



HM Government
of Gibraltar

Gambling Division

**Assessment of the Money Laundering and Terrorist Financing
Risks within the Gambling Industry in Gibraltar**

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1. Executive Summary

1.1 The Gibraltar Gambling Commissioner and Gambling Division's (**GGC**) money laundering and terrorist financing risk assessment (**ML/TF**) highlights the principle risks which exist within each of the sectors that comprise the Gibraltar regulated gambling industry.

1.2 The risk assessment is underpinned by quantitative and qualitative data which the GGC obtains in the course of its supervisory activity.

1.3 This risk assessment will be an ongoing concern with emerging vulnerabilities being reviewed and incorporated into future iterations of this risk assessment.

1.4 All sectors below have been assessed and given a risk rating on the basis of the risk scoring matrix (see methodology section) and in the context of the gambling sector in Gibraltar as a whole.

1.5 The remote gambling B2C sector has been assessed as having a **higher** risk

1.6 The remote gambling B2B sector has been assessed as having a **medium** risk.

1.7 The land-based casino sector has been assessed as having a **higher** risk.

1.8 The betting shop sector has been assessed as having a **medium** risk.

1.9 The lotteries sector has been assessed as having a **low** risk.

1.10 Other: Bingo, gaming machines (outside casinos) sector has been assessed as having a **low** risk.

2. Introduction

2.1 In line with the European Union's Fourth Money Laundering Directive, Gibraltar carried out a National Risk Assessment (**NRA**) which was published by the National Co-ordinator for ML and considered the remote gambling sector in Gibraltar and gave it a risk rating of 'medium'. The NRA was revised in 2018 to update and expand on risk factors, as well as to take into account the EU Supra-National Risk Assessment.

2.2 This risk assessment is designed to complement the NRA and contribute to its update. It will also serve to provide the GGC with the basis upon which to carry out its regulatory duties in respect of money laundering and terrorist financing (**ML/TF**), utilising a risk based approach and being led by AML/CFT concerns as recommended by HM Government of Gibraltar.

3. Legal and Regulatory Framework

3.1 The Gambling Commissioner is the regulator for the gambling industry in Gibraltar and is a supervisory body listed under Part 1 of Schedule 2 of the Proceeds of Crime Act (**POCA**) for the purposes of supervising licensed gambling operators' (**Licence Holders**) compliance with relevant Gibraltar laws and regulations for anti-money laundering and countering the financing of terrorism. The Gambling Commissioner works with staff on both the licensing and regulatory side.

3.2 Licence Holders have a responsibility under both POCA and the Gambling Act (the **Act**) to be alert to attempted money laundering or the spending of the proceeds of crime and report instances or suspicions of same.

3.3 The Terrorism Act (**TA**) establishes further offences in respect of engaging in or facilitating terrorism, as well as raising or possessing funds for terrorist purposes.

3.4 The Code of Practice for the Gambling Industry (**AML Code**), issued by the Gambling Commissioner, provides further interpretative guidance for Licence Holders in respect of their AML/CFT responsibilities.

3.5 This Risk Assessment is designed to supplement the NRA and to provide Licence Holders with further context about the existing risks in the sector. This may assist Licence Holders in developing their own risk assessments: this is a requirement under POCA and the Code, although Licence Holders must understand the risks within the context of their own operations and not all risks will necessarily apply to a particular Licence Holder.

4. Methodology

4.1 The GGC considers the money laundering risk within the gambling sector to be that either gambling operators come under the ownership or control of organised criminals for the purposes of laundering the proceeds of crime or that the services offered by gambling operators are used as conduits for the spending or laundering of the proceeds of crime.

4.2 The GGC considers the risks as a whole in the various different areas comprising the gambling sector in Gibraltar as well as considering the risks in the context of individual licensees.

4.3 In line with the FATF, the GGC's methodology considers risk to be a function of threat, vulnerability and consequence. The risks may be mitigated by controls put in place.

4.4 The GGC takes into account both quantitative and qualitative information in its risk assessment. These include the findings of the Gibraltar NRA, the EU Supranational Risk Assessment, data collected by the GGC during the course of its supervisory activities, including:

i. The annual AML Questionnaire which obtains data on:

- number of registered and active customers;
- number of dormant accounts;
- jurisdictional splits by % of revenue;
- number of active PEPs and number of PEPs with whom Licence Holders have ceased to do business;
- whether the Licence Holder accepts custom from FATF identified higher risk jurisdictions;
- how often screening against international sanctions lists takes place; and
- how many confirmed TFS matches there have been.

ii. findings from on-site visits to gambling operators; and

iii. the knowledge and expertise of staff members.

4.5 The overall risk is calculated by the formula: **probability X impact = overall risk**. When considering likelihood and impact, the GGC also takes into account the controls in place which function as mitigating factors.

