

GBG The Gambling Business Group

The Gambling Business Group (GBG) is a representation of gambling organisation members from all sectors of the UK Gambling Industry, including Casinos, Bingo, Arcades, On-line, Machines, Suppliers and Developers. In addition to these businesses there is also a strong member representation from supporting sectors that include legal, finance, consultancy and recruitment organisations. Our members account for more than 60% of the UK's Gross Gaming Yield (GGY) making the GBG the most significant representation of Gambling Businesses in the UK.

November 9th 2016.

Re; Submission to the HMT Consultation on the Transposition of the 4th Anti Money Laundering Directive.

The GBG has limited its responses to the areas in which it and its members have knowledge and experience. Specifically,

Question 3: When do you think CDD measures should apply to existing customers while using a risk-based approach?

GBG Response; Gambling activity is effectively playing a game of chance. When players win money or monies worth it can be the outcome of placing small or large wagers. The GBG has a concern that the following statement (in 4.3 of the HMT document) will have the unintended consequence of an unmanageable level 'false positives' requiring CDD;

“for providers of gambling services, upon the collection of winnings, the wagering of a stake, or both, when carrying out transactions amounting to £1,672 (EUR 2,000) or more, whether the transaction is carried out in a single operation or in several operations which appear to be linked”

The inclusion of winnings in the threshold for triggering due diligence will capture customers who place small winning bets on long odds, including those partaking in the National Lottery and its scratch card products. If winnings are to be included, customers who have bets at less than £5, £2 or even £1, could win more than the sterling equivalent of €2,000.

Our recommendation therefore, is that winnings are not included in the threshold for CDD.

We also note that in quoting the above paragraph 4.3 from the Consultation Document, the wording is again repeated on page 23 in paragraph 5.5. However, in this second instance the word 'and' has been added and we do not understand the meaning if this is a deliberate change or whether it is a simple typing error.

Chapter 5 - gambling providers;

Question 26: Do you think that the government should consider exempting proven low risk providers of gambling services from the Regulations based on the gambling activity or by a complete sector (see the list at paragraph 5.8 or Annex C for information on how the sectors are split up) or both? Please explain the reasons behind your response.

GBG response; There are mixed views about how this should be approached. On the one hand, it would naturally be less of a burden on businesses if exemption was applicable by gambling activity. However, with the potential requirement to link transactions together, there is an interpretation that this would also require the linking of activities together. Therefore, for those companies offering multiple gambling activities, it is difficult to see how some of those activities can be exempt when others are included. Perhaps it would be easier to respond more definitively if the potential requirements for linking of transactions were either more developed or removed (see response to Question 29 below).

Question 27: Which gambling providers or activities do you think should be classified as having 'proven' low risk and therefore should be exempt from the Regulations? Please provide credible, cogent and open-source evidence to support your response.

GBG response; As the Gambling Business Group does not represent any specific sectors of the UK Gambling Industry, our members have supported the work done, and contributed to the evidence produced by the respective sector trade associations; The Association of British Bookmakers, The Bingo Association, The Remote Gaming Association, The British Amusements Caterers Association and the National Casino Forum. We therefore turn your attention to their submitted evidence to support the cases for classifying all providers and activities as 'low risk', with specific emphasis on;

- The relatively low numbers of SARs recorded against Gambling Activities. The NCA's latest report on SARs¹ is that of over 318,000 SARs, just 0.37% related to the gaming and leisure sector.
- The low number of Police Actions generated by Gambling Activities.
- The Treasury's own National Risk Assessment published in October 2015, which categorises both retail betting and casinos as 'overall low risk level'.
- The low number of cases where transactions reach/breach the AML threshold.
- The Proceeds of Crime Act that already captures the whole of the Gambling industry.
- The recently introduced Licence Conditions and Codes of Practice for Gambling Licence Holders (operators) that further prevent incidents of crime associated with gambling. These new regulations are designed to mitigate the risks of money laundering and other criminal activity from happening in gambling in the UK and they can be viewed here; <http://www.gamblingcommission.gov.uk/Publications-consultations/Consultations/Closed-consultations-with-response/LCCP-prevention-of-crime-associated-with-gambling.aspx>
- The Gambling Commission's money laundering risk assessment. The Gambling Business Group has in fact contributed to the formulation of the Gambling Commission's risk assessment, but unfortunately we have only been provided with a draft version. That aside, one of the issues with the 4th AMLD process is the interpretation of 'low risk' and the need to prove 'low risk' in order for industries and sectors to be exempt. The Commission have taken a markedly more pessimistic approach to their risk assessment compared with that of the Treasury. Indeed, the Gambling Commission acknowledge this disconnect in point 4.4 of their draft risk assessment; *The Commission acknowledges that whilst similar in nature, the methodology used in compiling its risk assessment varies to the approach taken in developing the National Risk Assessment*. The resulting 'risk levels' in the Gambling Commission's risk assessment are very subjective, markedly different to the HMT assessment, and not based upon hard facts or evidence. Whilst the GBG does not agree with the risk levels reached in the document, in fairness to the

¹ Suspicious Activity Reports Annual Report 2015. National Crime Agency.

Commission and all other stakeholders, it is of course difficult (if not impossible) to prove that something such as money laundering is not happening. What is important is that there are procedures and processes in place to identify and deal effectively with incidents of any criminal activity (including money laundering) if and when they do occur, all of which is a mandatory requirement of every gambling licensed operator via the Licence Conditions and Codes of Practice (LCCP).

