

## 32Red Limited Public Statement

### Regulatory settlement

- **Responsible Gambling controls**
  - **Customer interaction – breach of SR Code 3.4.1**
  - **Combating problem gambling – breach of SR Code 3.1.1(1)**
- **Anti-money Laundering**
  - **Implement the Money Laundering Regulations 2007 – breach of a specific licence condition**
  - **Prevent money laundering and terrorist financing – breach of licence condition 12.1.1**

**June 2018**

**Operators are expected to consider the issues here and review their own practices to identify and implement improvements**

## 1. Executive summary

This case concerns 32Red Limited (32Red) who trade as 32Red.com and Roxy Palace.com<sup>1</sup>. 32Red hold a remote operating licence authorising them to operate a casino and to provide facilities for bingo and real event betting (other than pool betting or betting on virtual events). In June 2017 32Red were acquired by Kindred Group plc.

There were weaknesses in 32Red's responsible gambling and anti-money laundering controls, which meant that 32Red failed to perform customer interactions despite problem gambling behaviour being displayed on 22 occasions by a customer (Customer A). They were also able to gamble with money far in excess of their actual wealth without detection, for an extended period.

In line with our Statement of principles for licensing and regulation, 32Red will pay a penalty package in excess of £2million, which includes a payment of £1.3million in lieu of a financial penalty. A breakdown of the regulatory settlement is set out in Section 4.

## 2. Findings

### Socially responsible gambling

32Red established a business relationship with Customer A from September 2011 and they were a top customer, with VIP status from February 2013. However, the Commission only licensed 32Red from November 2014 so this case relates only to the time under our licence.

From November 2014, there were 22 incidences where Customer A referred to issues or made complaints which could indicate problems with gambling. There had been many more prior to this too, which should have fed into a developing picture of the customer. The incidences should have led to a customer interaction, but instead they were each met with a bonus being applied to the account. There were three distinct types of contact:

- poor performance – eg “I have had enough of the site not performing well”
- spending too much – eg “I’ve deposited quite a sum”
- frustrated, fed up, chasing losses – eg “all I seem to do is deposit”.

The licensee's social responsibility policies did not make any reference to customer interaction, the procedure to follow or the behaviours to log. This is a breach of social responsibility code provision<sup>2</sup> 3.4.1 – Customer interaction.

Their policies and procedures also omitted certain specific provisions required to promote socially responsible gambling. This is a breach of social responsibility code provision 3.1.1(1) – Combating problem gambling.

### Anti-money Laundering

Following the implementation of revised anti-money laundering policies, procedures and controls, 32Red should have reviewed Customer A's account in August 2016 specifically for source of wealth, as well as other checks, but because of the existing relationship the customer was deemed low risk and deprioritised. At this time, life time deposits (from November 2014) were in excess of £235,000.

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<sup>1</sup> They also operated 32RedSport, Casino Spendido, Dash, Golden Lounge, Nedplay up to April 2018

<sup>2</sup> Social Responsibility Codes of Practice have the effect of a licence condition

A review of the account was only performed in January 2017, as a result of unusual play suggestive of possible problem gambling (a seven-figure win, instantly replayed). The life time deposits (from November 2014) were now nearly £500,000. Following the review, a disclosure was made to the nominated officer and source of wealth requests were made of Customer A, but information was not received for a further 5 weeks despite continued play. The documentation supplied did not support the level of deposits but 32Red took no further action until the account was suspended in April 2017, by which life time deposits (from November 2014) were £758,000.

The material supplied – a payslip and report of commission for work - was not credible and showed volatility in receipted income. To take it at face value though would suggest a monthly net income of £13,000, yet average monthly deposits were in excess of £45,000. Simple open source checks which could have been indicators of the customer's source of wealth were not performed – eg searching typical salaries for the occupation, searching Google maps on the home address. In fact, the customer's average monthly net salary was £2,150.