- **Threat** – this encompasses individuals, groups and/or particular activities which have the potential to introduce criminal elements into the gambling sector. This can manifest itself in various respects including criminal groups or individuals seeking ownership or control of gambling operators for illegal purposes; the intentional laundering of funds through gambling operators or simple criminal spend; and operators not being fully aware of or negligent in respect of their responsibilities.
- **Probability** – the chance that a money laundering risk materialises is to be considered in the context of realistic threats existing and their potential to exploit existing vulnerabilities.
- **Vulnerabilities** – this refers to the inherent aspects of gambling operators' services which are open to potential exploitation for the purposes of supporting or facilitating money laundering and/or terrorist financing.

These can generally be sub-divided into the following categories:

- i. Internal Control Vulnerabilities;
- ii. Licensing and Integrity Vulnerabilities;
- iii. Customer Related Vulnerabilities;
- iv. Product Related Vulnerabilities;
- v. Payment Method Vulnerabilities.

- **Description and Comments** – This is a summary of the potential consequences of a given risk materialising based on the GGC’s understanding and information obtained by the GGC through various means, including GFIU intelligence reports, Licence Holder volunteered information, supervisory activity, questionnaires and regulatory returns.
- **Mitigating factors** – There is a requirement for controls to be put in place in order to effectively mitigate the possibility of risks materialising. Controls can mitigate vulnerabilities where these are applied in an effective manner. Licence Holders are responsible for implementing controls in the form of AML/CFT risk assessments, policies and procedures and their effective maintenance and revision.

The GGC’s licensing procedures and supervisory approach can also constitute a mitigating factor.

Risk Scoring Matrix:

Probability	Very High - 5	5	10	15	20	25
	High - 4	4	8	12	16	20
	Medium - 3	3	6	9	12	15
	Low - 2	2	4	6	8	10
	Very Low - 1	1	2	3	4	5
		Insignificant - 1	Minor - 2	Moderate - 3	Major - 4	Severe - 5
	Impact					

The overall risk is considered in terms of:

- i. The possibility of money laundering or terrorist financing taking place due to the vulnerability in question;
- ii. The seriousness of the impact on the industry;
- iii. The severity of compliance or legal violations, if they were to occur, and whether these could be easily addressed;
- iv. The time and cost involved in implementing the required changes to AML/CFT controls;
- v. Whether there is the potential for any reputational damage;
- vi. The impact on the operator’s business operations.

Very Low Risk (Dark Green) – There is only a remote potential for ML/TF exploitation of vulnerabilities. Any violations would be very minor and self-limited in nature with any remedial actions required unlikely to involve any costs to implement.

Low Risk (Light Green) – There is little potential for ML/TF exploitation of vulnerabilities. Any violations would be minor and easily addressed with some compliance action and potential cost involved. Only a minimal impact on non-core operations.

Medium Risk (Yellow) – There is some potential for ML/TF exploitation of vulnerabilities. There is a potential for more significant breaches which could take time and effort to address with long-term action required and more substantial costs involved.

Higher Risk (Orange) – There is a higher potential for ML/TF exploitation of vulnerabilities. Breaches are likely to require substantial time and effort to address and the costs to remedy the situation will be significant.

High Risk (Red) – There is a very high potential for ML/TF exploitation of vulnerabilities. Breaches will have a severe impact on operations and reputational damage and the costs involved will be substantial.

4.6 This is the first iteration of a Risk Assessment which will be updated on an ongoing basis as further data points to emerging trends.

5. Money Laundering and Terrorist Financing Risk

5.1 The Money laundering and terrorist financing risk within the gambling sector can be attributed primarily to two concerns. In respect of ML the risks lie both in the potential criminal ownership and control of gambling operators and in the potential use of gambling services offered by said operators being used as conduits for the laundering or mere spend of the proceeds of crime.

5.2 The GGC does not consider the TF threat to be of significant likelihood although the impact would be severe. Intelligence provided to the GGC and information obtained during the course of its supervisory activities do not lead us to believe that the TF threat has materialised although there are certain products that could lend themselves to the potential passing of funds destined for terrorist activities between one customer and another. In this respect the primary risk has been determined to be that of poker and the possibility of peer-to-peer transfers between users of the poker platform. This can occur either as transfers involved in ‘staking’ players or through the deliberate losing of funds (so-called “chip dumping”) by one player to another. Through our thematic work, we consider inter-account transfers between players to be a particular area of vulnerability due to the risk appetite of players, operational staff and affiliates in the poker sector and the fact that historically this has not been an area where every operator has had proportionate controls over such transfers.

5.3 The other potential TF issue lies in a sanctioned player utilising the services of a gambling operator.

5.4 The GGC considers that the foremost means in which ML activity takes place within the gambling sector is through the simple spending of the proceeds of crime for leisure purposes by lifestyle criminals, or due to an association with problematic gambling (theft from employer or breach of position of trust), rather than the traditional laundering of funds *per se*. Whilst an operator’s own risk management and fraud controls may substantially reduce the opportunity for traditional money laundering to take place, departures from best practice and failure to follow internal policy and process still create residual risk and the opportunity for criminal exploitation. For example, allowing significant and sustained wagering on short priced favourites without requisite and proportionate levels of customer due diligence.

