

Ladbrokes Coral Group

Breach of licence condition 12.1 to comply with Money Laundering Regulations 2007

Breach of social responsibility code provision 3.4.1 (customer interaction)

31 July 2019

Operators are expected to consider the issues here and review their own practices to identify and implement improvements in respect of the management of customers' accounts.

1. Executive Summary

This investigation considered the Ladbrokes Coral Group's remote operating licences. Gambling operators Ladbrokes and Coral merged during the time period under consideration in this investigation, thereafter known as the Ladbrokes Coral Group.

After the period under investigation, the Ladbrokes Coral Group was acquired by GVC Holdings PLC ("GVC"), which co-operated fully with the investigation and put in place a number of improvements to policies, processes and resources.

The Commission investigated the Ladbrokes Coral Group's handling of seven customers' accounts as a consequence of bringing together complaints from legal representatives, reports from other agencies and examining associated media reports.

The Gambling Commission found systemic past failings within the Ladbrokes Coral Group in the way that it identified and interacted with customers who were at higher-risk of money laundering and problem gambling.

These failings stemmed from inadequate anti-money laundering (AML) and social responsibility policies and processes, and insufficient staffing to support these systems. This meant the Ladbrokes Coral Group had ineffective controls to identify and interact with customers who may have been suffering gambling harm or money laundering. Further, when it did identify its AML controls were insufficient, the changes it implemented were not adequate to address the problem.

In addition to these general failings we identified an instance where Ladbrokes had identified concerns regarding the source of a customer's funds, but nevertheless decided to continue their business relationship with the customer and did not conduct any further checks or interactions.

As a result of these failings which were present from November 2014 – October 2017, the Ladbrokes Coral Group was in continual breach of:

1. licence condition 12.1 requiring compliance with the Money Laundering Regulations 2007 (and the ordinary code provision preceding this condition), and
2. social responsibility code provision 3.4.1 requiring effective policies and procedures for customer interaction; particularly the requirement to make use of all relevant sources of information, to identify at-risk customers who may not be displaying obvious signs, and to interact with customers designated as "VIP's".

In line with our Statement of principles for licensing and regulation, the Ladbrokes Coral Group will pay a total of £5.9m consisting of £4.8m payment in lieu of a financial penalty and will divest a total of £1.1m which was gained as a result of these failings.



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The Ladbrokes Coral Group has cooperated with our enquiries and has acknowledged its failings. Its new owner GVC has outlined changes already put in place and has given undertakings to be implemented. The Ladbrokes Coral Group, at the instigation of GVC, proposed a regulatory settlement on acceptable terms.

2. Findings

Our investigation found failings in the Ladbrokes Coral Group's anti-money laundering and social responsibility policies and procedures. This investigation considered seven customers who held accounts with Ladbrokes and/or Coral between November 2014 – October 2017 and identified in all cases these customers were able to use money which has been found, or could reasonably be suspected to be, the proceeds of crime.

a) Licence condition 12.1.1(1), (2) and (3)

This licence condition was preceded by ordinary code provision 2.1. At the time the breach began in November 2014, code provision 2.1 stated:

- In the case of casino products: 2.1.1(1) *In order to help prevent activities related to money laundering and terrorist financing, licensees should act in accordance with the Commission's guidance on anti-money laundering ...*
- In the cases of non-casino products: 2.1.2(1) *As part of their procedures for compliance with the requirements in respect of the prevention and detection of money laundering in the Proceeds of Crime Act 2002 and the Terrorism Act 2000, licensees should take into account the Commission's advice on the Proceeds of Crime Act 2002 ...*

In October 2016, this code provision was superseded by the new licence condition 12.1.1.

Licence condition 12.1.1(1) requires:

Licensees must conduct an assessment of the risks of their business being used for money laundering and terrorist financing. Such risk assessment 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.

