

Official sensitive

WHG (International) Limited

**Breach of licence condition to comply with Money Laundering
Regulations 2007**

**Breach of Social Responsibility code provision 3.4.1 (customer
interaction)**

February 2018

**The issues identified in this statement are likely to form the basis for
future compliance assessments of gambling operators**

1. Executive summary

This case concerns WHG (International) Limited which holds an operating licence for remote casino, bingo, gambling software, pool betting and remote general betting standard – real and virtual events.

The Gambling Commission found systemic failings with WHG processes which were aimed at preventing money laundering and harm being caused to problem gamblers. This included senior management failure to mitigate risks and failing to have a sufficient number of staff to ensure the processes were effective between November 2014 and August 2016.

As a result of these systemic failings WHG repeatedly breached the licence condition requiring compliance with the Money Laundering Regulations 2007 and the LCCP social responsibility code provision 3.4.1 (customer interaction) in its dealings with at least ten customers who used stolen money, or money that may be the proceeds of crime, to gamble.

Anti-money laundering and social responsibility requirements are in place to keep crime out of gambling and protect the vulnerable.

In line with our *Statement of principles for licensing and regulation* WHG will pay a penalty package exceeding £6.2m. This includes payment of £5m in lieu of a financial penalty to charities to support socially responsible causes, and in cases where victims of customer fraud are identified WHG will reimburse money gambled and lost by customers with WHG. A breakdown of the regulatory settlement is set out in Section 4.

WHG has acknowledged its shortcomings and entered into a regulatory settlement on terms acceptable to the Commission. WHG cooperated with our enquiries and has made changes to its policies, procedures and resourcing.

As part of this settlement WHG will also appoint external auditors to review the effectiveness and implementation of its anti-money laundering (AML) and social responsibility (SR) policies and procedures.

2. Findings

Failure to identify problem gambling behaviour and prevent money laundering

Our investigation uncovered failings in WHG's anti-money-laundering (AML) and social responsibility (SR) controls.

We found that WHG's failure to follow processes resulted in at least ten customers being able to use stolen money, or money that may be the proceeds of crime, to gamble in various periods between November 2014 and June 2017. The investigation established that the source of the customers' funds included substantial thefts from employers following breaches of trust, fraud offences involving elderly victims, and money laundering offences.

WHG failed to abide by the specific condition of its operating licence requiring it to comply with the Money Laundering Regulations 2007. In addition the operator breached social responsibility code provision 3.4.1 (customer interaction) in its dealings with the customers who exhibited behaviours indicative of problem gambling.

In total the customers deposited £3.4m and as a result WHG returned a gross gambling yield (GGY) in excess of £1.2m.

Despite the substantial amounts being spent and internal alerts being raised, WHG failed to carry out sufficient money laundering checks and failed to interact with customers whose gambling behaviour may have indicated problem gambling.

All ten of the customers have been, or are currently subject to, police investigations into theft or money laundering.

Examples of WHG failures include:

- a customer was allowed to deposit £654,000 over nine months without source of funds checks being carried out. The customer lived in rented accommodation and was employed within the accounts department of a business earning around £30,000 per annum. Our investigation found that there had been delays in reviewing all of the information available about the customer due to WHG's resourcing issues.
- a customer was allowed to deposit £541,000 over 14 months after the operator made the assumption that the customer's potential income could be £365,000 per annum based on a verbal conversation and without further probing. The reality was that the customer was earning around £30,000 a year and was funding his gambling habit by stealing from his employer.
- a customer who was allowed to deposit £653,000 in an 18 month period activated a financial alert at WHG. The alert resulted in a grading of 'amber risk' which required, in accordance with the licensee's anti-money laundering policy, a customer profile to be reviewed. The file was marked as passed to managers for review but this did not occur due to a systems failure. The customer was able to continue gambling for a further six months despite continuing to activate financial alerts.
- a customer was identified by WHG as having an escalating gambling spend with deposit levels exceeding £100,000. WHG interacted with the customer seeking assurance that the customer was 'comfortable with their level of spend'. After receiving verbal assurance and without investigating the wider circumstances the operator continued to allow the customer to gamble. In our view that interaction was inadequate and did not review the customer's behaviour sufficiently to identify if their behaviour was indicative of problem gambling.
- a customer deposited £147,000 in an 18 month period with an escalating spend and losses of £112,000. WHG systems identified the issue but its only response over a twelve month period was to send two automated social responsibility emails. Our view is that this action alone was not sufficient given the customer's gambling behaviour coupled with the amount of the losses.

3. Good practice

In order to avoid making the same mistakes as WHG, you should consider the following questions:

- Are you ensuring you have effective anti-money laundering and social responsibility procedures and are your staff following these procedures?
- Are you sure you have adequate staff numbers to carry out these procedures?

- Are you checking that you know higher risk customers' source of wealth?
- Are you using all information (including customer spend levels) to identify potential instances of problem gambling?
- Are you keeping accurate records of these interactions?

If you are still unsure about our requirements in relation to social responsibility and anti-money laundering, please refer to [Licence conditions and codes of practice: section 3.5 social responsibility code and ordinary code](#) and our webpages on [how to comply with your anti-money laundering responsibilities](#).

4. Regulatory settlement

The penalty package consists of:

- a) £5m payment in lieu of a financial penalty to charities for socially responsible purposes.
- b) WHG will divest the gross gambling yield (GGY) from all the identified customers without deduction for tax or operating costs. This includes payment of £790,072 to victims identified whose money was stolen and then spent gambling, and a further payment of £231,528 to a charity to support socially responsible causes to ensure the operator does not benefit from regulatory failings. A further £234,000 will be divested pending further investigations.
- c) Agreement to continue to review the effectiveness and implementation of its revised and updated anti-money laundering (AML) and social responsibility (SR) policies and procedures. This will include the appointment of external auditors.
- d) Payment of £21,000 towards the Commission's costs of investigating the case.

5. Conclusion

Our investigation found, and WHG accept, that systemic failings in its anti-money laundering and social responsibility procedures resulted in at least 10 customers using stolen money, or money that may be the proceeds of crime, to gamble.

In determining the level of the financial penalty we put particular weight on the following factors:

- the gravity of the offences leading to the gambling spend which included the theft of substantial sums of money
- senior management failure to mitigate a significant operational risk that due diligence systems were failing and that its anti-money laundering and social responsibility teams were not sufficiently resourced between November 2014 and August 2016
- repeated nature of the breaches which resulted from systemic failings
- the likelihood that the issues are not unique to the ten cases and are believed to be systemic in this area of business - we base this on the licensee's assertions that at the relevant time there was insufficient staff available to manage the pool of at-risk customers.

We consider that this case provides valuable learning for online operators.

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