

# **FIN-FSA's thematic review concerning sanctions screening - public summary**

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## Thematic review concerning sanctions screening

Sanctions screening is an important control for ensuring compliance with sanctions and a key tool for detecting parties targeted by sanctions. During 2025, the Financial Supervisory Authority examined how well the sanctions screening systems used by credit institutions and payment service providers function and how effective they are.

Section 16 of Chapter 3 of the Anti-Money Laundering Act requires that, as part of customer due diligence measures, an obliged entity must have effective:

- policies
- procedures, and
- internal controls

to ensure that the obliged entity complies with obligations arising from UN and EU sanctions as well as from national asset-freezing decisions.

In addition, more detailed requirements for entities supervised by the Financial Supervisory Authority have been set out in the FIN-FSA Regulation and Guidelines 4/2023.

### Thematic review

The purpose of the thematic review was to determine how well credit institutions and payment service providers detect individuals and entities listed on sanctions lists in their own sanctions screening systems (hit accuracy). The objective was also to map other elements of the sanctions monitoring process, such as outsourcing, testing, and resourcing.

A total of 17 credit institutions and payment service providers participated in the thematic review, which was carried out by testing the systems used in their sanctions screening as well as through a questionnaire prepared by the Financial Supervisory Authority.

The testing of sanctions screening systems was conducted in the companies' own test environments, which were required to mimic their production environments. The purpose was to assess the systems' accuracy and effectiveness based on the parameters and settings each bank had in place at the time of testing.

The test consisted of two datasets. In the first dataset, the names appeared exactly as written in the official sanctions lists. In the second dataset, names from the sanctions lists had been altered, for example by removing a letter, replacing a letter with another, or modifying the listed person's date of birth. The datasets included names from the UN and EU sanctions lists and from the national asset-freezing decision list (the so-called NBI-list). The test was performed without real customers or payments.

In addition, the questionnaire prepared by the Financial Supervisory Authority contained a total of 48 questions, divided into the following areas:

- products and services offered by the companies relating to payments

- screening systems
- sanctions lists
- testing
- resources, and
- system disruptions and errors

Purpose of the questionnaire was particularly to improve the FIN-FSA's understanding of the background factors that influence the supervised entities' sanctions screening. It also aimed at identifying factors that may affect the companies' sanctions risk.

## Supervised entities' systems detect sanctioned names well

Based on the test, the systems of most supervised entities detected the sanctioned parties well in both customer and transaction screening, when the names were written exactly as they appear in the official sanctions lists. According to the test results, the systems of four companies detected sanctioned names poorly.

When the results were broken down by sanctions list, it was observed that the systems of eight companies detected names on the national asset-freezing decision list (the so-called NBI -list) either poorly or not at all<sup>1</sup>. The deficiencies were either in the customer screening system or in the transaction screening system, but in few instances the deficiencies were in both systems.

## Many supervised entities performed poorly in the test involving modified names

For the modified dataset, the results decreased significantly for several companies. In customer screening, seven companies achieved results that, in the view of the Financial Supervisory Authority, were good. In transaction screening, the results were considered good for five companies. Thus, the majority of the companies participating in the thematic review have room for improvement in how their systems detect sanctioned parties when the spelling of the name is not precisely identical to the name appearing on the sanctions list.

There is a risk that sanctions screening systems can be circumvented if the companies' systems do not detect small differences in the spelling of names. By continuously developing the systems and conducting regular testing, it is possible to ensure that the systems detect sanctioned parties even when the spelling is not 100 % identical with how it was written on the sanctions list.

## Other observations regarding sanctions screening – new sanctions lists must be updated without delay

In the questionnaire, eight companies reported that they updated the sanctions lists within 24 hours. The Financial Supervisory Authority's view is that the risk that a sanctioned party transfers funds and attempts to avoid freezing is typically at its highest immediately after the announcement of the

<sup>1</sup> Due to the small size of the NBI- list, the test dataset contained only 9 names from the list. For this reason, the deficiencies did not have as great an impact on the companies' overall results.

designation. In addition, the obligation to comply with EU sanctions enters into force the moment they are published in the Official Journal of the European Union. The FIN-FSA considers that these supervised entities face a risk of breaching their obligations to freeze the funds and economic resources of a sanctioned party if there is a 24-hour delay in updating new sanctions lists.

