

# GAMBLING COMMISSION

## **Paddy Power Holdings Ltd** Failures in anti-money laundering and social responsibility controls

### **Public statement**

February 2016

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

# 1 Introduction

The Gambling Commission has identified a number of serious failings on the part of Paddy Power Holdings Ltd (Paddy Power) in relation to keeping crime out of gambling and protecting vulnerable people from being harmed or exploited. We wish to draw the attention of the gambling industry more widely to a number of lessons from those failings.

Licensed gambling operators have a legal duty to ensure that their gambling facilities are provided in compliance with the Gambling Act 2005, the conditions of their licence and in accordance with the licensing objectives, namely:

- to prevent gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime
- to ensure that gambling is conducted in a fair and open way
- to protect children and other vulnerable people from being harmed or exploited by gambling.

We identified failings in the way Paddy Power handled relationships with two customers (customer A and customer B) at one of its shops and with one of its online customers who was later convicted of serious criminal offences (Mr Cooney)<sup>1</sup>.

Paddy Power had social responsibility and anti-money laundering policies and procedures in place, had delivered training to staff and had systems for monitoring internal compliance. However, we identified that the procedures in place were not fully in line with guidance published by the Gambling Commission, not all staff involved in the identified incidents fully understood Paddy Power's own policies and their internal compliance monitoring had failed to identify the issues relating to the customers.

Paddy Power has co-operated fully with us and acknowledges that it:

- failed to have and apply a customer interaction policy which complied with social responsibility code provision 3.4.1(1)(c), which is a condition of its licence, as it did not include: "*circumstances in which consideration should be given to refusing service to customers and/or barring them from the operator's gambling premises*"
- interpreted the duty to be socially responsible in relation to potential problem gambling as being limited to monitoring and interacting with customers, rather than considering refusing service
- had, despite being aware that customer A displayed signs of having a serious gambling problem, asked staff to encourage him to continue to visit and to spend. This was grossly at odds with the licensing objective of preventing vulnerable people from being exploited by gambling
- had an anti-money laundering (AML) policy which was inadequate in that it did not include reference to the spending of the proceeds of crime and therefore failed to take into account our published advice<sup>2</sup> and guidance<sup>3</sup> about managing the risks of money laundering
- failed to respond appropriately to suspicions of money laundering in relation to customer B
- failed to take reasonable steps to establish customer A's and Mr Cooney's sources of funds.

The specific issues identified are detailed below. We expect gambling operators to take note of these issues and consider them in light on their own operating procedures and processes.

The gambling industry should be on notice that the issues identified in this statement are likely to form the basis for future Commission compliance activity.

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<sup>1</sup>Only Mr Cooney is named in this statement as no information about the other two customers is in the public domain.

<sup>2</sup>The [advice note applies to all licensed operators](#) except casino operators.

<sup>3</sup>The [guidance note applies to operators providing gambling facilities under remote and non-remote casino licences](#).

## 2 Issues

### Customer A

Customer A usually used fixed-odds betting terminals at a branch of Paddy Power. In early 2014, regional staff decided they needed to look into the source of the money customer A was using for gambling, in order to manage the risk of money laundering. However, Paddy Power obtained incomplete information, based only on the customer's own account and staff's belief that he or his family owned a number of restaurants. Although staff noted that they needed to obtain further information, including the names of the restaurants involved, there is no evidence that it was obtained.

Paddy Power subsequently recorded interactions with customer A, which raised concerns that he may be a problem gambler. In mid-May 2014, shop staff became aware that customer A was working five jobs to fund his gambling and that he had no money. However, customer A had indicated to shop staff that he was comfortable with his level of gambling spending. Shop staff escalated this issue to more senior staff who decided they needed to continue monitoring customer A.

On 20 May 2014, the manager of the shop informed a more senior member of staff that customer A would be visiting the shop less frequently. The response from the senior staff member advised the shop staff that steps should be taken to try to increase customer A's visits and time spent in the gambling premises. Paddy Power accepts that this advice, in the circumstances, was erroneous and directly conflicted with its own policies and procedures designed to meet their responsibility to prevent gambling being a source of harm to their customers.

The shop manager recorded some discomfort about how to reconcile commercial and Social Responsibility (SR) considerations, concluding that staff would monitor customer A's spending and provide good customer service in the hope that his spending would increase in future once he was in a more comfortable situation.

Staff subsequently recorded further interactions with customer A, who indicated that he was comfortable with his spending. However, a shop manager also recorded that customer A was spending heavily and that he looked unwell and as if he had not slept for a while.

The first recorded instance on which Paddy Power signposted customer A to sources of help with problem gambling was in August 2014 when a member of staff bumped into him off the premises. The staff member recorded that customer A had lost all of his jobs, was homeless and had lost access to his children. Customer A did not visit the shop again after this interaction.

In response to our enquiries about this matter, Paddy Power initially responded that it was satisfied that staff had followed social responsibility (SR) procedures, as evidenced by seven recorded communications with customer A. Paddy Power said that during every interaction, staff had signposted customer A to sources of help but this is not reflected in the recorded evidence relating to that period.

#### Questions for operators to consider

1. Do you have effective systems in place for staff at all levels of your business to ensure that commercial considerations do not outweigh the need to comply with the licensing objectives?
2. Do your policies and procedures fully meet the requirements set out in the Licence Conditions and Codes of Practice (LCCP), including social responsibility code provision 3.4.1?
3. Can you demonstrate that when a customer displays clear indicators of being a problem gambler, you consider refusing service?

