supply chain risks to avoid facilitating sanctioned trade indirectly.

4

### Regulatory Uncertainty and Strict Liability Create Compliance Pressures

Even with well-documented compliance efforts, firms can still face penalties for inadvertent breaches, leading to a culture of defensive compliance rather than proactive risk management.

5

### Greater Collaboration Between Industry and Regulators Is Critical

There is a disconnect between financial institutions and regulators, with both sides lacking a mutual understanding of operational challenges and AI capabilities.

## Overcoming Challenges in Real-Time Sanctions Screening and Compliance

The Financial Crime Leaders' Network as part of the Financial Crime Summit – New York on 27 February, examined the feasibility and challenges of real-time sanctions screening within the context of global financial markets that are shifting towards T+0 settlement and high-speed transactions. The discussion highlighted the need for technological advancement, regulatory clarity, and strategic process integration to enhance pre-trade compliance without impeding legitimate business activities.



### The Feasibility of Real-Time Sanctions Screening

While real-time sanctions screening has long been a regulatory and operational aspiration, the discussion revealed that it remains largely unattainable due to multiple systemic barriers. The fragmented nature of financial institutions, particularly those with disparate trading desks and decentralised compliance functions, presents a significant challenge. As one participant noted, "The derivatives trading desk doesn't communicate with the equity desk, and each has its own technology stack." This siloed structure complicates the standardisation of sanctions screening processes, resulting in delayed risk detection and inconsistent enforcement.

Technology was identified as both an enabler and a barrier to real-time screening. While AI and automation present significant potential, firms expressed concerns over data reliability and regulatory acceptance. One participant critically observed, "We can implement AI, but unless we can fully explain its decisions, regulators will not accept it." This reflects the ongoing tension between automation and accountability, where

compliance teams must balance operational efficiency with regulatory scrutiny.

Furthermore, the nature of trading itself presents fundamental challenges to real-time sanctions compliance. Unlike traditional banking transactions, where sanctions checks can be embedded pre-execution, financial markets operate at extreme speed, making post-trade mitigation rather than pre-trade prevention the more practical approach. As one participant admitted, "Even if we cut investigation times from 30 minutes to five minutes, we'll still lag behind trade execution."

### Managing Increased Transaction Volumes Without Sacrificing Accuracy

With trading volumes increasing exponentially, firms are under pressure to scale compliance functions without diluting accuracy. The traditional approach of expanding compliance teams is now seen as unsustainable, as manual reviews cannot keep pace with automated, high-frequency trading.

Instead, AI and machine learning (ML) are being deployed to streamline alert management and reduce false positives. However, the debate

exposed a fundamental issue: AI models remain only as effective as the data and governance structures supporting them. One participant noted, "False positives are a major issue—without robust data governance, AI risks blocking legitimate trades or missing critical risks." This underscores the importance of structured data strategies in ensuring AI-driven compliance solutions deliver meaningful results.

The discussion also revealed a critical gap in accountability. Participants emphasised that even with AI-driven automation, there must be clear human oversight for final decisions. However, this presents a dilemma: how much human intervention is feasible without undermining speed and efficiency? One participant questioned, "If AI makes a decision, how do we empower compliance officers to override it without creating bottlenecks?" This highlights an ongoing industry debate—should AI supplement or replace human decision-making? The consensus leaned towards a hybrid model, where AI expedites the review process, but final decision-making remains a human function.

*"We can implement AI, but unless we can fully explain its decisions, regulators will not accept it."*

### Export Controls and Trade Sanctions: A Growing Complexity

The discussion also explored the expanding scope of sanctions compliance, particularly with export controls and supply chain due diligence. Financial institutions are no longer just screening transactions and counterparties; they are now expected to assess the entire trade ecosystem to prevent indirect violations.

One participant provided a striking example of a dishwasher shipment being flagged because its control system contained technology used in missile guidance systems. This case illustrated the nuanced complexity of export controls, where seemingly benign goods may have dual-use applications.

The debate exposed a disconnect between regulatory expectations and operational realities. Regulators expect financial institutions to screen beyond their direct customers, yet firms are left without clear guidance on the extent of their obligations. "Where does our responsibility end? Are we expected to screen our clients' suppliers and their suppliers' suppliers?" asked one participant, highlighting the practical limitations of expanded due diligence requirements.

While AI-driven supply chain screening is emerging as a potential solution, its effectiveness remains unproven at scale. More importantly, firms must navigate competing priorities between regulatory expectations and commercial viability, ensuring that compliance measures do not unintentionally disrupt legitimate trade.





### Regulatory Pressures and the Need for a Sound Control Framework

One of the most contentious issues discussed was the burden of regulatory compliance in an environment of increasingly stringent reporting obligations. Participants expressed concern over the lack of clear regulatory guidance on AI implementation. One compliance leader remarked, "Even if we deploy AI with 99.99% accuracy, we still have to justify every decision it makes to the regulator." This sentiment reflects a critical flaw in current compliance frameworks—regulators demand technological advancements but fail to provide clear roadmaps for implementation.

The strict liability approach taken by regulators was also a point of contention. Even if a firm demonstrated due diligence and best efforts, it could still face penalties for an inadvertent breach. This has created a culture of defensive compliance, where firms focus more on documenting processes than improving effectiveness. One participant observed, "We spend more time proving we did the right thing than actually fixing compliance gaps."

A well-structured control framework was seen as a fundamental requirement to manage these challenges. This would involve:

- 01 >> Standardising sanctions screening across all business units and regions.
- 02 >> Establishing clear governance on AI adoption and decision-making.
- 03 >> Creating transparent, auditable compliance processes to satisfy regulatory demands.

### The Industry-Regulator Divide: A Call for Greater Collaboration

A key conclusion from the debate was the widening gap between financial institutions and regulators. While compliance teams struggle to keep pace with new regulatory demands, regulators themselves often lack the technical expertise to fully understand AI-driven compliance models.

One participant commented, "Regulators are issuing AI guidance, but many of them don't understand how AI actually works." This highlights the urgent need for a structured industry-wide dialogue to bridge the gap between regulatory expectations and operational realities.

The discussion emphasised that financial institutions must proactively engage regulators rather than waiting for enforcement actions. Some firms have started collaborating with regulators to co-develop AI governance frameworks, but this remains an emerging practice rather than an industry standard.

Ultimately, the debate underscored the importance of aligning compliance strategies with practical business needs. As one speaker concluded, "Sanctions screening isn't just about avoiding fines—it's about ensuring that compliance doesn't become an obstacle to legitimate financial activity."

The discussion highlighted that real-time sanctions screening remains an aspirational goal rather than an imminent reality. While AI and automation offer potential solutions, they must be balanced with regulatory expectations, data quality, and human oversight.

Financial institutions face unprecedented pressures in managing rising transaction volumes, complex export controls, and increasing regulatory scrutiny. However, the discussion also revealed a fundamental disconnect between regulatory frameworks and industry capabilities. The path forward requires greater collaboration between firms and regulators, ensuring that compliance enhances rather than hinders financial operations.

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This information was taken from The Financial Crime Leaders' Network event, part of The Financial Crime Summit in New York, 27th February 2025.

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