

# GAMBLING COMMISSION

## Gala Coral Group:

Failures in anti-money laundering and social responsibility controls public statement

April 2016

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

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# 1 Introduction

The Gambling Commission (“the Commission”) has identified a number of serious historical weaknesses in the anti-money laundering (“AML”) and social responsibility (“SR”) controls used by *Gala Coral Group Ltd t/a Coral Racing Limited* and *Coral Interactive (Gibraltar) Limited* to mitigate the risk of money laundering and problem gambling.

As a licensed gambling operator, Gala Coral Group must undertake its gaming activities in compliance with the Gambling Act 2005 and in accordance with the licensing objectives:

- to keep crime out of gambling
- to ensure that gambling is conducted fairly and openly
- to protect children and other vulnerable people from being harmed or exploited by gambling.

We identified potential money laundering and problem gambling activity in relation to a customer of Gala Coral Group. We concluded that the identified issues highlighted by this customer indicated wider systemic faults with Gala Coral Group’s approach to AML and SR at the relevant time.

Gala Coral Group acknowledges that the processes and procedures used to manage the risk of money laundering and problem gambling at that time were not adequate and did not sufficiently satisfy the duty to comply with the licensing objectives to keep crime out of gambling and to protect vulnerable people from being harmed or exploited by gambling. However, Gala Coral Group has assured the Commission that they have improved their policies and procedures.

Specifically, we found that Gala Coral Group failed to:

- appropriately assess customer risk
- obtain adequate information with regard to customers’ source of funds or source of wealth
- utilise open source internet resources effectively
- effectively use account information to identify potential problem gamblers.

Gala Coral Group acknowledged serious shortcomings at an early stage of the enquiry and proposed a voluntary settlement, pre-empting the need for a formal licence review. Senior management at Gala Coral Group co-operated fully with the Commission’s enquiries and have assured the Commission that the company has made progress in the enhancement of its policies procedures over the past twelve months, including the adoption of new methods and technologies which were not previously available. It has also notified the Commission of further proposed enhancements as part of an ongoing process to more effectively assess and reduce risk as more data and new products become available.

In accordance with our *Statement of Principles for Licensing and Regulation*, the Commission has accepted a voluntary settlement from Gala Coral Group consisting of:

- an undertaking to divest itself of the customer’s gross gambling yield (“GGY”) to the sum of £846,664
- agreement to the publication of a public statement outlining failings by Gala Coral Group for industry and wider learning
- a revision of AML and SR policies
- enhanced online and eLearning training for retail and online staff
- the introduction of periodic audit of Gala Coral Group’s AML and proceeds of crime policies
- a payment to reflect the Commission’s costs of investigating this matter in the sum of £30,000.

The specific issues identified are detailed below. We expect gambling operators to take note of the identified 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.**

## 2 Identified issues

Law enforcement agents notified us of the conviction for theft of a customer of Gala Coral Group who had been sentenced to several years' imprisonment after pleading guilty to stealing £800,000 from a vulnerable adult.

Examination by the Police of the individuals bank records – which were unavailable to the Gala Coral Group - led them to conclude that the thefts had been used to fund the customer's gambling. The majority of this gambling was with Gala Coral Group's businesses, *Coral Racing Limited* and *Coral Interactive (Gibraltar) Limited*.

The customer had been a retail customer of Gala Coral Group since 2012 and was an online customer between January 2014 and January 2015.

We examined documentation supplied by Gala Coral Group in relation to the customer's gaming records and its internal AML and SR policies. We also met with senior Gala Coral Group staff. Gala Coral Group confirmed that the customer was a significant customer and a VIP in both retail and online.

After considering the evidence, we found that Gala Coral Group had failed to meet its AML and SR obligations in a number of key areas. These are explored in detail in the sections below. If Gala Coral Group had exercised its duties to monitor the customer from an AML or SR perspective, it is likely that he would have been identified as a customer of concern earlier and action taken to limit or prevent further gambling.

The identified failings, however, had a wider reach than the customer's particular case and demonstrated significant weaknesses in Gala Coral Group's corporate AML and SR regimes at that time.

### **Inadequate investigation into customer's source of funds – Retail and Online**

We expect operators to have a risk sensitive approach to the money laundering threat posed by a customer.

The majority of the customer's retail and online account activity occurred during the period he was offending and there was an increase in both the volume and value of the bets placed.

During this period, Gala Coral Group's Online and Retail VIP teams believed the customer to be an electrician and that he came from a wealthy family, although no evidence of family wealth was provided.

Initial checks conducted by Gala Coral Group confirmed only the customer's identity and the address where he lived. It was only in the months prior to the closure of his account that Gala Coral Group connected the customer's online and retail activity, and realised the full scale of his gambling and the disparity between his spend and lifestyle.

