DESCARTES™

# EXPORT COMPLIANCE IN AN AGE OF DISRUPTION

## A 2020 BENCHMARK SURVEY

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This eBook provides an overview of the important role export compliance plays in organizational processes—including Denied Party Screening, export license and documentation management, and verification of compliance activity, etc. It also outlines the steps that businesses and institutions can take today to address the current challenges presented by the COVID-19 pandemic, as well to help them prepare for the next mass disruption.

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# Introduction

The 2020 benchmark survey was structured to gain a better understanding about how organizations manage their export compliance obligations. However, other valuable insights that came to light were how they viewed the importance of compliance, and their desire to better incorporate export and denied party screening compliance more seamlessly into existing business infrastructure.

Conducted amid the COVID-19 disruptions to global supply chains in early March 2020, the survey reinforced the point that organizations need to take advantage of advanced technology to keep their operations moving forward and maintain a high level of compliance in turbulent times. And many are doing just that.

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# Key Findings

We surveyed trade compliance professionals around the world on what they believed was important to them in these challenging times and gleaned the following insights:

- A majority **(68%)** of those surveyed were planning to strengthen their compliance infrastructure by moving to integrated (automated) denied party screening, and adopting online workflow processes to review potential screening matches **(92%)**.

- A significant number have expanded the scope of screening beyond just the usual customer base to also include:

**55%**
Suppliers

**45%**
New Hires

**47%**
Contractors and others

- Many have widened the scope of compliance activities they undertake by adding:

**28%** Match Vetting and Due Diligence Record Keeping

**21%** Classification Capabilities
*(Export Control Classification Number (ECCN), United States Munitions List (USML), Schedule B)*

**40%** Export Document Creation

**33%** Export License Management

**21%** Controlled Technology Oversight

Among Others

## Other findings

- A majority **(81%)** plan to implement sanctioned party ownership screening.
- A majority **(69%)** have a designated compliance champion.

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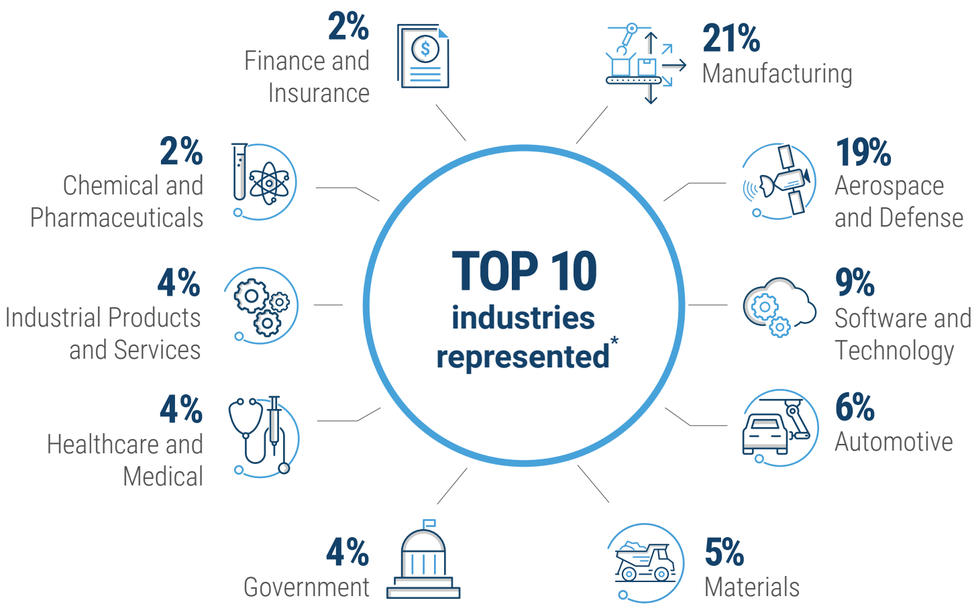
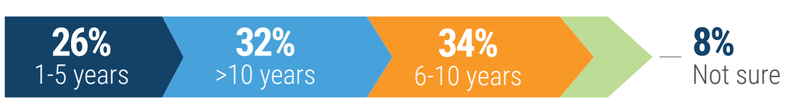
# Who We Surveyed