6. Risk Assessment by Sector

i. Remote B2Cs

Background

6.1 The B2C remote gambling market operates in different but complementary sectors: betting, betting intermediary (exchange), gaming, including slots, bingo and poker, and other products (lottery bets, exchange bets). The majority of B2C licensees provide a full suite of products (fixed odds sports betting, casino products, slot games). For a list of current licensees see here: <https://www.gibraltar.gov.gi/finance-gaming-and-regulations/remote-gambling>

6.2 The majority of B2C licensees have the UK as their dominant market and a large proportion of the British remote gambling market is supplied by Gibraltar operators. It is estimated that at least 60% of UK remote betting takes place in or from Gibraltar with a significant, but lesser, percentage of UK remote gaming taking place here.

6.3 Given the importance of the remote gambling sector in Gibraltar and its comparative size in relation to other gambling sectors, the regulatory regime in Gibraltar is primarily focussed on the needs and challenges of remote operations, in particular in respect of AML/CFT and social responsibility issues.

6.4 Within the Remote B2C sector various risk categories have been identified. The threats which exist within the remote B2C sector are that criminals may come to own or control an operator in order to launder funds and that individual users may use the services of a licensed entity in order to spend or launder the proceeds of crime.

6.5 POCA identifies non-face-to-face gambling as being of higher risk. Nevertheless, the fact that customers use payment cards to fund gambling enables Licence Holders to easily track a customer's transactions. However, the quality of data analysis, senior management risk appetite and the expertise of customer due diligence staff (as well as compliance resource allocation) all impact on this area.

6.6 All B2C Licence Holders are subject to the obligations in POCA and the AML Code.

Sector summary

6.7 **The Remote B2C sector is rated a higher risk sector.**

Internal Control Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Failure to apply appropriate controls to mitigate the risk of ML/TF occurring – Higher (High x Major)**
- Description and Comments:
- Non-compliance with the relevant laws and guidance can lead to lapses in the quality of AML/CFT controls. In the course of its supervisory activity, the GGC has encountered evidence that the required standards are not always been met. This can increase the risk of ML/TF activity taking place. Senior management risk appetite, appropriate risk/ compliance governance frameworks, appropriate levels of compliance resourcing and the setting of the correct compliance culture is key to ensuring robust controls against potential ML/TF.
- Mitigating Factors:
- All Remote B2C operators are required to abide by the obligations under POCA and the AML code, and must therefore implement systems and controls to mitigate the possibility of their services being used for the purposes of ML/TF. They must also ensure that they have appropriate risk assessments, policies and procedures in place to combat ML/TF and to risk assess new products before they are launched.
- Licence Holders also generally have in place automated systems which trigger alerts in respect of unusual or suspicious activity and all customer transactions are electronically logged and can be tracked and identified.

- Appropriate training of staff.
- CDD and EDD processes are undertaken and PEPs and sanctions screening takes place.
- The GGC's licensing process, ensuring that key individuals are fit and proper, and its supervisory activity, in the form of desk based reviews and on-site visits, help to mitigate the possibility that Licence Holders are not putting in place the required systems and controls to prevent their services being used for ML/

Licensing & Integrity Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Operator controlled by criminals – Medium (Very Low x Major)**
 - **Employee risk – collusion with criminal elements – Medium (Medium x Moderate)**
- Description and Comments:
 - While the risk of a remote gambling operator coming under the ownership or control of criminal elements is a recognised risk, the relatively small number of Licence Holders in the jurisdiction, together with the GGC's robust licensing process render this a more theoretical risk, although one that must always be taken into account. The identification of beneficial owners/controllers is paramount.
 - Employee collusion remains a risk that Licence Holders must be vigilant of. The GGC has not encountered cases in which key individuals were colluding with criminals for the purposes of ML/TF, however, examples of lower level employees acting in their own interests and not in accordance with the expected standards exist and thus the potential risk of a more significant case of employee collusion must be taken into account.
- Mitigating Factors:
 - Licence Holders must all undergo a stringent licensing process by the GGC, ensuring that all key individuals are fit and proper, undergoing background checks for previous criminal conduct and a comprehensive due diligence process.
 - Licence Holders are required to vet and train their staff and to be vigilant against the potential risks that their own employees may pose. They have a vested interest in ensuring their systems minimise any potential damage which may result from an employee not acting with the required integrity.
 - Key individuals must satisfy the GGC that they are fit and proper.