## Customer B

Customer B was a longstanding customer at one of Paddy Power's shops. In August 2014, a shop manager suspected that she was using gambling facilities to launder Scottish bank notes by placing them into gaming machines and then requesting a pay out on a debit card. The shop manager raised these concerns with more senior staff and was advised to pay out as normal.

Over the next six months, the shop manager escalated suspicions that customer B was laundering money to more senior members of staff on at least four occasions. The more senior members of staff told him that, as the notes involved were British currency and were not stained or counterfeit, it was unlikely that the money was being laundered. None of the reported suspicions was forwarded to Paddy Power's Money Laundering Reporting Officer (MLRO) for consideration. The shop manager was repeatedly told by more senior staff that he needed to 'substantiate' his allegations before any action could be taken. His suspicions, which we consider to have been reasonable in the circumstances, were repeatedly overruled by middle management.

On 12 January 2015, Paddy Power became aware that police had concerns that Scottish notes that were the proceeds of crime were in circulation in London. In light of that, Paddy Power decided to undertake 'enhanced due diligence' checks on customer B to verify that she had a legitimate source of funds. It was not possible to validate the customer's ownership of a business she claimed to own. On 21 April 2015 (after we had made initial enquiries about this matter) Paddy Power informed customer B that she was now barred from the business. Paddy Power subsequently submitted a suspicious activity report (SAR) to the National Crime Agency.

Paddy Power's initial response to our enquiries about this matter was that it had followed its money laundering policy in relation to customer B. Paddy Power now accepts that the shop manager had a basis to be suspicious and that the response by more senior staff to the suspicions raised by the shop manager were, in the circumstances, incorrect. In particular, the shop manager's concerns should have been escalated to Paddy Power's MLRO.

To reduce the risk of recurrence, Paddy Power has updated its Anti-Money Laundering Policy for Retail and accompanying training materials and has required members of staff to complete training programmes on anti-money laundering issues

### Questions for operators to consider

4. Can you demonstrate that your policies and procedures relating to anti-money laundering adequately meet ordinary code provision 2.1 (anti-money laundering), particularly in relation to ensuring that an effective and risk-based approach covers both washing 'dirty' money and the spending of proceeds of crime?
5. Can you demonstrate that all relevant members of staff understand their duties in relation to the licensing objective of keeping crime out of gambling, including the reporting of suspicions, and that staff in key positions have sufficiently broad, up-to-date and accurate knowledge?

## Mr Mark Cooney

In the late stages of the investigation referred to above, we became aware through media coverage that in September 2015 Mr Mark Cooney had pleaded guilty to fraud offences relating to the theft of over £250,000 from six customers at two banks where he worked. He had been sentenced to 28 months' imprisonment. The Police confirmed that Paddy Power had provided them with information indicating that Mr Cooney had spent a significant amount on its remote gambling facilities during the same period<sup>4</sup>. We asked Paddy Power to look into this matter to determine whether the case demonstrated any failings in its systems for keeping crime out of gambling.

Paddy Power confirmed that Mr Cooney opened an account with them on 21 April 2014. His level of spending triggered a need to undertake 'enhanced due diligence', which was undertaken in September 2014. This involved:

- confirmation that there was no negative open-source media coverage relating to Mr Cooney
- open-source information that he had previously bought a house valued at £125,000
- confirmation that he was not listed on any sanctions registers.

Paddy Power made no direct enquiries to Mr Cooney about the source of the funds he was gambling.

Paddy Power deemed Mr Cooney to be 'medium risk', and recommended that further information should be obtained. However, no further information was obtained from or about Mr Cooney. Paddy Power acknowledged that it failed to follow the policies and procedures it had in place for undertaking due diligence checks on customers of its online business.

### Questions for operators to consider

6. Can you demonstrate that the policies and procedures in place for obtaining information about customers' sources of funds are appropriately risk-based, fit-for-purpose and, crucially, that they are being implemented effectively?

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<sup>4</sup> The remote gambling facilities in question, which included remote casino facilities, were provided by Paddy Power Holdings Ltd, which has been licensed by the Commission since 1 November 2014.

### 3 Voluntary settlement

In accordance with our *Statement of principles for licensing and regulation* the Commission has accepted a voluntary settlement from Paddy Power consisting of:

- The commissioning of a review of Paddy Power's AML and SR controls across its retail estate and its AML controls in its remote business to be undertaken by a third party at its expense
- An agreement to the publication of a public statement by the Commission to share learning with the industry and the public
- An agreement to share learning from the cases with the remote and non-remote sectors in a format to be agreed with the Commission
- A commitment to amending policies and procedures to address the shortcomings identified in the course of the investigation
- The payment of £280,000 in total to an agreed socially responsible cause, which represents a sum to remove any profits made from the three customers in question and a voluntary payment in lieu of a financial penalty
- Agreement to contribute £27,250 to the Commission's costs in investigating this matter

### 4 Conclusion

We consider that this case provides valuable learning for operators, who should consider reviewing their legal obligations regarding the prevention of money laundering and ensuring that vulnerable people are not harmed or exploited by gambling.

Gambling Commission February 2016

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## Keeping gambling fair and safe for all

For further information or to register your interest in the Commission please visit our website at: [www.gamblingcommission.gov.uk](http://www.gamblingcommission.gov.uk)

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