

# Press Release

UK Gaming Commission Findings and Industry Impact



## Stakes are High for UK Licensed Online Gambling Operators

### Regulators force online gambling operators' hands to clean up financial compliance procedures

Are online gambling companies squarely behind the eight ball when it comes to financial crime compliance maturity in comparison to other UK financial organisations and their land-based casino peers?

This white paper addresses the Anti-Money Laundering (AML) and Social Responsibility (SR) failings reported by the UK gaming regulator, the impact to the UK gaming industry and provides practical steps companies can adopt, to become compliant and potentially avoid losing their licenses.

The UK Gambling Commission (UKGC) recently wrote to all 195 UK operators issue a warning to review their procedures and improve measures that protect customers and prevent money laundering. A major concern and seen as a "serious nature" in their findings, was controls for AML, Countering Terrorist Funding (CTF) and problem gambling. In addition, identifying MLROs at firms with no formal qualifications and who were "unable to provide suitable explanations as to what constitutes money laundering".

These findings are a serious cause for concern and, unlike with traditional AML deficiencies that may lead to huge fines and remediation programmes, could result in licenses to operate in the UK being revoked; i.e. shut up shop and walk away. If it were one or two areas of the AML value chain, the organisations' compliance maturity level may be called less into question. However, the above findings combined with the lack of monitoring of customer account usage, the comparison of similar socioeconomic factors & indicators and the lack of Suspicious Activity Reports (SAR) filing rigor, suggests that AML/CTF and wanting to 'understand and know' their customers, appears to be absent from many operators' agendas.

This lack of 'knowing their customers' behaviours is also reflected in the UKGC's SR findings; "potential signs of problem gambling based on consumers' gambling patterns and spend" and "in many cases, this behaviour did not trigger a customer interaction", highlighting, account behaviour is either not being monitored at all, or simply being ignored. The implications of which, if true, are even more severe from an AML perspective. This also asks the question - whether the player(s) actual funds and income supports their level of play (SR) and if the associated major AML implications are understood and controlled effectively.

In Acuris Risk Intelligence's experience within the gaming industry, there is a stark comparison between the way UK land-based casinos who have been adhering to regulations and online operators who have historically made very little use of (EDD) reports. Compliant casinos use Enhanced Due Diligence reports (EDDs) to screen high risk customers - justifying players' 'source of funds/wealth' (SoW) and the business decision to on-board or continue a business relationship. Implications for online operators - if SoW is not being robustly corroborated, making regulatory compliance becomes very difficult and remains a corner stone of the AML & SR decision making processes.

Furthermore, where does the recent 4<sup>th</sup> AMLD regulations and business impacts, factor into business models, customer growth and mission statements? One must question the level of compliance maturity amongst some operators. Are they unaware of the huge global fines imposed on almost every tier 1 & 2 banks for AML compliance failings and deficiencies, irrespective of the jurisdiction. Is it assumed, until an actual on-site inspection by the UK regulator occurs, compliance obligations can take a 'back seat' on the business' agenda?

We are not privy to which operators are under review, but the belief is, most of these organisations are not domiciled in the UK. However, the debate about whether the UK regulator 'has teeth' looks to be firmly answered in this case, assuming their rhetoric is followed through.

So where to from here? First and foremost, these organisations are going to be extremely busy over the coming months and years if they are to stay in business. The level of effort and cost to change should not be underestimated. Achieving the balance between short-term initiatives and longer-term structural changes is

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where successful companies have delivered. The regulatory focus and guidance shouldn't be viewed as all 'doom and gloom', rather an opportunity to 'draw a line in the sand' and move forwards by putting regulation at the top of management's agenda.

**Short-term initiatives must include:**

- Operators must apply Enhanced Due Diligence (EDD) where a customer presents a higher risk of money laundering. Make sure a risk assessment model is in-place to determine which customers pose a higher risk.
- Operators must apply Customer Due Diligence (CDD) measures in relation to any transaction that amounts to €2,000 or more, whether the transaction is executed in a single operation, or in several operations which appear to be linked. IT systems require auditing to ensure they can monitor various scenarios to conform to this regulation.
- UKGC found a lack of evidence pertaining to the ongoing monitoring of customer accounts - a breach of Regulation 28(11). If operators do not currently have this capability, this is of the highest priority.
- UKGC are concerned, where ongoing monitoring of customer accounts is not proactively undertaken, both money laundering and/or SR issues go unreported. Again, if this isn't currently available, a detailed strategy must be documented along with a plan for implementation, as this is a major regulatory breach.

Medium to longer term initiatives are striving to be recognised as 'good' and 'leading' when compared to other regulated industries such as banking. This requires significant resource, time, cost and internal organisational drive. Ultimately, success is dependent on culture; the 'tone at the top', 'mood in the middle' and 'buzz at the bottom', which isn't easy to achieve. Typically, longer term initiatives for achieving success would include:

- Build a plan & execution model covering:
  - Staffing
  - Policies & procedures
  - Culture/management's attitude to addressing findings
  - How will the current organisation be baselined?
  - Training
- Operating Model:
  - Governance: roles, responsibilities, reporting
  - IT systems: transaction & on-going relationship monitoring, on-boarding channels
  - Processes: on-boarding, monitoring, review
  - Suspicious Activity Reporting (SAR) and monitoring

Operators in the regulator's spotlight must demonstrate they are taking their regulatory obligations seriously. To achieve this, operators articulate a coherent, honest and pragmatic approach to address their failings and obligations. This is likely to be met with approval and may keep them in business a while longer.

Acuris Risk Intelligence has significant gaming industry experience and works alongside both land based and online operators, regulators and Financial Intelligence Units (FIUs) in key jurisdictions and can provide both practical guidance and a range of solutions to support regulatory obligations.

Being under regulatory scrutiny is not pleasant - with focus, the right support from specialised organisations who have 'been there and done that', provide the correct business support and engagement - operators can utilise this experience to differentiate themselves and use the opportunity to create competitive advantage.

*"An intelligent person learns from their own mistakes, but a genius learns from the mistakes of others." - Author: anonymous*

To find out more about implementing an efficient and easy way to manage a solution, to undertake AML Customer Due Diligence, Ongoing Monitoring and EDDs then please contact Fiona Davies, Head of Gaming, today.

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