Customer Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Non-face-to-face nature of remote gambling – Higher (Medium x Moderate)**
 - **False Documentation – Medium (Medium x Moderate)**
 - **PEPs using remote B2Cs in order to launder the proceeds of crime – Low (Low x Moderate)**
 - **Customers on international sanctions lists laundering illicit funds – Medium (Low x Major)**
 - **Customers from High Risk Jurisdictions laundering funds – Low (Low x Moderate)**
- Description and Comments:
 - The non-face-to-face nature of remote gambling is recognised as a higher risk in POCA. However, this is largely mitigated by CDD and EDD measures and the ability of remote gambling operators to effectively access and monitor a full audit of transactions and other data including IP addresses, device identifiers, etc.
 - The possibility that customers may attempt to use fraudulent or stolen identification documents is an extant one, however, the GGC's supervisory activity has revealed that Licence Holder generally have effective measures in place to be able to identify fraudulent documents although some instances have also escaped the notice of due diligence teams, and some have proved themselves to be more adept than others. The increasing sophistication of criminals in using false or stolen IDs presents a constant challenge to operators.

- While Licence Holders do have PEPs on their books, there is limited evidence that they are using the services of remote gambling operators to launder the proceeds of crime; this is underscored by the very limited number of SARs relating to PEPs that have been submitted by the remote gambling sector.
 - The evidence in respect of customers on international sanctions lists using remote gambling operators for the purposes of ML/TF is likewise limited, with Licence Holders reporting that the vast majority of ‘matches’ are in fact false positives.
 - GGC data obtained from Licence Holders suggests that the numbers of registered customers from high risk jurisdictions are small and there is limited evidence that these are laundering the proceeds of crime through gambling operators.
- Mitigating Factors:
- All Licence Holders are obliged to comply with the provisions of POCA and the AML Code.
 - POCA stipulates that non-face-to-face customers are higher risk and thus must undergo enhanced due diligence measures.
 - All customers must register an account with remote B2Cs and electronic software is readily available to assist in automatic electronic verification of customers while manual methods can be resorted to where necessary.
 - All transactions are electronically recorded and can be monitored.
 - Licence Holders have systems in place to screen customers against international sanctions lists, to check whether they are PEPs and to risk assess them based on their jurisdiction.

Product Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Peer-to-peer gaming (poker) – Higher (High x Moderate)**
 - **Low-odds betting - Medium (Medium x Moderate)**
- Description and Comments:
- The possibility of collusion between players in online poker is a higher risk. ‘Chip dumping’ is considered by the GGC to be one of the primary ways in which TF could potentially occur within the remote gambling sector although GGC intelligence suggests the risk remains a largely theoretical one at present. ‘Chip dumping’ does occur but is typically for a variety of other reasons which do not involve ML or TF although it is still a prohibited practice according to operators’ terms and conditions.
 - Inter-account transfers between poker players/affiliates is a key area of ML and TF vulnerability which requires appropriate levels of control and additional due diligence measures. Poker players generally have a high risk appetite and can themselves be exploited as facilitators in the movement of criminal funds.
 - Where a customer recycles or attempts to recycle criminal funds or a proportion of such funds through gambling facilities either through engaging in minimal or very low risk activity such as low-odds sporting events.
- Mitigating Factors:
- Licence Holders implement systems to assist in detecting and preventing collusion (so-called ‘chip dumping’, i.e. deliberately losing to another player for the purposes of transferring one’s funds to them).
 - Licence Holders have systems in place to monitor unusual betting activity.

Payment Method Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **E-Wallets masking origin of funds – Medium (Medium x Moderate)**

- **Pre-paid cards (cash funded) masking origin of funds – Medium (Medium x Moderate)**

- Description and Comments:

- E-Wallets, the use of betting shops to fund online accounts in operators that have both a land-based and online presence and the use of pre-paid cards can lead to difficulties in determining the provenance of funds. Nevertheless, multi-channel operators have systems in place to be able to link these (single view of the customer) and this helps mitigate the risks.
- Furthermore, Licence Holders must conduct due diligence in respect of source of funds and wealth and undertake ongoing transactional monitoring to reduce the likelihood of the risks materialising.
- Potential future risks also arise in the form of crypto-currencies although, to date, their use has not been adopted by Licence Holders and the GGC continues to inform Licence Holders that they must present credible AML/CFT policies and procedures in respect of their adoption before this could be countenanced. There remains some risk that E-Wallets and pre-paid cards are funded by crypto-currencies.

- Mitigating Factors:

- Licence Holders implement systems to enable them to link multi-channel accounts.
- Licence Holders are required to identify and verify the identity of their customers which helps mitigate issues in respect of payment methods such as e-wallets and pre-paid cards which may render identifying where the source of funds more problematic.
- On-going monitoring of transactions and checks on source of funds and wealth.
- Alerts in respect of mismatches between registered customer details with a Licence Holder and those registered with the E-Wallet provider.
- Relationship between Licence Holders and merchants providing the services in order to provide support and information.

ii. Remote B2Bs

Background

6.8 The B2B sector provides B2C companies with access to their bespoke gaming software.

6.9 Each new partner proposal is an AML/CFT engagement within a wider regulatory assessment as they must present due diligence material and receive formal approval before engaging in business. A B2B operator can have several approved partners. A list of current B2B licensees can be found at: <https://www.gibraltar.gov.gi/finance-gaming-and-regulations/remote-gambling>