Payment service providers (PSPs) offering instant credit transfers must also take into account the obligation under the EU's instant payments regulation<sup>2</sup> for PSPs to verify whether any of their payment service users are persons or entities subject to targeted financial restrictive measures. Such verifications shall be carried out immediately after the entry into force of any new targeted financial restrictive measures, and immediately after the entry into force of any amendments to such targeted financial restrictive measures, and at least once every calendar day.

It was also discovered that the resources companies allocate to maintaining sanctions screening systems, managing sanctions lists, and handling sanctions alerts varied significantly between entities. According to the FIN-FSA's view, maintenance of sanctions screening systems includes regular testing and updating. Limited resources may lead to situations where system maintenance suffers, and effective system performance is compromised. In such cases, there is a risk that a company may fail to detect sanctioned parties within its customer base or payment flows.

Furthermore, based on the questionnaire, the FIN-FSA observed that more than half of the companies participating in the thematic review had outsourced the maintenance of their sanctions screening systems to an external service provider. Among the companies that took part in the sanctions screening system test, those that had outsourced system maintenance showed weaker hit accuracy—both for the control dataset and for the manipulated dataset—compared to companies that had not outsourced these functions.

The overall significance of the findings was assessed as high (3)<sup>3</sup>.

## FIN-FSA's Requirements and Recommendations

1. The FIN-FSA requires that supervised entities organise sanctions screening in such a way that the entity:
  - is able to detect parties subject to sanctions regulations and national asset-freezing decisions, and
  - where necessary, refuse to provide a service or execute a transaction, or
  - freeze the funds of the respective parties<sup>4</sup>

<sup>2</sup> Article 5 d of Regulation (EU) 2024/886 of the European Parliament and of the Council

<sup>3</sup> The findings are classified into four categories according to their significance:

1 = minor significance

2 = moderate significance

3 = high significance

4 = very high significance

<sup>4</sup> FIN-FSA Regulations and Guidelines 4/2023, chapter 7.1 paragraph 4

2. The FIN-FSA requires that supervised entities include the national asset-freezing decision list (the NBI- list) in sanctions screening.
3. The FIN-FSA requires that the sanctions lists used in sanctions screening are up to date. Supervised entities must pay close attention to the time it takes them to update their sanctions lists, as new and amended sanctions lists enter into force immediately upon publication in the Official Journal of the European Union. Delays in updating sanctions lists may expose supervised entities to the risk of breaching sanctions obligations to freeze the funds and economic resources of sanctioned parties. Furthermore, PSPs offering instant credit transfers shall take into account the obligations from instant payments regulation that require PSPs to update sanctions lists immediately after the entry into force of any new targeted financial restrictive measures, and immediately after the entry into force of any amendments to such targeted financial restrictive measures.
4. The FIN-FSA recommends that all supervised entities ensure that the systems used in sanctions screening function as intended, and that they also test hit accuracy of those systems.
5. The FIN-FSA further recommends that supervised entities ensure that their sanctions screening systems can detect sanctioned parties as effectively as possible, even when the spelling of a name differs slightly from that on the sanctions list.
6. The FIN-FSA recommends that all supervised entities ensure they have sufficient resources for maintaining sanctions screening systems, managing sanctions lists, and handling sanctions alerts.
7. The FIN-FSA recommends that supervised entities that have outsourced the maintenance of their sanctions screening systems to an external service provider ensure that they have the necessary and up-to-date information on the outsourcing arrangement. The FIN-FSA reminds supervised entities that responsibility for the functionality of the systems remains with the supervised entity.

The FIN-FSA will provide entity-specific feedback to the companies that participated in the thematic review and will monitor the progress of corrective measures.