

GAMBLING COMMISSION

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Important lessons for the gambling industry on anti-money laundering and social responsibility controls

Ladbrokes Group

Introduction

Following Gambling Commission ("the Commission") engagement with Ladbrokes Group¹ ("Ladbrokes") in relation to a number of compliance and policy matters, the Commission wishes to draw to the attention of the gambling industry more widely a number of important lessons around the issues of potential money laundering and social responsibility in identifying players at risk.

The Commission engaged with Ladbrokes from late 2012 to the summer 2013 to investigate its operations and controls, and identified three areas of learning for Ladbrokes and the wider industry:

- Managing trading and the competitive nature of the trading room in combination with meeting regulatory obligations, including managing risk to the licensing objectives.
- Identification of player risk across a range of products and platforms.
- Managing anti-money laundering controls, including in connection with criminal investigations, and responsible gambling obligations.

At board level, Ladbrokes has co-operated with the Commission and has conducted itself with commendable candour and openness during our discussions. In addition, Ladbrokes' senior management have stated that they wish to ensure the group continues to be seen as an industry leader in managing its anti-money laundering and social responsibility risks effectively. Ladbrokes is understandably keen to ensure that the learning generated by the challenges it has faced is made available to the gambling industry more widely.

Summary of obligations

All licensed gambling operators are required to have in place effective policies and procedures to identify and manage the risks to the licensing objectives arising from the business. Some of the findings from the Commission's review in this case and across the industry highlighted the challenges inherent in assessing customer risk across a wide range of products and platforms, and have underlined the importance of addressing the challenge with sufficiently documented policies and procedures that are consistently and effectively applied.

¹ 'Ladbrokes group' in this context refers collectively to a number of operating entities within the Ladbrokes group of companies. These include, in particular but without limitation, Ladbrokes Betting & Gaming Limited (a company registered and licensed in England); Ladbrokes International plc (a company registered and licensed in Gibraltar) and Ladbrokes Sportsbook LP (a limited partnership registered and licensed in Gibraltar).

All licensed gambling operators are required to uphold the licensing objectives, to prevent gambling from being a source of crime or disorder, being associated with crime or disorder, or being used to support crime. In addition, all gambling operators have specific duties under the Proceeds of Crime Act 2002 (POCA). Some of the matters reviewed served to highlight some uncertainty as to the industry's interpretation of duties under POCA, particularly in relation to how "consent" should be dealt with in gambling businesses.

All licensed gambling operators are required to safeguard the licensing objective with regard to protecting vulnerable people from being harmed or exploited by gambling. This engagement highlighted the challenge faced by many gambling businesses in identifying potentially problematic behaviour among "high value" customers; and also drew attention to the difficulties faced by operators in identifying "social responsibility" risk among lower-spending customers.

Lessons learned:

In fully cooperating with the Commission's review, Ladbrokes has acknowledged there were significant improvements required in its own procedures. Ladbrokes has undertaken, and continues to undertake, action to improve its own operations in the areas highlighted in this note.

Generally lessons for the wider industry are:

Managing trading and the competitive nature of the trading room in combination with meeting regulatory obligations

Trading rooms for betting operators are increasingly critical to an operator's competitive edge. All operators should be particularly careful to ensure that, in managing their trading room operations, they do not put at risk their regulatory obligations. In this case, Ladbrokes had allowed a situation to develop in which the trading function appeared to be subject to a substantially lesser degree of formal control than other parts of the business – a conclusion Ladbrokes had already reached and were acting upon following an internal assessment. This lack of formal control had led to real and significant vulnerabilities.

From discussions with Ladbrokes and others, the Commission considers that such lack of formal control is likely to be widespread among larger betting operators (i.e. those with a trading room function). We therefore urge all operators to satisfy themselves, as a matter of urgency, that their own arrangements for the effective governance of trading room functions do not expose themselves to unnecessary and unacceptable risk to their ability to deliver the licensing objectives and comply with the conditions and codes attached to their licences.