Question 28: Should CDD requirements for the gambling providers or activities take place: (i) on the wagering of a stake; (ii) on the collection of winnings; (iii) on the collection of winnings and the wagering of a stake; or (iv) or whichever is the latter? Please explain the reasons behind your response.

GBG response; CDD requirements should only be applicable on the wagering of a stake at a level in excess of €2000. Any other method runs the risk of unintentionally capturing players staking at low levels on products that can generate prizes of over €2000. Staking at low levels on long odds outcome games is no indicator of money laundering taking place. As we have said in our answer to question 3, this runs the risk of generating an unmanageable number of false positives, including those customers partaking and winning with the National Lottery and its scratch card products.

This issue of the inclusion of winnings becomes even more complicated with gaming machines, where a player will engage with a machine (or machines) for a time period that the industry refers to as a 'playing session'. Within this session a player can win any number of small and large prizes, which they have the choice to use for continued play, thus extending the session. Would it be the intention to include all of these small and large wins in the CDD criteria? To do so would be very misleading, again with the unintended consequence of creating a huge number of false positives.

The systems that drive the Ticket in Ticket Out (TiTO) method of moving gaming machine stakes and prizes between products in a single gambling venue have functionality that in particular circumstances raises a suspicious activity alert at the point of cashing out. This happens when the ratio of monies used in a session have not sufficiently been played through the gaming machines and are subsequently being collected as pseudo-winnings.

This function is designed as an AML tool as in these circumstances customers are not able to 'cash out' without intervention by a member of staff, who then follows the CDD process as laid out in the LCCP. This prevents money laundering taking place with TiTO systems.

[Question 29: What do you think constitutes a 'linked transaction' for different types of gambling? Do you think 'linked transaction' should be defined in legislation?](#)

GBG response; There is always a danger when prescribing something as unspecific as 'linked transactions' into legislation, in that the definition will inevitably not capture all circumstances and will very soon become out of date. Surely, it would be better to take an outcomes approach in that it is the total spend with a gambling licence holder that is the CDD trigger, regardless of where that spend is. The obligation is then on the licence holder to identify that customer in all of their different guises, and to track their spending accordingly.

However, further consideration needs to be given to the time period to which the spend criteria applies, particularly with many businesses now operating 24/7.

[Question 30: If covered by the Regulations, what costs and impacts would be incurred by the providers of the gambling services? Please provide sources for your data and suitable evidence. In particular, the government is keen to know what your initial transition costs would be, how much you would need to spend on staff training and how much it would cost to apply CDD measures.](#)

GBG response; The Gambling Business Group supports the submissions of the Trade Associations in their responses to this question.

[Question 31: What advantages would there be for increasing the coverage of the Regulations to more than just casinos in the gambling industry?](#)

GBG response; It should not be forgotten that land based casinos were included in the 3rd AMLD by mistake. It was always the intention that remote casinos should fall into the money laundering regulatory regime, but the differentiation between remote casinos and non-remote casinos was not made at the time. Land based casinos falling into the regulatory

regime was in fact, an unintended consequence. It has been suggested that this is an opportunity to 'right the wrong' that was done last time.

The Gambling Business Group do not see any advantages in increasing the coverage of regulations to more than just casinos for the reasons set out in our response to Question 27.

[Question 32: Do you believe that measures could be taken by the Gambling Commission under the Act that might have a bearing on whether you view a sector or activity as being proven low risk?](#)

GBG response; The Gambling Business Group strongly believe that the Gambling Commission have been very effective with regard to the development of the Licence Conditions and Codes of Practice that support the UK Gambling Industry in improving the identification and mitigation of criminal activity in gambling. Because these measures are relevant and effective, they mitigate the need for any sector of the Gambling Industry from being included in the 4th AMLD.

There is however an additional measure that the DCMS can take with regard to further improving the monitoring of potential money laundering activity with gaming machines;

There is in force a **Statutory Instrument (SI) 2007 No. 2319 BETTING, GAMING AND LOTTERIES The Gaming Machine (Circumstances of Use) Regulations 2007**.

Regulation 9 of this document requires gaming machines to hold the value of cash inserted (cash-in) into a machine in a bank that is not committed for play. In a separate customer action, parts of this value can be transferred to another bank where the money is committed to play (committed payments). The intention of this part of regulation was to protect the player's cash-in funds from having to be played off in their entirety. In the event, this function has been unnecessary as players can collect all of their monies at any time they wish, and the existence of a second bank is confusing for the uninitiated. Yet machines still must have the committed payments facility for them to be compliant.

Because a players funds have to be able to be split as described above, they can also be partially collected, those parts added to and/or moved to another machine either in part or in total. This makes it easier for anyone trying to disguise their criminal activity from being

detected as the audit trail can be made to be very complex and very confusing. As things are today, this complexity and confusion is causing false positive 'suspicious activity alerts', which is unnecessary and frustrating for the operators and customers alike.

The removal of Regulation 9 of the SI would enable the removal of confusion from the audit trail and facilitate the transparent tracking of sessional spending. As a result, suspicious activity will be more accurately identified and false positives avoided.

Because gaming machines allow players to cash-out at any time, the removal of Regulation 9 poses no risk of harm or is in anyway detrimental to the consumer.

We would ask that the Treasury join us in encouraging the DCMS to remove Regulation 9 from the SI at the earliest possibility.