

## **PUBLIC STATEMENT**

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### **Shortcomings in anti-money laundering and social responsibility controls Hillside (New Media) Limited (bet365)**

#### **Summary**

Following an investigation by West Yorkshire Police leading to the conviction of an individual for serious theft and money laundering offences, the Gambling Commission (the Commission) conducted its own investigation into potential weaknesses in anti-money laundering (AML) and social responsibility controls put in place by bet365. The operator has agreed that the learning from this exercise should be shared with the gambling industry more widely, to help raise standards in these important areas.

The Commission's pursuit of these matters with bet365 is now concluded, although enquiries continue in relation to other operators. bet365 has co-operated fully with the Commission and provided considerable assistance in identifying lessons. The operator is taking a number of steps to ensure that risk to the licensing objectives is managed more effectively within its business. The operator's senior management are clear that they wish to be among industry leaders in managing anti-money laundering and social responsibility risks and have made a public commitment to taking steps to do so.

To provide important context, the events took place during a period when such shortcomings in relation to anti-money laundering and social responsibility controls appear to have been widespread and before the Commission drew to public attention (in autumn 2013) the need for industry to address those shortcomings<sup>1</sup>.

#### **Summary of circumstances**

The circumstances relate to an individual arrested in May 2013, who is now serving a custodial sentence. The individual has described himself to the Commission and the police as a gambling addict and there is no reason to doubt that description. He held an active account with the operator between 2005 and June 2013.

Over an extended period of time, the individual stole equipment worth approximately £19m from his employer, reselling it for his own gain for about £5.6m. He used most of the criminal proceeds to gamble, largely but not exclusively with bet365. From late 2010 up to his arrest in May 2013, the individual deposited a total of £5.9m, losing about £4.8m, via an online betting account with the operator, using its 'sportsbook' product. He conducted over 40,000 individual gambling transactions.

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<sup>1</sup> Previous cases include Corals, Aspers and Ladbrokes

## Findings

The operator's policies and procedures on AML and responsible gambling were not sufficiently developed. In particular:

- Its policies and procedures on tackling money laundering did not reflect developing understanding of the issues.
- There was an over-reliance on AML processes in the banking system. The operator considered that it could take some comfort from the fact that virtually all of the payments made by or to the individual were via his personal bank account at a regulated financial institution in the UK. However, it is important to stress to the industry that this is only one of several considerations that operators should take into account when assessing money laundering risk.
- There was also a view taken by the operator, in the absence of any specific directions from the then Serious Organised Crime Agency<sup>2</sup> following the operator's lodging of two suspicious activity reports (SARs), that it was entitled to continue to trade with the individual. The Commission wishes to stress to the industry that lodging SARs is only one aspect of the requirement to manage money laundering risk.
- Its responsible gambling policies had not developed to take full account of established and developing good practice, for example, in relation to patterns of spends, contacts with customer services and use of multiple debit cards and other payment methods.

In addition, those policies and procedures were not executed effectively:

- Early interactions with the individual were inadequately recorded. Even though the operator's own thresholds for enhanced due diligence were exceeded on many occasions, the operator kept no deployable records of additional due diligence undertaken with respect to the individual prior to the lodging of the first SAR and so was unable to adequately evidence its decision making.
- The operator did not use open sources of information or data held internally as actively as it could have. For example, it would have been relatively straightforward for the operator to determine from open source information that the individual was a bankrupt, which may have prompted earlier concern about the scale of his gambling.
- Bet limits were increased frequently, with insufficient challenge.
- The operator accepted the customer's explanation for partial self-exclusion from its casino products at face value and failed to flag up the need to monitor other accounts, although it was required by licence obligations to link them.

If the AML systems put in place by the operator and the payment providers it used had worked effectively, it is highly likely that the operator's relationship with the individual would have ceased much earlier than it did. Furthermore, the operator's responsible gambling policies, which were built on passive reaction, rather than active interaction, lacked complete effectiveness.

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<sup>2</sup> Responsibilities now covered by the National Crime Agency

## **Key learning**

From our engagement with the operator, it is clear that senior management have regarded this matter, which was not predicted or expected, with utmost seriousness. The operator is taking significant steps to address the shortcomings identified. As part of that action, the operator continues to conduct its own internal investigations, which may provide further insight at a later date.

