



# Watchlist screening: The case for **pre-checking**

## How removing friction is becoming a competitive advantage.

*"It is better to anticipate than to react."*

(**Bobby Knight**, a legendary basketball coach who won a record 902 games)

The payments landscape has dramatically evolved over the last couple of years. Hundreds of new fintechs - supported by billions in venture capital - have emerged with a mission to deliver a radically better customer experience for payments. Incumbents did not stand still: they reacted by modernizing their existing "rails" and embracing new payments methods or instruments.

Fueled by the pandemic, digital payment adoption has been growing exponentially, shifting the market from supply-driven to client-driven, with customers now expecting their domestic and cross-border transactions to be instant, frictionless and cost-effective.

**Standing in the way of a instant and frictionless payment experience is sanction screening.**

However, standing in the way of this instant and frictionless payment experience is financial crime compliance, and more specifically sanctions screening. Depending on the screening technology used and the parties' policies, between 1 and 5% of cross-border payments are raising compliance alerts, thus requiring manual review, delaying payments execution and creating customer frustration. The vast majority of these alerts

eventually turn out to be false positives, which makes this state of affairs even more exasperating.

New, more efficient watchlist screening technologies have emerged, and they will eventually help improve the situation. However, in a heavily regulated environment such as financial services, decisions about new technology and their implementation can take a long time.

In the meantime, a tactical move could significantly improve customer experience: the **pre-checking of payment transactions**, in real-time while they are being initiated by the customer.

## Payment pre-checking: how would it work?

Fintechs and digital banks are living by acquisition and retention. They know that plotting the customer journey with precision and avoiding friction is going to separate winners from losers as the market matures and concentrates. In this context, the goal of Pre-checking is quite similar to the TSA pre-check at US airports: identify exceptions and provide information early to avoid waiting down-the-line. In the case of payments: check early and -if needed- subtly alter the customer journey to remove friction in order to provide the best customer experience in all cases.

Concretely, payments pre-checking consists of:

1. **Screening the elements of the payment** (e.g., beneficiary, purpose) in real-time, while the customer is creating it in the payment app;
2. **Adapting the user experience (UX) dynamically** based on the result of the real-time screening to collect additional necessary information and manage customer expectations.
3. **Ensuring the information collected travels with the payment**, so it can be used by other intermediaries down the payment processing chain.

To illustrate this, let's imagine that the real-time screening detects a potential sanction alert. The payment application then dynamically asks a few questions about the beneficiary (like e.g. their address) that would help resolve the anticipated alert. If the alert is still classified as one that will require a human intervention, the application intelligently manages expectations by leading the customer towards a more appropriate payment instrument (there is no point offering an instant payment option if we know we can't keep that promise anyway).

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The idea is not to replace the existing watchlist screening process which typically comes later in the process and handles other types of flows (e.g., incoming payments, intermediary flows). Rather it is to complement it with an additional non-blocking process specifically designed to improve customer experience.

## Significant benefits in terms of efficiency and customer experience

The benefits of payments pre-checking are threefold:

**Improve efficiency.** Dynamically and selectively asking a few additional questions while the customer is creating the payment can significantly reduce the number of sanction alerts later in the process, or at the bare minimum reducing the time it takes for an operator to close these alerts. Additional questions should be reduced to the strict minimum though, as there is a delicate balance between collecting more information and increasing the abandonment rate. Also, where possible, fields should be pre-populated with information, for example from previous similar transactions.

**Better manage customers' expectations.** In terms of customer experience, it is very important not to break the promise of instant fulfilment once it has been given. Detecting early that instant payment will not be feasible due to the required manual resolution of a sanction hit allows to reduce expectations to a level that is achievable. This keeps customer satisfaction high and drives community recommendations such as "fintech x never lets me down, service is always exactly as promised", which is key to get and keep market share.

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**Reduce the Request for Information (RFI) burden.** A payment typically involves several intermediaries, and fintechs often rely on financial institutions for the "last mile" delivery of cross-border transactions. When an alert is raised by an intermediary for a payment's party which is not a customer, they have to seek additional information from the institution that is the closest to the party triggering the alert: a process known as RFI. RFIs are notoriously time consuming, slow and painful! Implementing pre-checking at the source to collect and convey richer information not only benefits the financial services provider initiating the payment, but also all those involved in the transaction, by reducing the occurrences where RFIs are required.

## The technology requirements

The screening technology plays an important role in enabling payments pre-checking. Financial services providers will need to assess their watchlist screening technology providers against three key dimensions:

1. **Latency and throughput.** Pre-checking needs to happen while the customer is typing the payment. Latency (i.e., response time) and throughput (i.e., number of transactions per second) are critical for customer experience. The ability to scale and screen large numbers of transactions, each within a few milliseconds is a key requirement.
2. **Flexibility.** Pre-checking requires the screening technology to be able to adapt screening parameters dynamically based on the information being typed by the customer (e.g., many fintechs and financial institutions would adapt their screening policies based on currencies or payment corridors).
3. **Ease of integration.** Pre-checking needs to be integrated in the payments applications themselves (increasingly mobile payments applications) and has to re-act dynamically to the detected issues. Transporting information to avoid RFIs also requires being able to communicate with many heterogenous systems. API-based solutions are a must to ensure both this level of tight integration and this easiness of information exchange.

## A risk-free journey to embrace at your own pace

Pre-checking does not introduce any new regulatory risk. It complements (rather than replaces) the existing watchlist screening process.

It is a risk-free way to deliver a radically better customer experience by reducing friction and better managing customer expectations in terms of payment execution time. All it takes is to dynamically adapt the customer journey and selectively ask a few additional relevant questions at the best time to ask those questions: at payment initiation!

Tech-savvy fintechs obsessed by providing superior customer experience and not hampered by legacy systems should be able to quickly embrace pre-checking and reap the related benefits. For many incumbent banks, the process will likely need to be iterative as changes to decades-old customer interfaces and processes mixing many different systems do not happen overnight.

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