Licence condition 12.1.1(2) requires:

Following completion of and having regard to the risk assessment, and any review of the assessment, licensees must ensure they have appropriate policies, procedures and controls to prevent money laundering and terrorist financing.

Licence condition 12.1.1(3) requires:

Licensees must ensure that such policies, procedures and controls are implemented effectively, kept under review, revised appropriately to ensure that they remain effective, and take into account any applicable learning or guidelines published by the Gambling Commission from time to time.

The Ladbrokes Coral Group has accepted that between 1 November 2014 and 1 October 2017 it did not have adequately resourced AML controls to consistently address the risks presented by higher-risk customers. This was because:

- The AML policies and processes in place were not effective.

- The policies, procedures and controls were not appropriate to adequately mitigate the risks identified by the risk assessment – particularly the monitoring and review of customers to ensure the proceeds of crime were not being spent on the Licensee’s websites.
- The teams responsible for putting these procedures into practice were not adequately resourced, which led to a delay in the reviewing of “at risk” customers and caused the focus to be on only those top customers highlighted by the controls.
- There was a lack of adequate documentation and audit trail of account reviews which did take place, and this further reduced the effectiveness of the controls.

During its investigation the Commission identified failings in accounts held by seven customers across the Ladbrokes Coral Group between 1 November 2014 and 1 October 2017. GVC has agreed accounts held by five additional customers will also be independently reviewed by a firm of solicitors and, where any similar failings are identified, additional divestments will be made accordingly. This is also the case for any further customers brought to their attention where these failings are identified for this time frame.

b) Social Responsibility code provision 3.4.1(1)

Licensees must put into effect policies and procedures for customer interaction where they have concerns that a customer’s behaviour may indicate problem gambling. The policies must include ...

(e) 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 customers designed by the licensee as “high value”, “VIP”, or equivalent

The Ladbrokes Coral Group has accepted between 1 November 2014 and 1 October 2017 it did not have effective policies and procedures in place for customers who may be displaying signs of problem gambling:

- The policies and procedures in place did not always prompt effective interactions where customers may be displaying signs of problem gambling.
- In some instances interactions, and decisions not to interact, may not have been adequately preserved.
- The system and human resources in place were not adequate to meet the standards required by licence condition 3.4.1. The Licensees did not sufficiently invest in the tools and systems that would be required to adequately mitigate the risks for problem gamblers.
- The process for identifying risk which was developed was implemented in a manual format, which greatly reduced its effectiveness.

c) Examples of failings

Some examples of these failings and how they impacted customers are as follows:

- Ladbrokes did not carry out any social responsibility interactions with a customer who lost £98,000 over two-and-a-half years, had 460 attempted deposits into their account declined, and even asked the operator to stop sending promotions.

- Despite one customer spending £1.5m over two-years 10 months, Coral did not ask the customer to evidence their source of funds and could not provide evidence of any social responsibility interactions being carried out. During their time with the operator the customer displayed signs of problem gambling including logging into their account an average of 10 times a day for a whole month and losing £64,000 in one month alone.
- Ladbrokes could not provide any evidence of carrying out social responsibility interactions with a customer who deposited over £140,000 in the first four months of their account being open.
- Ladbrokes, having identified concerns with a customer, then allowed further significant gambling without taking additional steps to verify the source of funds or consider if the customer could afford to spend and lose that amount of money.

3. Actions taken by the Licensee

In addition to accepting these failings, GVC has committed to the following:

