

# GAMBLING COMMISSION

## PUBLIC STATEMENT

30 September 2013

### Weaknesses in anti-money laundering and social responsibility controls

#### Coral Racing Limited

##### Summary

Following a police investigation, the Gambling Commission (“the Commission”) became aware of potential weaknesses in anti-money laundering and social responsibility controls put in place by a number of operators one of which being Coral Racing Limited (“Corals”). As a result of the challenges faced by the operator, they have agreed that the learning from this exercise should be shared with the industry more widely. This covers:

- ensuring commercial imperatives do not “crowd out” management of regulatory risk
- ensuring that information sources are appropriate and effective in identifying regulatory risk (eg potential money laundering, problem gambling) and are acted upon
- linking information across different outlets, products and platforms.

##### Introduction

Towards the end of 2012, as a result of a police investigation into alleged offences committed by an individual who was then on remand, the Commission’s attention was drawn to potential weaknesses in anti-money laundering and social responsibility controls in relation to a number of gambling operators. For the avoidance of doubt, the individual is not connected to any operator other than as a customer.

Although the Commission’s investigations into the matters arising from this case are continuing, we have now concluded our discussions with Corals. The operator has co-operated fully with the Commission and has demonstrated commendable candour and openness during our discussions. The operator is keen to ensure that the learning generated by the challenges they have faced is made available to the gambling industry more widely.

##### Summary of circumstances

In brief, the circumstances relate to an individual, currently remanded in custody awaiting sentencing for serious offences. The individual was able to turnover comparatively large sums (financial benefit to Corals estimated at £90,000) over an extended period across a number of gambling outlets. The circumstances are such that it is not possible to state precisely the total amount of criminal turnover involved across all gambling outlets. Whilst a Suspicious Activity Report was submitted by Corals, little or no challenge was made by the operator, although there were extensive and realistic opportunities to do so. Indeed, the operator had recognised the significance of the customer from a commercial perspective.

This is a cause of concern for two main reasons:

- All licensed gambling operators are required to uphold the first licensing objective, which is 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. In this case the systems put in place by the operator were not sufficiently effective to deliver their obligations fully.

- All gambling operators are required to further the third licensing objective, which is to protect children and other vulnerable people from being harmed or exploited by gambling. In this case, the individual concerned spent, over an extended period, considerably more on their gambling than they could reasonably have been expected to afford, and this was accompanied by behaviour that might have indicated problematic gambling. The operator did not make sufficient effort to determine whether the individual's gambling might be problematic, although several separate self-exclusion requests had previously been made.

From our engagement with the operator, it is clear that senior management have regarded the circumstances – which were not predicted or expected – with extreme seriousness. The Commission is confident that significant and urgent steps have been and are being taken to address those weaknesses. However, we agree with the assessment that the operator has made, which is that some of the weaknesses identified could be shared by many other gambling businesses. Against that background, we wish to draw the following learning points to the attention of all gambling businesses:

### **1. Ensuring commercial imperatives do not “crowd out” management of regulatory risk**

The operator had systems in place to identify high value customers. These systems were geared, understandably, to delivering commercial objectives.

Information about customer spend was used by the operator primarily to assess commercial risk reactively, with little, if any, proactive monitoring of high value or high risk customers in relation to regulatory risk. At the same time, the operator had a comparatively low appetite when monitoring commercial risk (bets over a relatively low threshold amount had to be approved by head office, whereas decisions about suspicions of money laundering or social responsibility concerns were devolved to shop level and left to relatively junior staff, with little or no central co-ordination or monitoring). In addition, the trading team handling high value players were, for all intents and purposes, operating within a purely commercially driven framework, with little focus on money laundering or social responsibility risks or triggers. However, although there was a strong focus on commercial risk, information about commercial risk that might have helped identify regulatory risk was not recorded or maintained in a co-ordinated manner or monitored centrally.

Information about the customer's commercial value was also used to determine hospitality offered by the operator – and in this instance the customer was offered and accepted a complimentary day at the races.

Arguably, if the operator had applied the rigour of their commercial management systems to the regulatory risks involved, the shortcomings may not have arisen in the first place. In the event, the operator did not ask the right questions at the right time, even though the reasons to do so were, when the circumstances and information available at the time were reviewed, present.

The operator does acknowledge that commercial and business information could and should have been considered for anti-money laundering and social responsibility purposes when transacting with the customer. The operator is taking urgent steps to remedy the shortcomings.

The Commission urges all operators to ensure that they review their own arrangements in the light of this learning.

### **2. Ensuring that information sources are appropriate and effective, and are acted upon**

The operator did not use an appropriate range of information sources effectively to identify the risks to which they were subsequently seen to have been exposed. There is evidence to indicate that local knowledge that could have triggered concerns and/or suspicions was available to shop staff but was not acted on effectively or sufficiently early. There is a suggestion – again with hindsight – that elements of the customer behaviour (for example, the carrying of substantial amounts of cash) should have triggered suspicion, or at least concern, much earlier than it did.

The Commission encourages operators across the industry to satisfy themselves that the sources of information commonly employed to carry out due diligence checks are suitable to mitigate the full range of risks to which they might be exposed.

### **3. Linking information across different outlets, products and platforms**

The operator experienced difficulty in resolving, or even recognising, information relating to gambling activity in different parts of the business back to the same customer. Had they done so more effectively it would have led to a fuller picture of the risks to which they were exposed. For example, the “nom de plume” system, common in the betting industry as customers personal information may not be known, made it difficult to share information about the customer between different betting shops. It was even more difficult to link the customer across different platforms (remote and non-remote) and products. In addition, there were no practical systems in place to effectively monitor and reconcile gaming machine spend and we would draw this point in particular to the attention of the betting industry and other sectors that rely heavily on gaming machines.

The operator has identified that the arrangements that were in place to monitor customers and the accounts they hold across the licensee’s portfolios were not sufficient to manage the risks to which they were exposed.

The Commission recognises the challenges posed for the gambling industry in this area. Nevertheless, it is a theme that has emerged from other recent cases and the Commission encourages operators and the industry more widely to make progress in addressing it.

#### **Next steps**

The operator has co-operated fully. They have been commendably open and candid and have made, and continue to make, serious efforts to address the vulnerabilities that have been identified within their organisation. They also recognised immediately the importance of drawing these matters to the attention of the industry more widely and agreed very early in the course of the Commission’s investigations that the detail set out in this statement should be made available. As a result the Commission does not intend to take further formal regulatory action.

However, the operator’s acknowledgment that had the improvements they are now implementing been in place previously, it is likely they would not have made financial gain from the individual’s custom. The operator plans to put beyond doubt any question that they have gained financially from the weaknesses that have been exposed by these events. The operator has already made a payment of £52,106.76 to the Responsible Gambling Trust (“RGT”) and a payment proportionate to defray the Commission’s costs of £35,000. The payment is in addition to any other contribution to RGT they have made or plan to make, and the operator has agreed with the Trust that the contributions are to be considered as a supplement to the existing fundraising targets.

Matthew Hill, Director Regulatory Risk and Analysis, Gambling Commission, said:

“These events demonstrate the need for Boards, however committed, to ensure their controls on money laundering and problem gambling are effective on the ground.

These cases, and others like them, suggest that there are industry-wide vulnerabilities that need to be tackled as a priority.

The Commission is grateful for the assistance of Durham constabulary and the full cooperation of Coral Racing Limited in this case”

#### **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](http://www.gamblingcommission.gov.uk)  
John Travers on 0121 230 6700 or 07852 124624 or [communications@gamblingcommission.gov.uk](mailto:communications@gamblingcommission.gov.uk)

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