In the meantime, we agree with the assessment the operator has made; namely that there are lessons that many other gambling businesses might benefit from, and that they are sufficiently important to justify immediate dissemination. We therefore wish to draw the following learning to the attention of all gambling businesses:

### **Ensuring effective policies and procedures are in place to identify money laundering and social responsibility triggers**

Operators must ensure that policies and procedures are up to date and reflect what is known about indicators of problem gambling and potential money laundering. In hindsight, the operator did not use an appropriate range of external information sources effectively to identify the risks to which they were subsequently exposed regarding money laundering and problem gambling. There was open source information available shortly after the individual opened his account in 2005 (namely his bankrupt status) that should have acted as an indicator that subsequent changes to play patterns, volume and value of transactions were potentially inconsistent with the idea of controlled leisure gambling within the individual's likely means.

In addition, the operator's policies did not take full account of indicators of suspicious behaviour or risk triggers arising from the individual's activity. For example, it is reasonable to expect operators to maintain policies that factor in the use of multiple debit/credit cards and multiple third party online e-money accounts to deposit to and withdraw from gambling accounts in assessing potentially suspicious or problematic behaviour.

In particular, the operator appeared not to have used information that might reasonably have associated the individual with potential problem gambling. In 2009, before the period of offending, the individual requested to be excluded from the operator's casino and gaming products, while choosing to continue with 'sportsbook' betting products. The subsequent, significant escalation in the volume of transactions, stake per bet, and the increasing frequency of contact by both the individual and bet365, all of which were in themselves indicators of potential problematic behaviour, should have been of particular significance in this case because they involved an individual who had previously partially self-excluded. Those indicators could and should have prompted additional customer interaction.

Operators must ensure that the arrangements in place to monitor customers (including sources of information, the accounts they hold and patterns of transactions) are sufficient to manage the risks to which they are exposed.

**The Commission expects operators across the industry to satisfy themselves that the sources of information commonly employed to carry out due diligence checks are suitable to help mitigate the full range of risks to which they might be 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 expects operators and the industry more widely to make progress in addressing it.**

### **Removal of financial gain**

The operator has acknowledged that, had the improvements it is now implementing been in place when the events described were taking place, it is likely that it would not have benefited financially from the individual to the extent that it did.

To put beyond doubt any question that it might have profited from its shortcomings, the operator has decided to take a substantial seven figure sum out of its business and use it to help fund research, via a range of projects, into the detection and prevention of problem gambling and gambling-related harm including research into the use of predictive data analytics to further the licensing objectives. It is expected that the findings of this work will be used for the benefit of the whole industry.

The operator is currently in discussions with NESTA, an independent charity with experienced researchers, with a view to making its own extensive data sets available to help develop innovative applications of data analytic techniques to mitigate risk to the licensing objectives through improved controls around AML, gambling-related harm and consumer protection. The intention in the longer term will be to make research findings available across the whole industry in order to enable gambling businesses to develop their own modelling techniques suitable to their business with the aim of improving the ability of operators to offer responsible gambling tools to players and potentially to identify criminal spend or people who may be experiencing gambling-related harm much earlier.

In addition, the operator has agreed to defray the Commission's costs of £24,000, incurred through its pursuit of these matters.

### **Next steps for bet365**

bet365 have co-operated fully with the Commission. They have been open and candid and have made and continue to make efforts to address the vulnerabilities that have been identified within the organisation. They also fully supported and recognised the value of sharing their experiences with the gambling industry more widely to help develop and implement industry best practice. They have agreed to put benefit they gained from the individual's fraudulent activity beyond the reach of the business. As a result, the Commission does not intend to take further action against the operator.

## **Next steps for the industry**

This case shares similar features with others publicised by the Commission. It suggests that the industry has generally not given the necessary attention to money laundering or problem gambling, and has tended to rely too heavily on third parties rather than manage the risks itself. As the operator in this case has itself suggested, it had been operating in the context of an industry-wide mindset and, in the Commission's view, which led to complacency and vulnerability to regulatory risk.

It is important going forward that the industry works together to share experience and develop good practice. Operators are advised that they need to take greater responsibility for identifying potential signs of money laundering and problem gambling and that risk mitigation strategies that place too much reliance on the presumed performance of third parties (for example, banks) or involve waiting to be told what to do in detail by other agencies, including the Commission, are unlikely to be successful.

All operators should now be examining their own systems to make sure they benefit from the learning from this and previous cases. Having brought to the attention of the industry the main areas where progress needs to be made, the Commission now considers all operators to be on notice that the extent to which they have taken steps to benefit from the learning identified is likely to be a material factor in future cases.