Sector summary

6.10 **The Remote B2B sector is rated a medium risk sector.**

Internal Control Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Non-implementation of relevant legislation (POCA) and guidance from the supervisor (AML Code) – Medium (Medium x Moderate)**
- Description and Comments:
 - While B2B Licence Holders are not exposed to the same risks as customer-facing operators, they are nevertheless under an obligation to monitor customer behaviour on their servers for AML/CFT purposes, in particular because the nature and style of play taking place is not visible to the B2C operator. B2B operators may sometimes consider the absence of customer data or deposits into their systems as meaning they have no obligation to monitor customer behaviour. This responsibility is elaborated upon in the AML Code.
- Mitigating Factors:
 - B2B Licence Holders are subject to the provisions of POCA and the AML Code (insofar as it relates to them).
 - The GGC's licensing process, ensuring that key individuals are fit and proper, and its supervisory activity, in the form of desk based reviews and onsite visits, help to mitigate the possibility that Licence Holders are not putting in place the required systems and controls to prevent their services being used for ML/CFT.
 - B2Bs must have due diligence procedures in place in respect of the partners they do business with and must monitor customer behaviour on their servers in accordance with the AML Code.

Licensing and Integrity Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Operator controlled by criminals – Medium (Very Low x Major)**
 - **Employee risk – collusion with criminal elements – Medium (Medium x Moderate)**
- Description and Comments:
 - While the risk of a B2B operator coming under the ownership or control of criminal elements is a recognised risk, the relatively small number of Licence Holders in the jurisdiction, together with the GGC's robust licensing process render this a more theoretical risk, although one that must always be taken into account. Furthermore, the B2B partner approval process entails further scrutiny of a B2B's approach.
 - Employee collusion remains a risk that Licence Holders must be vigilant of. The GGC has not encountered cases in which key individuals were colluding with criminals for the purposes of ML/TF, however, examples

of lower level employees acting in their own interests and not in accordance with the expected standards exist and thus the potential risk of a more significant case of employee collusion must be taken into account.

- Mitigating Factors:

- Licence Holders must all undergo a stringent licensing process by the GGC, ensuring that all key individuals are fit and proper, undergoing background checks for previous criminal conduct and a comprehensive due diligence process.
- B2B Licence Holders are required to submit their proposed business relationships to the GGC for approval.
- Licence Holders are required to vet and train their staff and to be vigilant against the potential risks that their own employees may pose. They have a vested interest in ensuring their systems minimise any potential damage which may result from an employee not acting with the required integrity.
- Key individuals must satisfy the GGC that they are fit and proper.

Customer Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):

- **Business relationships leading to AML/CFT exposure – Medium (Medium x Moderate)**

- Description and Comments:

- B2B Licence Holders are required to implement due diligence procedures in respect of their business partners in order to ensure that they do not enter into relationships with unsuitable entities which may present an ML risk. The GGC's approval process provides oversight into the processes implemented by B2B Licence Holders and it has sometimes been observed that the comprehensiveness of the due diligence conducted varies between Licence Holders; on such occasions the Licence Holder is subject to remedial action on a compliance basis in order to increase standards.

- Mitigating Factors:

- Requirement for B2Bs to apply internal due diligence processes to potential business partners including obtaining information on the ultimate beneficial ownership and control of those partners wishing to use their systems.
- The GGC also requires that all customer facing 'joint venture' B2B relationships are submitted for approval and are subject to ongoing monitoring by the Licence Holder to ensure the service is being used as envisaged at the time of approval.

Product Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):

- **Lack of visibility in relation to player data and gambling activity – Higher (High x Moderate)**

- Description and Comments:

- In most technical arrangements of B2B 'table game' supply, the B2C operator does not have access to real time game play or game performance statistics. The requirement for the monitoring of table games for potential money laundering or terrorist financing methods applies equally to B2B games suppliers as it does to B2C operators' in-house table games, otherwise suspicious gameplay on B2B servers may be concealed from the B2C operator. The parties should therefore, when negotiating their commercial arrangements, agree the method by which table games will be monitored in real time for recognised money laundering or terrorist financing 'gameplay' methodologies and reported to the B2C operator in a timely and proportionate way should they occur, allowing for possible interventions in funds transfers or withdrawals.

- Given the evolving nature of ML/TF methodologies it is expected that the details of the monitoring which will be carried out will be agreed between the parties from time to time and need not be set out in precise detail at the outset. Once agreed, however, these should be documented and made available to the Gambling Commissioner as and when required. While some methodologies are transparent and easy to identify (e.g. repeated low risk bets in roulette), P2P transfers can be highly sophisticated, shielded and complex.
- Mitigating Factors:
- B2B Licence Holders are under an obligation to monitor customer activity and alert their B2C partners of suspicious gameplay.

iii. Casino (Land-based)

Background

6.11 There is currently one licensed land-based casino operator in Gibraltar operating in two premises. Its offering consists of slot machines, table games and bingo and poker events (rare). It is a relatively low turnover/margin business where high value customers are should be quickly apparent and subject to close supervision by the casino.

