

# Breach of conditions relating to anti-money laundering and failure to comply with social responsibility codes

## Introduction

On 16 January 2018 the Gambling Commission gave Casumo Services Limited (the Licensee) notice that we were commencing a review of its operating licence granted in respect of its services to customers in Great Britain under section 116(2) of the Gambling Act 2005 (the Act) because:

- we had reason to suspect that activities may have been carried on in purported reliance on the licence but not in accordance with a condition of the licence (section 116(2)(a));
- we suspected that the Licensee may be unsuitable to carry on the licensed activities (section 116(2)(c)(i)); and
- we were of the view that a review would be appropriate (section 116(2)(c)(ii)).

On 10 May 2018 it was decided by the Commission to refer the case to the Commission's Regulatory Panel for a decision.

The Licensee accepted and the Regulatory Panel agreed that the Licensee had:

- breached conditions of its licence relating to anti-money laundering measures (AML) as per licence condition 12 of the Commission's [Licence conditions and codes of practice](#) (LCCP)
- failed to comply with social responsibility codes of practice.

In line with the Commission's [Licensing, compliance and enforcement policy statement](#), the [Indicative Sanctions Guide](#) and the [Statement of Principles for determining Financial Penalties](#), the Regulatory Panel has decided to:

1. Issue a warning under section 117(1)(a) of the Act
2. Impose additional conditions on the Licensee's operating licence under section 117(1)(b) of the Act; and
3. Impose a financial penalty under section 121 of the Act in the sum of £5,850,000.

This summary of the Regulatory Panel decision sets out the relevant facts of the case, licence condition (LC) and social responsibility code of practice provisions (SRCP), the findings and the outcome of the review.

## **Summary of Regulatory Panel decision**

### **Findings of fact**

The Regulatory Panel accepted the accuracy of the factual matters set out in the Commission's Case Summary. The following facts were stated in the Case Summary:

#### **Licence condition 12.1.1.1 - Anti-money laundering - Prevention of money laundering and terrorist financing**

Licence condition 12.1.1(1) requires an operator to conduct an assessment of the risks of their business being used for money laundering and terrorist financing. Such risk assessments must be appropriate and must be reviewed as necessary in the light of any changes of circumstances, including the introduction of new products or technology, new methods of payment by customers, changes in the customer demographic, or any other material changes, and in any event reviewed at least annually. This licence condition has been in force since October 2016. The Gambling Commission provides guidance on risk assessments in the *The Prevention of Money Laundering and Combating the Financing of Terrorism - Guidance for remote and non-remote casinos*. An appropriate risk assessment allows operators to identify risks relevant to their business, including the risks associated with the customers they transact with, and conduct effective customer due diligence on the basis of this assessment, among other things.

Commission officials found when they completed a compliance assessment on 2 October 2017 (Compliance Assessment) that the appropriate risk assessment was not in place. We made the Licensee

aware of the requirement at the time of the Compliance Assessment and in our letter of 8 November 2017.

In its response of 5 March 2018 the Licensee accepted that it had breached this licence condition. On 20 April 2018, the Licensee provided a copy of their revised risk assessment, which included an audit of their controls. The risk assessment was approved by its Board on 7 March 2018.

### **Licence condition attached to the licence on 1 November 2014 and Licence Condition 12.1.2.1 - Anti money laundering measures for operators based in foreign jurisdictions**

The Licensee was required to put in place and implement the measures described in Parts 2 and 3 of the Money Laundering Regulations 2007 (superseded by the 2017 Regulations), insofar as they relate to casinos.

Commission Officials found that the Licensee did not:

- conduct ongoing monitoring of a business relationship (Regulation 8 of the 2007 Regulations)
- apply, on a risk-sensitive basis, enhanced customer due diligence measures and enhanced ongoing monitoring in situations which by their nature present a higher risk of money laundering (Regulation 14 of the 2007 Regulations)
- keep full records of the evidence and supporting documents it considered as part of its customer due diligence checks and business relationship with the customer (Regulation 19 of the 2007 Regulations)
- establish and maintain appropriate and risk-sensitive policies and procedures relating to specified matters in order to prevent activities related to money laundering and terrorist financing (Regulation 20 of the 2007 Regulations)
- have effective or sufficient training for its MLRO (Regulation 21) of the 2007 Regulations).