The volume and value of the customer's retail and online spend during the period he was offending were clear indicators of potential source of funds concerns and these were not identified or acted upon appropriately by Gala Coral Group.

Additionally, Gala Coral Group did not identify the initial significant payments into the customer's online account during its first few months as indicators of potential money laundering.

Gala Coral Group failed to conduct adequate enquires about the source of funds the customer used to gamble both in-store and online and placed over-reliance on the fact that the relevant payments were all made through one UK clearing bank account.

The risk profiles of customers may increase or decrease over time. We encourage operators to be curious about their customers and reassess a customer's risk based on emerging factors which may include significant changes in gambling patterns.

We expect operators to take a risk-based approach to managing the risks of money laundering and the spending of the proceeds of crime, and to utilise all information they hold on customers. Gala Coral Group failed to take adequate steps to manage the risks to the licensing objective of keeping crime out of gambling in relation to the customer.

**Questions for operators to consider:**

- Are you confident that you are utilising all of the account information you hold on customers when assessing the risk they pose?
- Are you scrutinising the due diligence information you collect from customers sufficiently to ensure that the lifestyle of the customer matches their level of spending?
- When you identify a customer of concern are you escalating your concerns appropriately?
- With regard to remote customers are you conducting appropriate levels of ongoing monitoring in accordance with the Money Laundering Regulations 2007?
- Can you demonstrate that the policies and procedures in place for obtaining information about customers' sources of funds are appropriately risk-based and are being implemented effectively?

**The effectiveness of the Gala Coral Group's social responsibility provisions – Retail and Online**

Gala Coral Group did not make effective use of the customer's account and play history to reliably assess the customer as a social responsibility risk.

There were indicators in the customer's online and in-store play which could have been used to identify him as problem gambler. These included an increase in the number of bets, the value of bets and the time spent gambling. Despite being in possession of this information as part of account monitoring, Gala Coral Group did not assess the customer from a social responsibility perspective and there were no recorded interactions with him.

It is our view that the significant increase in both the volume and value of bets and time spent gambling by the customer should have instigated a formal consideration of whether he posed a social responsibility risk.

Operators are often in possession of information regarding a customer's betting patterns which can show changes in behaviour which may indicate problem gambling. By not identifying these indicators Gala Coral Group failed to manage the risks to the licensing objective of protecting vulnerable people from being harmed or exploited by gambling.

We expect licensees to make use of all relevant sources of information to ensure effective decision-making in relation to customers who may pose a social responsibility risk. This includes customers who may not be displaying obvious signs of problem gambling.

Given the changes to the *Licence conditions code of practice* relating to the proactive monitoring of customers, such a failure to act upon indicators by an operator would now be a licence condition breach.

**Questions for operators to consider:**

- Are you effectively using customer profile and account activity information to identify customers displaying indicators of problem gambling?
- Is this monitoring ongoing and across all platforms?
- When you identify customers of concern do you have effective policies and procedures to ensure these concerns are acted upon?
- Do you have policies in place which address the process and circumstances where services to customers can be withdrawn as a result of social responsibility concerns?

**Over-reliance on uncorroborated information**

Gala Coral Group relied too heavily on uncorroborated information provided by the customer and his associates to explain the source of funds to gamble online and in-store.

The information held by Gala Coral Group's Retail VIP Team on the customer's source of funds was gathered through the customer's interaction with shop and VIP staff and explanations provided by friends and family at two hospitality events that the customer attended as a guest of Gala Coral Group. Gala Coral Group did not challenge these assertions nor did it seek any further corroboration.

We acknowledge that information gathered from customers informally can contribute to an assessment of the risk a customer poses. However, the collection of due diligence material is not an end in its own right. It is a means of determining the risk involved in undertaking a business relationship with a particular customer and mitigating the specific risks that they may pose with regard to money laundering.

When concerns over a customer's source of funds arise, there is a corresponding increase in the level of assurance required. This often requires the seeking of further corroboration to the information being supplied as proof of source of funds.

**Questions for operators to consider:**

- Do you overly rely on uncorroborated information to assess a customer's risk?
- How do you ensure that you properly scrutinise any information collated which is to be used to make customer risk assessments?
- Do you take this information on face value or use it in isolation?

## Effectively utilising open source information

As a result of his online spend, the customer's account came under scrutiny by Gala Coral Group in October 2014. As part of this review, limited open source searches were conducted by Gala Coral Group. These showed the customer to be resident in a modest semi-detached property, which they assumed he owned, and that he was employed as an electrician.

We expect operators to make reasonable enquiries into a customer's source of funds if there are concerns over their ability to afford their levels of gambling. This process can involve the effective use and assessment of open source information available online.

