

eGuide

# World-Class Compliance Risk Management

How to maximise protection and minimise risk  
when financing the shipping industry.



## Introduction

# A word from our finance specialist

Around 80 percent of the world's trade by volume is carried by sea, according to the annual [Review of Maritime Transport](#), and some sources put it as high as 90 percent.

Whatever the exact figure, shipping is at the centre of the global economy and is heavily dependent on lenders to provide trade finance and ship finance.

While all commercial enterprises involve risks for lenders, the shipping industry poses particular challenges. Money laundering, cargo deceptions, terrorist activities, false documentation, and environmental impact are just

some of the things finance teams must be aware of and rigorously assess and monitor.

Above all, shipping is now subject to increased regulation and sanctions scrutiny, meaning financiers are under greater pressure to manage risks and remain compliant.

This was underlined in a poll conducted by the Lloyd's List 2021 Shipping Outlook Forum, which confirmed that sanctions/regulatory risk is considered the biggest threat to shipping over the next five years.

From our discussions with lenders, we know more clarity is needed on regulatory obligations, how compliance requirements are evolving, and how to detect illegal activities. We also know that finance teams often lack the time and resources to stay fully informed in the fast-moving and complex world of maritime trade. However, armed with the right information you can not only protect your business, but also gain a competitive advantage.

Access to excellent data and insights is essential. We provide this specialist insight to reduce risk exposure, boost operational efficiency and increase your success. This guide describes the current risk and regulatory environment and highlights the approach you can follow for world-class financial compliance risk management.



**Austin John**

Finance Sector Manager, Lloyd's List Intelligence

## Section one

# The growing challenges of compliance



Because banks and financial institutions underpin the shipping industry, they face increasing scrutiny from regulators who are clamping down on maritime crimes. Examples of the indicators of possible illicit activity include dark ship-to-ship transfers, the deliberate deactivation of tracking systems, flag hopping, falsifying documentation, and environmental and safety breaches.

Finance teams must therefore understand current and evolving risks, ensure they have comprehensive information about all the vessels and shipments on their portfolios, and perform stringent real-time checks to satisfy compliance.

Today, as sanction risks multiply, there has never been more emphasis on due diligence and compliance controls. Know your customer (KYC), counter-measures for trade-based money laundering (TBML), and combatting the financing of terrorism (CFT) are vital compliance requirements. All depend on detailed intelligence about ship movements, cargoes, ownership, environmental impact, and other factors.

# New, stricter guidelines emerging

In the last few years, we've seen a raft of new regulations that impact global shipping. In May 2020, the Office of Foreign Assets Control (OFAC), in conjunction with other US authorities, issued a 'sanctions advisory' on [illicit shipping and sanctions evasion](#). Building on earlier advisories, it listed a wide range of deceptive practices and reinforced the need for compliant finance.

Following the US lead, the UK's Office of Financial Sanctions Implementation (OFSI) published a [Maritime Guidance](#) document on illicit and suspicious shipping practices and enforcement action and penalties. The document warns lenders to be vigilant of practices that 'confuse or conceal the identities of vessels, cargo, routes and ports', and underlines that banks must apply stronger risk assessment when financing the shipping industry.



OFSI Maritime Guidance  
[assets.publishing.service.gov.uk](https://assets.publishing.service.gov.uk)

# Responsible and compliant finance

In addition to complying with guidelines from bodies such as OFAC and OFSI, lenders must consider wider environmental, social and governance (ESG)

issues. Initiatives such as the [Poseidon Principles](#) typify the need to promote green shipping and comply with KYC, while the International Maritime Organization's recent regulation on sulphur reduction, known as [IMO 2020](#), means finance teams must exercise due diligence to identify counterparties who are not compliant.

## Poseidon Principles:

-  Assessment
-  Accountability
-  Enforcement
-  Transparency

## Sulphur 2020 beneficial effects:

-  Cleaner air
-  Positive impact on human health
-  Higher quality fuels
-  Ship operators and refineries have adapted
-  Changes for enforcement authorities

# Teams, time, rising costs

As the need for risk assessment and due diligence increases, so does the pressure on finance teams.

Monitoring vessels and shipments requires specialist skills and resources that may not always be readily available in-house, including a detailed understanding of the shipping industry to be able to answer specific questions. Those handling ship finance and trade finance must complete an ever-growing number of checks, which means mounting costs and more staff and time for research and risk analysis.