Sector summary

6.12 **The Casino (Land-based) sector is rated a higher risk sector.**

Internal Control Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Non-implementation of relevant legislation (POCA) and guidance from the supervisor (AML Code – Non-Remote) – Medium (Medium x Moderate)**
- Description and Comments:
 - A failure to implement adequate controls could lead to casino services being used for the purposes of money laundering.
 - There is only one licensed casino operator in the jurisdiction. This is a well-known, established multi-national operator which is nevertheless subject to the same robust due diligence process as remote operators.
 - Issues relating to the challenges of monitoring slots play.
- Mitigating Factors:
 - Casinos are subject to the provisions of POCA and the AML Code for the non-remote sector and must implement systems and controls in order to mitigate the possibility of ML/TF occurring through their premises.
 - The GGC's licensing process, ensuring that key individuals are fit and proper, and its supervisory activity, in the form of desk based reviews and on-site visits, help to mitigate the possibility that Licence Holders are not putting in place the required systems and controls to prevent their services being used for ML/CFT.

Licensing and Integrity Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Operator controlled by criminals – Medium (Low x Major)**
 - **Employee risk – collusion with criminal elements – Higher (Medium x Major)**
- Description and Comments:
 - While the risk of a casino coming under the ownership or control of criminal elements is a recognised risk, the fact there is only one casino licence holder, together with the GGC's robust licensing process render this a more theoretical risk, although one that must always be taken into account.
 - Employee collusion remains a risk that Licence Holders must be vigilant of. The GGC has not encountered cases in which key individuals were colluding with criminals for the purposes of ML/TF, however, examples of lower level employees acting in their own interests and not in accordance with the expected standards exist and thus the potential risk of a more significant case of employee collusion must be taken into account.
- Mitigating Factors:

- Licence Holders must all undergo a stringent licensing process by the GGC, ensuring that all key individuals are fit and proper, undergoing background checks for previous criminal conduct and a comprehensive due diligence process.
- Licence Holders are required to vet and train their staff and to be vigilant against the potential risks that their own employees may pose. They have a vested interest in ensuring their systems minimise any potential damage which may result from an employee not acting with the required integrity.
- Key individuals must satisfy the GGC that they are fit and proper.

Customer Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Use of ‘smurfing’ in order to bypass threshold reporting requirements – Medium (Medium x Moderate)**
 - **Use of proxies – Low (Low x Moderate)**
 - **False Documentation – Higher (High x Moderate)**
 - **PEPs using casinos to launder corrupt funds – Low (Low x Moderate)**
 - **Customers on international sanctions lists laundering illicit funds - Low (Low x Moderate)**
 - **Customers from high risk jurisdictions using the casino’s services to launder the proceeds of crime - Low (Low x Moderate)**
 - **Proximity to organised crime groups - Higher (Medium x Major)**
- Description and Comments:
 - Casinos are required to implement effective controls against ML/TF and the GGC’s supervisory activity suggests that it does so. However, this may not always be up to the more sophisticated standards of remote gambling operators with less in the way of the use of software to help establish and verify identities as well as ongoing monitoring of customer spend.
 - The jurisdiction’s proximity to organised crime groups presents another risk as identified in the National Risk Assessment and the casino must be on guard against customers linked to such organisations using the proceeds of crime in the casino for leisure purposes.
 - The practice of smurfing and the use of false identification documents are recognised as risks by the FATF in the non-remote casino sector.
 - There is little evidence that PEPs, people on international sanctions lists or from high risk jurisdictions use the casino for the purposes of laundering the proceeds of crime. It is in general a domestic trade supplemented by some tourist activity.
 - There is also little evidence of the use of proxies or agents in the casino although this remains a theoretical risk.
 - The casino services a destination tourist market, but also a local market where over familiarity with that local market could foster a false sense of security and false assumptions about the legitimacy of the source of player funds. This could lead to under-reporting of suspicious activity
 - Cross-border risks in relation to foreign nationals and illegal activity in the “Campo de Gibraltar” area.
- Mitigating Factors:
 - Casinos are under an obligation to abide by the requirements of POCA and the AML Code – Non-Remote. This includes undertaking CDD, including enhanced due diligence and ongoing monitoring.
 - POCA requires casinos to establish and verify a customer’s identity where gambling chips with a value of 2000€ or more are purchased or exchanged.
 - Casinos are required to comply with requirements in respect of PEPs, international sanctions lists and high risk jurisdictions.
 - Casinos implement measures such as use of CCTV and table monitoring which can help identify suspicious activity.