In some cases, this information may reduce or dispel concerns. However, in cases where there is information which does not support a customer's ability to afford their gambling, we expect this to be considered as part of a customer's assessment.

It is our view that there was information relating to the value of the customer's property, the ownership of that property, the market value for the role he was employed in and financial information suggesting that the customer could not afford his levels of gambling. This information was available through internet open sources which Gala Coral Group did not utilise.

### Questions for operators to consider:

- Are you effectively utilising all available open source information which is available relating to a particular customer?
- Do you critically assess the open source information you collate?
- When appropriate could you use open source information to confirm the ownership of a customer's address or the standard rates of pay for their employment?

## Timely submission of Suspicious Activity Reports (SAR)

In October 2014, Gala Coral Group identified the disparity between the customer's potential income and spend and he was identified as a 'Red' customer, *i.e.* of potential concern. Gala Coral Group also identified that the customer's monitored shop account and online account were held by the same individual.

However, as the result of the use of a single debit card by the customer and the statements of friends and family provided during hospitality events, Gala Coral Group decided that there was no urgency in compiling a SAR at that time, although one was compiled during this period.

Over the next three months, attempts were made by Gala Coral Group to ensure that the customer attended hospitality events to enable them to make further enquiries regarding his source of funds.

In order to help prevent activities related to money laundering, licensees should act in accordance with the Commission's guidance on anti-money laundering and their duties under the Proceeds of Crime Act ("PoCA").

We acknowledge that there can sometimes be circumstances in which there is concern over a customer's source of funds and that time is required to gather further information which may or may not alleviate these concerns.

However, we expect operators to act with haste where there is existing concern regarding a customer's source of funds and enquiries do nothing to dispel these, or where enquiries expose further negative information.

**Questions for operators to consider:**

- Do you act with sufficient speed when collating information which might result in a SAR?
- Do you record the collection of information which could potentially result in a SAR?
- Do you record the decision-making process when collating information which may result in a SAR?
- If required, could you evidence this?

**Over-reliance on information gathered through hospitality**

During the period he was a Gala Coral Group customer the customer attended two hospitality events as a guest and was invited to others. It is of concern that such a high degree of reliance appears to have been placed on information provided by associates who could have been potentially benefiting from the customer's gambling with Gala Coral Group.

Gala Coral Group drew undue reassurance from the fact that the customer felt able to attend these events with family and work colleagues and the information they supplied regarding his source of funds.

We recognise that hospitality events can be a useful 'soft venue' for operators to make discreet enquires regarding source of funds. However, any information gathered via this route which operators intend to rely upon should be critically assessed and corroboration sought.

**Questions for operators to consider:**

- Do you place undue or misplaced assurance from information gathered at hospitality events?
- Do you critically assess information supplied at hospitality events with regard to those connected to the customer who may be benefiting from the hospitality?
- Do you ensure that any explanations supplied are corroborated externally?

### 3 Voluntary settlement

Gala Coral Group has accepted that there were significant weaknesses in the way it managed risk with regard to money laundering and problem gambling at the relevant time.

However, Gala Coral Group has assured the Commission that there has been progress in the enhancement of its procedures since then, including but not limited to the introduction of new tools to enhance the collection of KYC information on customers, revised and improved eLearning training



to be undertaken by all customer-facing teams, and increased headcount in their AML and SR teams. Gala Coral Group has also notified the Commission of further proposed enhancements as part of an ongoing process to more effectively assess and reduce risk as more data and new products become available.

As a result, Gala Coral Group proposed a voluntary settlement, accepted by the Commission, comprising the following elements:

- an undertaking to divest itself of the customer's gross gambling yield ("GGY") to the sum of £846,664
- agreement to the publishing of a public statement outlining failings by the GCG for industry and wider learning
- a revision of AML and SR policies by a third party
- enhanced online and eLearning training for retail and online staff
- the introduction of periodic independent audit of Gala Coral Group's AML and proceeds of crime policies
- a payment to reflect the Commission's costs of investigating this matter in the sum of £30,000.

We will monitor Gala Coral Group's progress in delivering the terms of this settlement.

## 4. Conclusion

We consider that this case provides valuable learning for retail and online operators, who should review the conditions of their licences in light of these matters and take a critical approach to assessing their policies and procedures.

**Gambling Commission April 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)

Copies of this document are available in alternative formats on request.

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## APPENDIX – NOTES FOR EDITORS

### Money Laundering and the Gambling Industry

Under the Gambling Act 2005 (“the Act”) the Commission is required to permit gambling in so far as reasonably consistent with the following licensing objectives:

- to keep crime out of gambling
- to ensure that gambling is conducted fairly and openly
- to protect children and other vulnerable people from being harmed or exploited by gambling.