## Many have a long history of screening for denied parties




## Additional Key Facts

- A majority have operations in North America, followed by Europe, Asia and the Middle East
- A majority have customers, vendors and other business partners around the world

*Note: respondents could choose more than one response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# The importance of having a screening solution in place

Virtually everyone surveyed believed that there is value to having a screening solution in place—rather than screening manually via government sites. By optimizing their compliance with international trade regulations, they have the peace of mind to focus on their core organizational mission and objectives.

### Why a screening solution was needed

- **78%** Helped reduce the risk of fines and other penalties
- **78%** Provided peace of mind through comprehensive watch list and regulatory content
- **73%** Allowed us to quickly be compliant with trade compliance regulations
- **65%** Provides comprehensive recordkeeping in the event of a government audit
- **46%** Ease of use allows new users to be up and running quickly
- **38%** Saved time and freed up resources
- **32%** Search configuration options help optimize results returned
- **5%** Not sure

*Note: respondents could choose more than one response


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# Trade compliance is more than just denied party screening

There is a breadth of export compliance and risk mitigation considerations that are impacted by various international laws and regulations. The results indicate that many of those surveyed understand that compliance is more than traditional screening, and have additional processes in place to optimize risk mitigation efforts.

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# What areas of export compliance are you responsible for?

- 44% Restricted Party Screening
- 40% Export Classification (e.g., ECCN, USML, Schedule B)
- 40% Export Compliance Oversight
- 40% Export Documentation
- 33% Export Licenses
- 28% Match reviewing, vetting and clearing
- 21% OFAC/Financial Compliance Screening
- 21% Export Tariff Classification
- 21% Managing controlled technologies and data
- 16% Compliance with Sanctioned Ownership Threshold Regulations (e.g. “50% rule”)
- 9% Visas for foreign employees, contractors, students, etc.

*Note: respondents could choose more than one response


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# What areas of trade compliance is your department responsible for?

- **37%** Restricted Party Screening
- **33%** Export Licenses
- **33%** Trade compliance Oversight
- **30%** OFAC/Financial Compliance Screening
- **30%** Compliance with Sanctioned Ownership Threshold Regulations (e.g. “50% rule”)
- **28%** Match reviewing, vetting and clearing
- **28%** Export Documents
- **26%** Export Classification (e.g., ECCN, USML, Schedule B)
- **21%** Export Tariff Classification
- **14%** Managing controlled technologies and data
- **7%** Facilitating visas for foreign employees, contractors, students, etc.

*Note: respondents could choose more than one response


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# Who users are screening

Respondents indicated that they have widened their compliance net beyond just screening customers and buyers.

It is worth highlighting the high percentage of those screening end users **(61%)** as it means organizations that take governance, risk, and compliance responsibilities seriously have recognized its growing importance in helping to keep goods, services and technology out of the hands of those who would use them for harm rather than good.

**Which of the following do you typically screen?**

*Note: respondents could choose more than one response


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# Implementing automated, integrated screening into daily operations

Switching to a specially designed application that automatically searches hundreds of government watch lists simultaneously is an important first step towards achieving full export and OFAC compliance. However, it appears there are still many perceived obstacles to integrating a screening solution with existing business systems and applications.

## Perceived barriers to integrated screening

Though many of those surveyed indicated that they do not have sufficient volumes to justify the cost **(39%)**, integrating compliance solutions into existing business systems (e.g., Enterprise Resource Planning (ERP), Customer Relationship Management (CRM), Supply Chain Management (SCM), etc.) maximizes compliance and minimizes risks of a compliance breach.

**What do you view as the primary reason(s) why your organization has not moved to an automated system?**

*Note: respondents could choose more than one response

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# Why automate export compliance processes?