- Overhauling its responsible gaming and customer interaction processes including increases in resources, staff retraining and hiring a dedicated player protection expert outbound call team.
- Implementing its “Changing for the Better” strategy comprising of research and educational projects, funding treatment for problem gambling, creating cultural change within the business and promoting responsible attitudes within the industry.
- Engaging a UK firm of solicitors to review any new high or higher-risk customers as may be identified by the Commission or by GVC. Any recommendations arising out of these reviews will be fed back into improvements that could be made to current processes and dealing with divestment.
- The firm will undertake a review and dip-sample of an internal review completed by Ladbrokes Coral from July – October 2017 applying its new processes to all active customer accounts to evaluate whether it was robust and fit for purpose.
- The firm will dip-sample an internal review to be undertaken by GVC in 2019 of a group of customers, to evaluate the robustness of this process.
- The firm will manage and oversee a review of the current Ladbrokes Coral process and provide an independent analysis of the Licensees’ procedures to ensure they meet or exceed its regulatory obligations.
- The firm will review the top 50 customers by Gross Gambling Yield (GGY) for the years 2015, 2016 and 2017 to consider whether any of the failings identified in this report are evidenced and if so, to divest the GGY accordingly.

4. Regulatory Settlement

This settlement consists of:

- a) £4.8m payment in lieu of a financial penalty which will be directed towards delivering the National Strategy to Reduce Gambling Harms.
- b) A divestment totalling £1.1m to victims where it has been found, or could reasonably be suspected to be, the proceeds of crime.
- c) GVC engaging an external UK firm of solicitors to review five further customer accounts identified by the Commission and will divest itself of any GGY as directed.
- d) GVC will employ an external UK firm of solicitors to undertake the following within a reasonable time and report findings to the Commission:
 - a. Dip-sample a review Ladbrokes Coral conducted July - October 2017 applying its new processes to all active customer accounts to evaluate whether the review was robust and fit for purpose.
 - b. Dip-sample a review to be undertaken by GVC in 2019 of a group of existing customers, to evaluate the robustness of this process.

- c. Manage and oversee a review of the current processes at the completion of transition, and provide independent analysis of the new and updated procedures to ensure they meet or exceed its regulatory obligations.
- d. Review the top 50 customers by GGY for the years 2015, 2016 and 2017 to consider whether any of the failings identified in this report are evidenced and if so, to divest the GGY accordingly.
- e) Agreement to the publication of a statement of the facts in relation to this case.
- f) Payment of £24,700 towards the Commission's costs of investigating the case.

In considering an appropriate resolution to this investigation, the Commission has had regard to the following aggravating and mitigating factors:

Aggravating

- The duration of the breach, being almost three years.
- The systemic nature of the breach and the potential this may mean other customers were affected that the Commission is as yet unaware of.
- Learning published by the Commission during the time of the breach regarding the same issues.
- Repetition of breaches previously identified by the Commission in engagement with Coral Interactive (Gibraltar).
- The need to encourage compliance by other operators with these requirements.
- The breach continued at Ladbrokes after problems with the AML monitoring process were discovered.
- Ladbrokes Coral Group's management were likely to have been aware of, and if not, should have been aware of, the problems that lead to the breaches given their significance.
- Initial remedial actions put in place by Ladbrokes were not to improve resources but to reduce the number of high-risk customers identified.
- The customers who held accounts with Coral were not identified during our previous engagement.

Mitigating

- GVC has now put in place new resources, policies and PML holders, and is engaging with the Commission regarding improvements being implemented.
- GVC has taken steps to remedy the breaches and have outlined project work it will be undertaking.
- GVC has fully cooperated with the Commission's investigation.
- There is no evidence of any attempts to conceal the breaches.
- The breaches identified were not due to the absence of controls, rather their ineffectiveness due to a lack of adequate resourcing.
- A payment in lieu of financial penalty of £1m has previously been made by Coral Interactive (Gibraltar) in recognition of breaches during this time period.

5. Good practice

Gambling operators should take account of the failings identified in this investigation to ensure industry learning. Operators should consider the following questions:

- Are your policies and procedures for identifying high risk customers for AML and SR effective?
- Have you adequately resourced your AML and SR departments, so your staff are able to put your policies and processes in place for all customers at all times?

- Are you recording all customer interactions, including decisions not to interact with customers, and are these records available for colleagues to refer to when making decisions?
- Are your customers providing documentation to support their level of spend and loss, and not simply giving verbal or email assurances, for example?