In relation to the 2017 Regulations, Regulation 8 read with Regulation 9(4) means that the 2017 Regulations have direct applicability to remote casino operators licensed by the Commission but based overseas. Officials were of the view that:

- contrary to Regulation 24 of the 2017 Regulations, the Licensee failed to take appropriate measures to ensure that relevant employees received training in the law relating to money laundering

- the Licensee failed to consistently apply enhanced customer due diligence and enhanced ongoing monitoring on a risk-sensitive basis, contrary to Regulations 28 and 33 of the 2017 Regulations.

Regulation 28(11) of the 2017 Regulations requires the Licensee to conduct ongoing monitoring (which includes scrutiny of the transactions undertaken by the customer throughout the course of the business relationship, including the source of funds), and regulation 33 of the 2017 Regulations includes the requirement to apply enhanced customer due diligence measures and enhanced ongoing monitoring in situations where there is a high risk of money laundering or terrorist financing.

**Licence condition 12.1.1.2 Licensees must have appropriate policies, procedures and controls to prevent money laundering and terrorist financing; and Breach of Licence condition 12.1.1(3). Such policies, procedures and controls must be implemented effectively, kept under review and revised appropriately**

Officials found that at the time of the Compliance Assessment:

- the Licensee's AML policy did not appear effective, in particular in relation to establishing SOF and ongoing monitoring of its customers
- ongoing monitoring of customer accounts was not provided
- for two customer accounts reviewed, evidence of sufficient enhanced customer due diligence (EDD) was not provided.

In its response the Licensee accepted that it was in breach of licence condition 12.1.1 as, while it did have numerous individual policies concerning AML risk, at the time of the assessment it did not have:

- an appropriate AML risk assessment in place
- effective AML policies, procedures and controls in place, particularly as regards higher risk customers
- effective or sufficient training in place for its MLRO.

In its response, the Licensee confirmed that, since the Commission's Compliance Assessment, it had taken a number of actions to address the Commission's preliminary findings including:

- setting up a compliance executive team

- recruiting a dedicated UK Compliance manager
- recruiting three further regulatory compliance roles
- committing at Board level to put compliance at the heart of ongoing business operations and strategic future
- ensuring that all relevant past and current customer accounts would be subject to updated due diligence, enhanced due diligence and source of funds measures.
- engaged Wiggin LLP to manage and oversee a review of its current processes and provide independent analysis
- committed to the position that where proceeds of crime are likely to have been used on its site the Licensee will pro-actively segregate and divest those funds
- developed, integrated and tested an automated customer risk assessment tool which assesses customer profiles automatically, drastically reducing human error and increasing the accuracy of risk assessments and risk visibility both in respect of individual players and across the business
- provided external MLRO and AML training for its existing MLRO
- taken steps to recruit a new, highly experienced MRLO who will exclusively undertake that role within the Licensee's business.

In its response the Licensee acknowledged that it was in breach of licence condition 12.1.2

**Code of practice issued under Section 24 Gambling Act 2005 - Social Responsibility Code 3.4.1 Customer Interaction. Compliant with a social responsibility code provision (SRCP) is a condition of the Licence by virtue of section 82(1) of the Act**

The Licensee failed to put into effect policies and procedures for customer interaction in accordance with the requirements of SR Code 3.4.1.

Licensees must put into effect policies and procedures for customer interaction when they have concerns that a customer's behaviour may indicate problem gambling. Code provision 3.4.1(e) requires specific provision for making use of all relevant sources of information to ensure effective decision making, and to guide and deliver effective customer interactions including in particular:

- (i) provision to identify at risk customers who may not be displaying obvious signs of, or overt behaviour associated with, problem gambling; this should be by reference to indicators such as time or money spent.

(ii) specific provision in relation to customer designated by the Licensee as 'high value', 'VIP' or equivalent.

Commission officials found that at the time of the assessment the Licensee appeared to have failed to act in accordance with Code 3.4.1(e) as:

- a review of three accounts showed that the customers all demonstrated potential signs of problem gambling based on their gambling pattern and spend, however this behaviour did not trigger any customer interaction with the customers
- the Licensee confirmed that the accounts did not raise any concerns
- the Licensee's policies did not flag customers as an SR concern as a result of the size of their losses.

In its response the Licensee acknowledged that it was in breach of SR code provision 3.4.1 as, whilst it had policies, an RG team and its "Play Okay" website in place to deal with SR interactions, it did not:

- have effective policies and procedures in place to always prompt interactions where customers may be displaying signs of problem gambling
- always record interactions, or decisions taken not to interact, with its customers.