Integrated screening significantly reduces compliance risks because screening occurs automatically, eliminating instances of human errors. This benefit is accentuated in times of mass disruption, while supply chains are being adjusted and the workforce reorganized, allowing screening to continue, and the business-of-doing-business to stay the course.

## Benefits of integrated screening

- **98%** Reduced risk by helping to ensure records get screened automatically
- **86%** Helped ensure everyone is screening so there are no gaps in the process
- **71%** Saved time by minimizing time spent on screening.
- **71%** Improved the efficiency of the organization's compliance processes by freeing up resources for other projects
- **71%** Streamlined the compliance process by having screening results directly in business systems

## Characteristics of an organization with successful integrated screening

- The vast majority have been screening for five or more years **(67%)**
- **87% use ad hoc** and **16% use bulk screening** to augment integrated screening
- **More than 70%** rescreen daily, compared with the **40% industry average** of respondents
- A majority electronically store screening match-vetting details for future due diligence purposes
- **Almost 60%** have sanctioned party ownership screening, compared with the **38% industry average** of those surveyed
- **80% have a compliance champion**, compared with the **70% industry average** of respondents

*Note: respondents could choose more than one response


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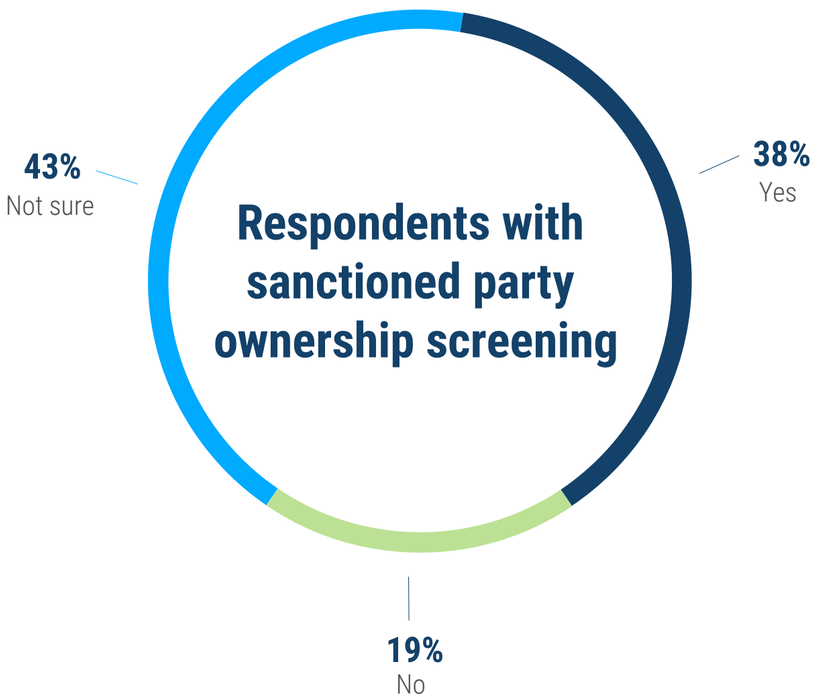
# Screening for companies owned by sanctioned parties

The awareness among respondents about the importance of complying with sanctioned party ownership rules seems to be mixed, with **19%** and **43%** either not doing it, or were unsure whether their organization performed such screening, respectively.

The Office of Foreign Assets Control (OFAC) has put the sanctioned party shareholding threshold at **50%**, however, these vary by jurisdiction. Maintaining compliance with these thresholds is a challenge, as governments do not provide lists of these organizations. But robust compliance solutions should be able to include this type of screening.

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# Workflows to review potential positive screening matches

A critical element of an efficient screening process is a workflow that guides users to review potential positive matches, put suspect transactions on hold pending closer study, escalate cases to an empowered decision maker for further vetting, and electronically store decisions with relevant rationale for future audit/reporting purposes.