These circumstances demonstrate operational weaknesses and breaches of the condition specifically added to 32Red's licence, to implement Parts 2 & 3 of the Money Laundering Regulations 2007 insofar as they relate to casinos. In particular:

- Risk sensitive policies and procedures (Regulation 20) – there was no written assessment of risk on which their policies and procedures were based
- Ongoing monitoring (Regulation 8) – transactions were not scrutinised to ensure they were consistent with their knowledge of the customer
- Enhanced due diligence and enhanced ongoing monitoring (Regulation 14) – this was not adequately applied to high risk situations, such as VIPs
- Suspicious Activity Report (SAR) regime (Regulation 20 and Proceeds of Crime Act) – policies and procedures for disclosures to the nominated officer and for SAR reporting were inadequate.

From October 2016 all licensees were required to conduct an assessment of the risks of the business being used for money laundering or terrorist financing. 32Red failed to do this, which is a breach of licence condition 12.1.1 - Prevent money laundering and terrorist financing.

### **Response by Licensee**

32Red made full admissions to the breaches in an initial meeting. The operator has implemented a number of changes and improvements to processes and procedures, both immediately upon this incident coming to light, and subsequent to the acquisition by Kindred Group plc. These include:

- an independent third party audit of AML policies, procedures and controls with recommendations accepted and implemented
- a full review of all active customers against revised policies
- introduction of Group Anti-Money Laundering / Counter Terrorist Financing (AML/CTF) Policy, supplemented by a regional policy for Great Britain
- adoption of Kindred's 'player safety-early detection system', which will assist with the earlier detection of players that are potentially at risk of harm, enabling better detection and faster, better quality interactions
- learnings from public statements and other guidance, as well as sister company engagements with the Commission, built into company risk management policy, followed by implementation and training for relevant staff
- integration to a single platform across companies within the Group, so they work to unified and aligned policy.

### 3. Good practice

We consider that this case provides valuable learning for operators. They should consider the following questions to avoid the same issues:

- Do you have systems in place to identify potential problem gamblers? Do you look at the volume and frequency of calls by customer?
- Are your staff sufficiently trained to identify problem gambling? Do they have a picture of the customer's behaviour readily available to them?
- Does your business culture attempt to keep customers happy by giving them bonuses without considering whether they are problem gamblers? Are commercial considerations overriding customer protections?
- Have you conducted an assessment of the risks of your business being used for money laundering? Is it kept under review?
- Are you doing affordability checks? Do you know where customer money is coming from? Do you seek and use information from a wide range of sources to build knowledge of your customer, and to corroborate and test information? Do transactions seem reasonable in light of what you know about them?
- Have you allocated sufficient resources to AML compliance? Can you promptly apply revised policies and procedures to existing active customers?
- Do you have a culture of curiosity? Do you place more importance on making money than on risk management? Do you act quickly when you have concerns?
- Do you recognise your VIPs or equivalents as high risk and handle them appropriately?
- How do you encourage customers to respond to information requests? Does your monitoring system allow for timely escalations if information is not received? When would you terminate the business relationship?
- Is your SAR regime robust? Do you make and retain records of decisions and rationale? Are reports submitted as soon as practicable?
- Can you demonstrate due consideration of our public statements and other industry sources? Are your policies and procedures version controlled and dated?

### 4. Regulatory settlement

The penalty package consists of:

- £709,046 divestment of the financial gain
- £1.3million payment in lieu of a financial penalty, which we would otherwise impose for breaches of a licence condition in accordance with our Statement of principles for

determining financial penalties. The money will be spent on accelerating delivery of the [National Responsible Gambling Strategy](#)

- Payment of £15,000 towards our investigative costs
- Improvements to policy, procedure and risk management.

## 5. Conclusion

Our investigation found, and 32Red accept, that there were weaknesses in its responsible gambling and anti-money laundering controls, which meant that licence conditions were breached.

In determining the appropriate outcome, we took the following factors into account:

- That there were significant licence condition breaches for a sustained period of time. This impacted the licensing objectives – particularly preventing gambling from being used to support crime, and protecting vulnerable persons from being harmed or exploited by gambling
- The nature of the licensee, including their financial resources
- Failure to learn from previous cases published by us: six of seven public statements between November 2014 and April 2017 concerned anti-money laundering and / or social responsibility failings
- Insight into failings and immediate steps taken to rectify and learn from weaknesses
- Prompt key event reporting to us and early attempts to settle with the employer
- Co-operation with us in an open and transparent manner, and timely responses to requests for information.

June 2018

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**making gambling fairer and safer**