Product Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Peer-to-peer gaming (Poker Tournaments) – possibility of collusion – Higher (High x Moderate)**
- **Slots – Higher (High x Moderate)**
- **Electronic Roulette - Medium (Medium x Moderate)**
- Description and Comments:
- When hosting poker tournaments, there is a risk that participants will collude with each other for the purposes of transferring illicit funds.
- Slots present an issue in respect of monitoring funds that are spent in them.
- Electronic roulette entails reduced customer interaction with members of staff and the use of ticket in ticket out (TITO) facilities.
- Mitigating Factors:
- The casino uses CCTV and staff monitoring to reduce the risk of collusion taking place.
- There has been a substantially reduced level of activity in respect of poker tournaments and the possibility of any risks materialising are therefore also reduced.
- There is some monitoring of slots activity through signing up to the membership scheme and use of CCTV, together with human intervention.
- Automatic redemption of TITO at machines is limited to a low amount, otherwise requiring human interaction.

Payment Method Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Cash Transactions - Higher (High x Moderate)**
- **Foreign Currency Exchanges - Higher (High x Moderate)**
- **TITO – Higher (High x Moderate)**
- Description and Comments:
- Cash is recognised as being a method of payment attractive to criminals involved in ML/TF due to difficulties in respect of tracing it, the ease with which it can be transferred and the fact it helps facilitate anonymity.
- As recognised by the FATF, casinos carry out certain services such as foreign currency exchanges which are akin to a financial institution.
- TITO systems have the potential to allow criminals to launder the proceeds of crime by feeding TITO machines with low denomination cash with the ticket then cashed at the cashier's desk after minimal play and for higher denomination notes.
- Potential weaknesses in cash desk control and player monitoring.
- Monitoring of receipt and exchange of high denomination Euro notes and cumulative quantities of Euros.
- Mitigating Factors:
- Casinos are fully regulated and must comply with requirements under POCA and the AML Code – Non-Remote.
- Controls are in place in respect of enforcing membership and obtaining CDD where transactions over a certain threshold are met.

- Foreign currency exchange without membership and the CDD that membership entails is only permitted in lower amounts below a certain threshold; source of funds is required where buy-ins are made in a foreign currency by bank transfer.
- Automatic redemption of TITO at machines is limited to a low amount, otherwise requiring human interaction.

iv. Betting Shops

Background

6.11 There is currently only one betting shop and one sports bar (physically linked to the casino) in Gibraltar; these are licensed and regulated by the GGC for betting purposes. This licence was awarded to a long-standing and experienced licensee.

Sector Summary

6.12 The Betting Shop sector is rated a medium risk sector.

Internal Controls Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Non-implementation of relevant legislation (POCA) and guidance from the supervisor (AML Code) Medium (Medium x Moderate)**
- Description and Comments:
 - A failure to implement adequate controls could lead to betting shops not effectively mitigating the risk that their services are used to spend the proceeds of crime.
- Mitigating Factors:
 - Betting shops are subject to the provisions of POCA and the AML Code for the non-remote sector and must implement systems and controls in order to mitigate the possibility of ML/TF occurring through their premises.
 - The GGC's licensing process, ensuring that key individuals are fit and proper, and its supervisory activity, in the form of desk based reviews and on-site visits, help to mitigate the possibility that Licence Holders are not putting in place the required systems and controls to prevent their services being used for ML/TF.

Licensing and Integrity Vulnerabilities

- **Operator controlled by criminals – Medium (Very Low x Major)**
- **Employee risk – collusion with criminal elements – Medium (Medium x Moderate)**
- Description and Comments:
 - While the risk of a betting shop coming under the ownership or control of criminal elements is a recognised risk, the betting shops in the jurisdiction (of which there is only one in addition to a sports bar offering some betting facilities) are under the control of an already existing licensee. The GGC's robust licensing process render this a more theoretical risk, although one that must always be taken into account.
 - Employee collusion remains a risk that Licence Holders must be vigilant of. The GGC has not encountered cases in which key individuals were colluding with criminals for the purposes of ML/TF, however, examples of lower level employees acting in their own interests and not in accordance with the expected standards exist and thus the potential risk of a more significant case of employee collusion must be taken into account.
- Mitigating Factors:
 - Licence Holders must all undergo a stringent licensing process by the GGC, ensuring that all key individuals are fit and proper, undergoing background checks for previous criminal conduct and a comprehensive due diligence process.

- Licence Holders are required to vet and train their staff and to be vigilant against the potential risks that their own employees may pose. They have a vested interest in ensuring their systems minimise any potential damage which may result from an employee not acting with the required integrity.
- Key individuals must satisfy the GGC that they are fit and proper.

Customer Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Anonymous Customers - Medium (Medium x Moderate)**
- **False Documentation – Higher (High x Moderate)**
- Description and Comments:
- There is some risk in the fact that anonymous customers are able to place bets at betting shops.
- The use of false identification documents is a potential risk.
- Gibraltar has a high concentration of (industry) sports traders who may exploit inside information and seek to circumvent risk controls.
- Mitigating Factors:
- The use of CCTV and employee interaction assists the betting shop in building a profile of its customers and they are then able to further monitor any higher spending customers.
- The risk of any substantial money laundering is mitigated by the limits set by the betting shop in respect of how much may be staked over the counter, the nature of the business which comprises low level leisure betting from locals and holiday makers and this limits the level of risk posed.
- The size and nature of the betting shop in Gibraltar, in respect of the number of customers frequenting it, and the level of bets that may be placed substantially limit the risks posed.