The Licensee indicated in its response that, since the assessment and as regards its SR responsibilities, it had:

- overhauled and updated its RG "PlayOkay" handbook with Professor Mark Griffiths
- created and actioned an RG roadmap
- received training from GamCare
- hired additional staff to its RG team, including an RG gaming strategist
- increased the visibility of its "PlayOkay" limits
- implemented GAMSTOP
- launched casumocares.com as a dedicated destination for RG and driving awareness.

The Panel found:

- that the Licensee had not undertaken an appropriate risk assessment in regards to money laundering and terrorist financing. By failing to undertake the appropriate risk assessment the Licensee breached licence condition 12.1.1(1) of its operating licence.
- that the Licensee had failed to establish and maintain appropriate risk-sensitive policies, procedures and controls relating to the management of its customers (including the monitoring and management of compliance with

such policies and procedures) in order to prevent activities relating to money laundering. By failing to do so, the Licensee breached conditions 12.1.1(2) and 12.1.1(3) of its operating licence

- that the Licensee had failed to implement the measures described in Parts 2 and 3 of the Money Laundering Regulations 2007 as it did not:
  - conduct ongoing monitoring of a business relationship
  - apply, on a risk-sensitive basis, enhanced customer due diligence measures and enhanced ongoing monitoring which by their nature present a higher risk of money laundering
  - keep full records of evidence and supporting documents it considered as part of its customer due diligence checks and business relationship with the customer
  - establish and maintain appropriate and risk-sensitive policies and procedures relating to specified matters in order to prevent activities relating to money laundering and terrorist financing
  - have effective or sufficient training for its MLRO.

The Licensee had also failed to adhere to Regulations 24, 28 and 33 of the Money Laundering Regulations 2017 by failing to take appropriate measures to ensure that relevant employees received training in the law relating to money laundering and by failing to consistently apply enhanced customer due diligence and enhanced ongoing monitoring on a risk sensitive basis.

By failing to implement the above measures the Panel found that the Licensee had breached licence condition 12.1.2. of its operating licence.

- that the Licensee did not have effective policies and procedures in place to always prompt interactions where customers may be displaying signs of problem gambling and did not always record interactions, or decisions not to interact, with its customers and by doing so failing the Licensee had not adhered to the requirements of paragraph 3.4.1 of the Social Responsibility Code which by virtue of section 24 of the Act is treated as a licence condition
- that the Licensee failed to consider and did not act in accordance with paragraph 3.4.2 of the LCCP Ordinary Code on customer interaction. The Panel noted that this would not give rise to a financial penalty.

## **Decision and reasons**

Approaching the decision as to what sanction(s), if any, should be imposed under s117 of the Act the Panel referred to the *Indicative*

*sanctions guide* (June 2017) and the *Statement of principles for licensing and regulation* (June 2017).

The Licensee accepted and the Panel agreed that given the seriousness of the licence breaches it was appropriate to:

- issue the Licensee with a formal warning under section 117(1)(a) of the Act
- impose the following licence conditions on the Licensee's operating licence under section 117(1)(b) of the Act to:
  - appoint an appropriately qualified Money Laundering Reporting Officer (MRLO) who holds a Personal Management Licence; in appointing the MRLO to ensure the individual must undertake annual refresher training in anti-money laundering and be able to evidence this to the Commission.
  - ensure that all personal management licence holders, senior management, and key control staff undertake outsourced anti-money laundering training. All such staff must undertake outsourced refresher training annually thereafter.
  - continue its review of the effectiveness and implementation of its anti-money laundering and social responsibility policies and procedures, and in addition engage external auditors, whose appointment and terms of reference must be agreed by the Commission, to sample the reviews that have been carried out to provide additional assurance as to the findings. The outcome of the review and subsequent action plan to implement any recommendations must be reported to the Commission by the person who assumes responsibility for this action, and the Commission will have access to all the documents relating to the work.

The Panel also agreed that it was appropriate to impose a financial penalty under section 121 of the Act. In reaching this decision the Panel had regard to the *Statement of principles for determining financial penalties* (June 2017) and which included the mitigating effect of the of the steps taken by the Licensee to remedy the breaches and the Licensee's co-operation with the Commission. The Panel concluded that it was appropriate for the Licensee to pay a financial penalty of £5,850,000 and that this was a proportionate outcome.