### Keeping crime out of gambling

One of the key aspects of keeping crime out of gambling is the prevention of money laundering. Money laundering is defined in section 340 of PoCA. It includes **any** activity concerning the proceeds of **any** crime. It can cover, for example, the “washing” of funds – that is, using a series of transactions to make illegitimate funds appear legitimate – and also criminal spend, where the aim of the transaction is not necessarily concealment or conversion. Experience from the Commission’s growing body of casework in this area suggests that this is a point that is often misunderstood by gambling operators.

If gambling businesses handle any proceeds of crime they may commit one of the principal money laundering offences under PoCA. However, a defence may be provided if an officer nominated under PoCA (commonly known as the money laundering reporting officer or MLRO, but referred to in this statement as the ‘nominated officer’) makes a report to an appropriate law enforcement agency, usually the National Crime Agency. This ‘reporting defence’ includes a statutory mechanism which allows the appropriate law enforcement agency to either agree to the transaction going ahead (to provide consent), or to prevent it.

Under the terms of PoCA, the reporting defence is only available if employees make a report to the nominated officer:

- where they know, or
- where they suspect, or
- where they have reasonable grounds for knowing or suspecting,

that a person is engaged in money laundering.

Gambling operators outside the regulated sector (which, in the gambling industry, currently includes non-remote and remote casinos) are not obliged to appoint a nominated officer to receive internal reports relating to money laundering. The Commission, however, advises operators to do so as this will help them meet their obligations under PoCA more effectively<sup>1</sup>. At the time of the events concerned, Rank Group had a single anti-money laundering policy and a single nominated officer for all parts of its business.

While all gambling businesses are bound by the terms of PoCA, casinos are subject to more detailed rules set out in the Money Laundering Regulations 2007 (the Regulations). The Regulations require

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<sup>1</sup> See “Duties and responsibilities under the Proceeds of Crime Act 2002 Advice to operators (excluding casino operators) Second edition September 2014” available online at [www.gamblingcommission.gov.uk/pdf/Duties-and-responsibilities-under-the-proceeds-of-crime-act-2002---advice-to-operators.pdf](http://www.gamblingcommission.gov.uk/pdf/Duties-and-responsibilities-under-the-proceeds-of-crime-act-2002---advice-to-operators.pdf)

companies which run casinos to have policies and procedures in place in relation to risk assessment and management. The risk-based approach involves a number of discrete steps in assessing the most proportionate way to identify and mitigate the money laundering risks faced by the company. These steps require the company to:

- identify the money laundering risks that are relevant to the company
- design and implement policies and procedures to manage and mitigate these assessed risks
- monitor the effective operation of these controls, and
- record what has been done, and why.

A risk-based approach focuses the effort where it is most needed and will have most impact. It requires the full commitment and support of senior management, and the active co-operation of all employees.

The Regulations state that companies which run casinos must:

- identify the customer and verify the customer's identity on the basis of documents, data or information obtained from a reliable and independent source<sup>2</sup>
  - undertake customer due diligence when forming a business relationship or when a customer reaches the applicable threshold of purchasing or exchanging casino chips with a total of more than €2,000 or pay more than €2,000 for the use of gaming machines in a 24 hour period<sup>3</sup>
  - undertake more thorough checks, referred to as "enhanced customer due diligence and enhanced ongoing monitoring" (usually shortened as "enhanced due diligence"), in any situation which by its nature can present a higher risk of money laundering<sup>4</sup>
  - undertake ongoing monitoring of customers, which means scrutinising transactions undertaken throughout the course of the relationship (including, where necessary, the source of the customer's funds) to ensure that the transactions are consistent with the company's knowledge of the customer, his business and risk profile<sup>5</sup>
  - keep the documents, data or information obtained for the purpose of applying customer due diligence measures up-to-date<sup>6</sup>
  - keep supporting records including those in respect of a business relationship or occasional transaction which is the subject of customer due diligence measures or ongoing monitoring for a period of five years<sup>7</sup>
  - terminate any existing business relationship where a company is unable to apply customer due diligence measures in accordance with the Regulations<sup>8</sup>
- 
- establish and maintain appropriate and risk-sensitive policies and procedures relating to:

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<sup>2</sup> Regulation 5

<sup>3</sup> Regulation 10

<sup>4</sup> Regulation 14

<sup>5</sup> Regulation 8(2)(a)

<sup>6</sup> Regulation 8(2)(b)

<sup>7</sup> Regulation 19

<sup>8</sup> Regulation 11

- customer due diligence measures and ongoing monitoring
- reporting
- record keeping
- internal control
- risk assessment and management
- the monitoring and management of compliance with, and the internal communication of such policies and procedures

in order to prevent activities relating to money laundering<sup>9</sup>.

**Ends**

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<sup>9</sup> Regulation 20