Finance teams need a consistent, global, timely approach to sanctions compliance. Failure could result in large fines, loss of access to trading (in the US dollar, for example), criminal penalties, or at the very least reputational damage. That's why precise and up-to-date information is the foundation for world-class compliance risk management programmes.

Section two

# How to achieve world-class compliance risk management

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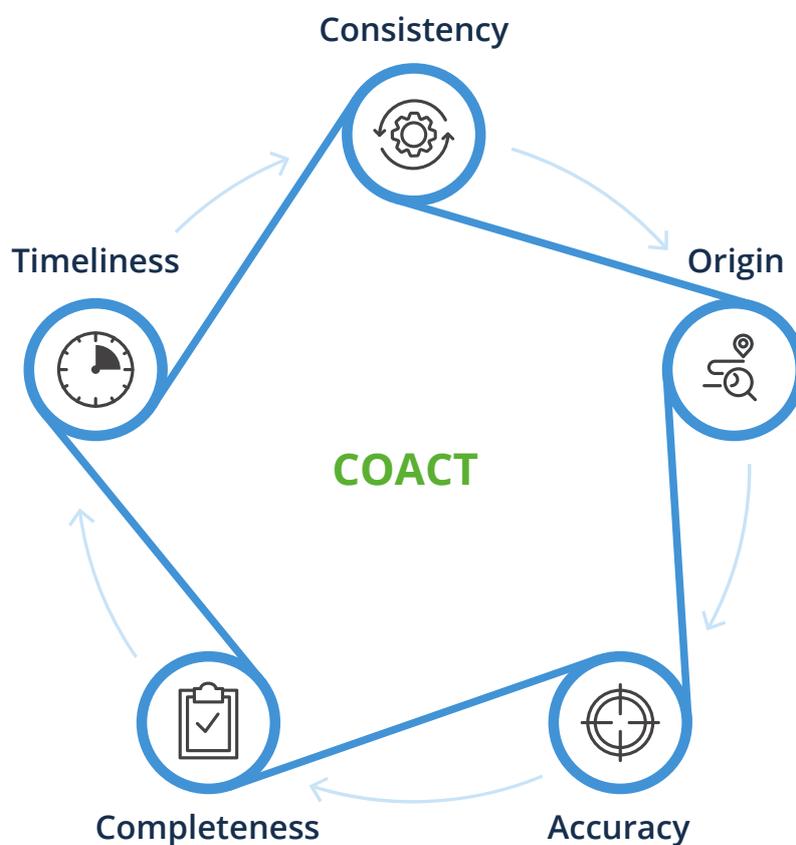
## Demand superior data

Reliable, high-quality data is at the heart of successful screening and compliance checks.

At Lloyd's List Intelligence, we've developed a quality framework to ensure critical finance decisions are based on the most complete and reliable data from sources worldwide.

We call it **COACT**, which stands for **Consistency, Origin, Accuracy, Completeness, and Timeliness**. These data quality attributes span the full range of data sources, collection, verification, and publication, as well as the way we select data partners and the standard to which our teams operate.

Vessel movements, port profiling, vessel casualties, vessel characteristics, ownership structures, credit risk reports, and sanctions information are all held to the same high quality COACT standards.



COACT Methodology

Without access to data that is governed and backed by the COACT methodology, finance teams are at risk and may have gaps in their compliance programmes.

# Understand and observe the regulations

Like the shipping industry itself, maritime regulations are continually on the move. Rules and guidelines must keep pace with the dynamics of international commerce, sanctions evasion tactics, geopolitical shifts and environmental issues.

Once again, it's vital to have the right information at the right time. Not only must financiers be aware of what's happening at sea, they must also track industry developments and shape their lending policies according to the latest guidelines and rules.

That means knowing how regulations are evolving and what the implications are for best practice and financial compliance. For instance,

you may be aware of general sanctions against countries such as Iran, Syria, and North Korea. But which other territories or regions are also affected?

Are you keeping abreast of new rulings and changes to existing ones? And where might secondary sanctions apply? Today, it's not enough to know your immediate customer: you must also know the sanctions status of your customer's customers.

