

Emerging money laundering and terrorist financing risks from July 2020

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Customer use of informal value transfer systems, Money Service Businesses, licensees' reliance on third parties and conducting affordability checks.

The Commission is highlighting to gambling businesses that their policies, procedures and controls must be effective in establishing customers' source of funds as well as the need to undertake sufficient 'Know Your Customer' (KYC) checks.

Increased use of informal value transfer systems (IVTS)

IVTS are used in some parts of the world to conduct legitimate remittances (most often by individuals seeking to send money to and from family members in their country of origin). However, IVTS (also known as 'underground banking') are attractive for money laundering (ML) and terrorist financing (TF) purposes for some of the following reasons:

- there is no audit trail left behind of any transactions made
- availability to de-banked or unbanked customers
- senders are not required to provide identification documents
- avoidance of high banking fees.

Poor implementation of policies, procedures, and controls for KYC makes the use of IVTS easier and there is increased use of IVTS such as, 'Hawala' (a traditional system of money lending originating in South Asia); today it is used around the world to conduct legitimate remittances outside of the banking system. Increasing evidence of the risk that gambling businesses may be accepting customer funds that have been obtained through IVTS being exploited by criminals is emerging where criminals use IVTS for the purpose of transmitting illicit finance.

Our guidance for both [casino](#) and [other operators](#) highlight that customer monitoring is an ongoing process. Licence Condition 12 of The [LCCP](#) states that, 'licensees must conduct an assessment of the risks of their business being used for money laundering and terrorist financing'.

Money Service Businesses (MSBs)

All casinos are required to comply with [The Money Laundering Regulations 2017](#) ([opens in new tab](#)) in respect of MSBs and HMRC's guidance for foreign currency exchange, cheque cashing and money transfer to minimise the risk of ML and TF. All casinos offering MSBs are required to have effective risk assessments, policies, procedures and controls in place to prevent ML and TF and continue to raise standards in this regard.

During COVID-19 there has been an increased use of MSBs in the wider economy and, for those online casinos offering foreign exchange and third party money transfer, awareness and compliance with The Regulations is a continued requirement.

Some of the ML and TF risks associated with MSBs are:

- MSB activities (such as foreign currency exchange) not being implemented correctly or effectively may result in overseas criminally derived funds infiltrating the UK's financial system and businesses, potentially committing criminal offences by circumventing other jurisdictions' ML legislation and controls
- money transmitters can be used by persons not allowed to work in the UK to send the proceeds of illegal working to other countries.

The use of MSBs has been recognised as high risk in both [Her Majesty's Treasury's National Risk Assessment \(opens in new tab\)](#) and our [Risk Assessment \(PDF\)](#) of the money laundering and terrorist financing risks within the British gambling industry (2019 version). Casinos must effectively scrutinise source of funds and source of wealth, and (whilst online casinos continue to offer MSB facilities) mitigations to combat the use of MSB facilities for the acceptance, processing and transfer illicit finance remains a priority.

Reliance on third parties

Gambling businesses are ultimately responsible for compliance with the conditions of their licence. This includes ensuring sufficient customer checks are carried out and that reliance is not placed on any third parties to conduct customer checks.

This includes (for example) relying on banks or any third party payment processors to conduct 'KYC' checks or reliance on other gambling businesses to establish source of funds (without further scrutiny) where a customer states that funds are winnings from another gambling business.

Carrying out sufficient customer checks become even more vital where there is a high risk of ML and TF in cases where (for example) a customer is from a high risk jurisdiction, as this will impact on the risk profile of the customer.

Operators should also give due consideration to the ML and TF risks posed by their business to business relations (including any third parties they contract with). Social Responsibility Code Provision 1.1.2 of The [LCCP](#) state that:

'Licensees must ensure that the terms on which they contract with such third parties: require the third party to conduct themselves in so far as they carry out activities on behalf of the licensee as if they were bound by the same licence conditions and subject to the same codes of practice as the licensee'.

Importance of conducting affordability checks and customers occupation

Failure to conduct sufficient customer affordability checks offers opportunities for illicit finance to infiltrate licensees' financial systems.

Licensees are reminded of the importance of assessing customer affordability when determining risk levels. Disposable income levels must be a starting point for assessing financial benchmark triggers and knowing a customer's occupation is an important factor in determining income levels and compliments businesses 'KYC' knowledge.