**How do you document activities such as match reviewing, vetting, and clearing?**

- **62%** Emails
- **24%** Our screening solution allows us to record our activities
- **38%** Hard Copy/Paper Copy
- **12%** Via ERP or other business system
- **29%** Spreadsheet
- **6%** Not sure


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# Compliance champions are an organization's first line of risk-mitigation defense

A compliance champion can play a critical role in helping others within the organization understand the importance of screening and other export compliance efforts. They generally also provide valuable oversight, helping to ensure screening and other compliance activities are taking place consistently across the organization.

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# What organizations see in their future compliance set-up

We asked what organizations needed in the short-term to build a stronger compliance foundation for the  longer term. The basic answer is encapsulated in making better use of automation technology and workflow tools such as those for screening match vetting.

**Which of the following would help strengthen your organization's compliance program?**

- **92%** Automatically recording screening activities for audit/reporting purposes
- **91%** Streamlining documenting match reviewing, vetting, and clearing activities
- **81%** Easily generating reports of denied party screening activities.
- **80%** Complying with OFAC's "50% rule" and other regulations around sanctioned party ownership percentages
- **75%** Centralizing and increasing visibility into screening activities across the organization
- **68%** Automating screening by integrating with ERP, CRM, visitor management, HR, or other systems
- **68%** Daily rescreening of customers and other business contacts against changes to government lists


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# Strategies for future consideration

If there is one thing the COVID-19 pandemic has taught organizations, it is that they can no longer take for granted the traditional way they have conducted business. This certainly also applies to export, import, and financial compliance. And with sanctions, embargoes, and denied and restricted parties lists constantly in flux, screening all transactions—and abiding by the requisite export license and document requirements—is as important as always.

Organizations are gaining a better understanding that significant disruptions to their supply chains can take many forms—from pandemics, to trade conflicts, to political tensions. It stands to reason that they must take steps sooner than later to be better equipped to address turbulent times.

The following export compliance strategies are important to consider as a means to be more agile and responsive to change:

- Automate the various processes involved with screening in order to achieve optimum risk management. This would include integrating screening solutions into existing ERP, CRM, SCM and other business systems;
- Widen the screening net to also include suppliers, visitors to your facilities, new hires, and others, not only buyers and customers as is traditionally the case;
- Rescreen frequently, given that business relationships can span long periods of time;
- Use workflow solutions to keep errors to a minimum, and compliance standards high;
- Ensure that solutions allow for multiple parties in disparate locations to collaborate effectively—even more important now given that a dispersed workforce may be the new normal for years to come; and
- Leverage solutions other than just screening for more comprehensive export compliance, such as those that help with ECCN and USML classification, export documents, and export licenses, to name a few.

By adopting strategies such as those described above, organizations should be much better prepared to continue their efforts to remain export, trade and OFAC compliant in the event of any future mass disruptions.

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# How Descartes Can Help

**Descartes Visual Compliance**™ has developed a suite of premier denied party screening software solutions that help organizations around the world reach the highest export compliance standards while reducing the risk of negative impacts to the bottom line. Our easy to implement, cloud-based solutions improve the efficiency of compliance teams and strengthen organizational governance, risk, and compliance processes. Utilizing advanced technology that delivers accurate results, they reduce false positives, and provide visibility and vetting methodology on priority items in a centralized workflow format with an automatically generated audit trail.

LEARN MORE AT **WWW.VISUALCOMPLIANCE.COM**

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# About Descartes Systems Group

Descartes (Nasdaq's) (TSX:DSG) is the global leader in providing on-demand, software-as-a-service solutions focused on improving the productivity, performance and security of logistics-intensive businesses. Customers use our modular, software-as-a-service solutions to route, schedule, track and measure delivery resources; plan, allocate and execute shipments; rate, audit and pay transportation invoices; access global trade data; file customs and security documents for imports and exports; and complete numerous other logistics processes by participating in the world's largest, collaborative multimodal logistics community. Our headquarters are in Waterloo, Ontario, Canada and we have offices and partners around the world.

Learn more at **www.descartes.com**, and connect with us on **LinkedIn** and **Twitter**.

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