# Evaluate and manage risk effectively

Identifying illegal behaviour is complex and demanding. Many databases must be checked and cross-referenced, and the search must go well beyond reviews of grey lists—publicly available information on vessels that have been linked to sanctions violations.

Apart from gathering sufficient data, risk assessment requires the ability to spot patterns and trends, to see beyond surface events and expose deceptive practices that are continually evolving. Effectively assessing financial compliance risk involves many interacting tasks to ensure risks are thoroughly evaluated and controlled. For example:



Day-to-day sanctions screening



Ship and ownership research



Detailed reviews  
of documentation



Tracking and monitoring  
ship movements

Lenders still rely on automatic identification systems (AIS) as the primary source of insight for ship movements, despite the fact that they can be interrupted or deliberately deactivated, manipulating the data accuracy.

AIS technology emits messages with information about vessel identity, characteristics and position, revealing all points on a journey as long as the system remains active.



If the AIS is switched off, known as ‘going dark’, it could be an indicator of suspicious activity such as illegal ship-to-ship transfers.

## Harness specialist talent, resources, and artificial intelligence (AI)

Risk assessment and compliance verification are traditionally labour-intensive, and as financial compliance becomes more onerous, trade finance and ship finance teams are becoming stretched and exposed to greater risk.

As well as developing clear processes and audit trails, staying on top of compliance today increasingly requires banks to have maritime compliance expertise, with a detailed understanding of shipping itself to be able to make risk judgments.

Data science talent is being hired by the market leaders, enabling analysis of data to build models that can help screen, vet and highlight suspicious patterns of behaviour indicating potential non-compliance.

Access to AI and machine-learning tools is an advantage when it comes to collecting and processing large volumes of data to spot the patterns that inform the models. Automated solutions save significant time compared to list-based screening-compliance, reducing delays and lost opportunities.

It's difficult to cover the broad scope of data sources, global events, and shipping activities that need to be screened today, which is why digitally advanced AML/KYC/CFT platforms are a useful aid for financial compliance and operational efficiency. Powered by artificial intelligence and machine learning, they offer a level of transparency and precision that was previously unavailable.

Section three

# Conclusion and next steps

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The challenge for those financing the shipping industry is to gain a global, accurate and comprehensive view that keeps pace with their needs.

World-class financial compliance requires world-class data. It also requires due diligence, a clear risk management strategy that embraces all aspects of shipping, and a thorough understanding of the changing regulatory landscape.

# Stay focused with Seasearcher Advanced Risk & Compliance

Seasearcher Advanced Risk and Compliance provides a new view of validated maritime trading risk with unprecedented context and insight, saving you time and effort. Visits to sanctioned ports, deviation from normal trade routes, and probable illicit activities like dark ship-to-ship transfers are connected and risks documented in one report. With reliable data from over 3,000 sources, AI models process millions of data points to generate the most accurate and detailed predictive analytics and risk-ratings available, providing a level of detail on illicit activity you couldn't see yourself.



**62,000+**  
live vessels  
tracked daily



**20,000+**  
seasearcher  
users  
worldwide



**427+**  
million data  
points received  
daily



**100%**  
coverage  
of the live  
commercial  
fleet

# Beyond compliance

Staying compliant is just one of the benefits of having the right information to make crucial decisions. Finance teams with access to high-quality data will increase operational efficiency as well as minimise risk, and are better able to exploit commercial opportunities and gain competitive advantage.

## Key takeaways

- Increased regulatory scrutiny means lenders must improve due diligence and strengthen KYC checks.
- Failure to demonstrate financial compliance may lead to fines, market exclusion, and prosecution, as well as reputation damage
- Finance teams must navigate a fast-moving shipping environment and access a wide range of information to stay aware of all current and emerging risks.
- Time, cost, and limited internal skills and knowledge are hampering financial teams and compromising financial compliance.
- Access to reliable, complete and verified data, backed by the latest digital technologies, will enhance financial control and performance.

# How world-class is your compliance risk management? Find out with our free compliance audit

[START HERE](#)



Transparent and actionable maritime data and analytics  
powering decisions that drive the safe, efficient, and lawful  
movement of seaborne trade.

# About Lloyd's List Intelligence

As the trusted expert partner for 300 years, we enable banks and financial institutions to make informed decisions about ship finance and trade finance by providing transparent data and analytics, validated analysis and actionable insight.



## Operations



## Compliance



## Sanctions screening

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