Identification of player risk

The Commission accepts that Ladbrokes has systems in place to assess and monitor risk of various types, including money laundering and social responsibility risks. The focus of many risk management systems however, may lie disproportionately with the highest value customers and may mask risk arising from those customers who would not be considered "high value". And, as experience from this and previous cases² demonstrates, systems may also not be effective in identifying and linking specific

² http://www.gamblingcommission.gov.uk/gh-press/news_archive/2013/areas_for_development_in_anti-.aspx
http://www.gamblingcommission.gov.uk/gh-press/news_archive/2013/weaknesses_in_anti-money_laund.aspx

player behaviour, risk and information across all remote and non-remote platforms, products and accounts. While the Commission accepts that it is likely to pose challenges for the industry more widely, Ladbrokes have acknowledged that, along with other operators, significant development of their systems is required before they can meet these fully.

It is important that gambling operators accept and rise to the challenge of identifying the risk to all players, and not just high value customers, of problem gambling and link customer activity across a range of products. It is a theme that has emerged from other recent engagements, and the Commission encourages operators and the industry more widely to make further progress in building its capacity to identify those customers who may be problem gamblers or at risk, and intervene effectively.

Managing anti-money laundering controls, including in connection with criminal investigations, and responsible gambling obligations

The Commission's engagement with Ladbrokes and with other operators has highlighted that there is a very broad range of interpretation of anti-money laundering obligations and practice in the industry, particularly in relation to when it is appropriate to seek consent to transact under circumstances where money laundering is suspected.

While the Commission accepts that Ladbrokes acted in good faith within its own interpretation of its duties, following the engagement between Ladbrokes and the Commission it was agreed that there was a clear need for significant improvements, particularly in relation to the following:

- taking early opportunities to prevent potential money laundering, and
- transparency and recording of decision making
- maintaining an audit trail that demonstrates all risks to the licensing objectives have been properly considered and managed appropriately.

On a more general point, Ladbrokes reported to the Commission that it saw its scope for action constrained in relation to (1) its obligations under the Proceeds of Crime Act 2002 to report potential criminal activity and continue normal operations while investigations take place and (2) the regulatory obligation to protect the vulnerable. This is a view that has also been put forward by some industry organisations and other operators. The Commission considers such views to be misguided and has set out its views in detail in correspondence with the [Association of British Bookmakers](#) and the [Remote Gambling Association](#).

The Commission intends to augment its guidance in order that operators might more easily understand how to deliver their concurrent obligations of identifying and interacting with players at risk and observing their obligations under POCA. The revised guidance is likely to cover the importance of seeking appropriate consent. In the meantime, operators are encouraged to maintain an effective audit trail, make sure consent is properly considered and a range of information sources appropriately to make judgments about risk and suspicion.

Next Steps

The Ladbrokes Board has been open and co-operative throughout this investigation, making clear its determination to identify and remedy any weaknesses and to do so in a way that enables the Commission to share the lessons more widely. The Commission accepts that Ladbrokes have made, and continue to make serious efforts to address

the areas of potential vulnerability that have been identified within its organisation. Ladbrokes have made clear their intent to co-operate further in helping work with other industry organisations and the Commission to ensure better policy and compliance across the betting sector and the gambling industry more widely. The Commission will further engage with Ladbrokes to assure itself that the specific work in hand is effective in addressing the issues raised.

Notes to editors

1. The Gambling Commission (the Commission) regulates gambling in the public interest alongside its co-regulators local licensing authorities. It does so by keeping crime out of gambling, by ensuring gambling is conducted fairly and openly, and by protecting children and vulnerable people from being harmed or exploited by gambling. The Commission also provides independent advice to government on gambling.
2. The Commission and licensing authorities are responsible for licensing and regulating all gambling in Great Britain other than the National Lottery and spread betting, which are the responsibility of the National Lottery Commission and the Financial Services Authority (FSA) respectively.
3. See the terms & conditions section of our website for information on [legal advice](#).

Further information

Further information is available from the Commission's website at: www.gamblingcommission.gov.uk
John Travers on 0121 230 6700 or 07852 124624 or communications@gamblingcommission.gov.uk

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