Product Related Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
- **Betting terminals - Medium (Medium x Moderate)**
- Description and Comments:
- Betting shops host betting terminals in which customers can place bets in lieu of transacting with a member of staff. This increases the potential for such activity to go unmonitored and for potentially anonymous customers to place repeated bets which could go unnoticed.
- Mitigating Factors:
-
- The use of CCTV and employee interaction assists the betting shop in building a profile of its customers and they are then able to further monitor any higher spending customers as they utilise the betting terminals.
- Risk management systems permit Licence Holders to monitor unusual betting activity and large amounts or atypical betting patterns are able to be picked up.

Payment Method Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Cash transactions - Higher (High x Moderate)**
- Description and Comments:
 - Cash is recognised as being a method of payment attractive to criminals involved in ML/TF due to difficulties in respect of tracing it, the ease with which it can be transferred and the fact it helps facilitate anonymity.
- Mitigating Factors:
 - The use of CCTV and employee interaction assists the betting shop in building a profile of its customers and they are then able to further monitor any higher spending customers. The relatively small number of customers also assists in respect of staff awareness of customers and their betting profiles.

v. Lotteries

Background

6.13 Gibraltar only operates one state run lottery and the risk of ML through the purchase of winning tickets is considered low due to the relative low pay-outs of the lottery, making this unattractive for large scale ML. Smaller scale 'raffles' may take place in social clubs and organisations but these are for charitable purposes and do not present a risk of ML/TF as they are low stake, low frequency and small prize gambling. Small-scale lotteries are authorised by the Licensing Authority. The Gibraltar Government Lottery is run by the Treasury Department of the Government of Gibraltar.

6.14 Being a state run lottery entails there is no risk of criminal elements gaining ownership or control of a lottery operator and there are no large-scale, privately run, non-remote lottery operators.

Sector Summary

6.15 The lotteries sector is rated a low risk sector.

Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Anonymous customers – Very Low (Low x Minor)**
 - **Criminals acquiring lottery tickets - Low (Low x Moderate)**
 - **Cash transactions – Low (Low x Minor)**
- Description and Comments:
 - Customers do not need to present ID when purchasing tickets which may present an increased risk.
 - There is a theoretical risk that a criminal may acquire a winning lottery ticket in order to present this as a means to justify unexplained wealth which has been accrued through criminal activity.
 - Cash is recognised as being a method of payment attractive to criminals involved in ML/TF due to difficulties in respect of tracing it, the ease with which it can be transferred and the fact it helps facilitate anonymity.
- Mitigating Factors:
 - Customers are predominantly from the local community and therefore known to the sellers.
 - While this may present a risk it should be reiterated that the evidence suggests this remains a theoretical risk and not one that has materialised. Furthermore the maximum prizes involved in respect of the lottery are not such that they would be attractive to criminal elements engaged in large-scale money laundering.
 - There are typically only small sums of money being exchanged in respect of the state lottery.

vi. Other Sectors: Bingo, Gaming Machines (outside Casino Premises)

Background

6.16 The licensing of gaming machines outside casinos was brought under the GGC's remit as from 1 April 2016. Both the suppliers of gaming machines and businesses which keep gaming machines on their premises must apply for a licence. There are approximately 220 machines active in cafes, pubs, bars and similar commercial premises throughout Gibraltar at any given time. This number has historically been strictly controlled by the Government of Gibraltar whose policy it is to ensure that there is no significant proliferation of gaming machines in the community.

6.17 In respect of bingo tournaments outside casino premises, these are typically limited, low-level events in clubs and associations for charitable purposes; premises may on occasion seek to host a 'one off' event for which they must seek the GGC's approval.

Sector Summary

6.18 **The other: bingo, gaming machines (outside casino premises) sector is rated a low-medium risk sector.**

Vulnerabilities

- Vulnerabilities and Risk Rating (Probability x Impact):
 - **Bingo – Low (Low x Minor)**
 - **Gaming Machines - Low (Medium x Low)**
- Description and Comments:
 - There is a potential risk that bingo operations are used in order to facilitate the spending of the proceeds of crime in premises.
 - Gaming machines are permitted in various locations such as bars, restaurants, pubs and clubs and also betting shops. While these machines do not permit stakes or offer prizes on the same scale as those which can be found in casino premises, there is nevertheless a risk that laundering may take place through the use of these machines; this is a vulnerability that is aggravated by the ability to remain anonymous. In respect of gaming machine suppliers, they are B2B operators and have no direct customer facing engagement.
- Mitigating Factors:
 - Smaller clubs and associations may hold bingo events but these are small-scale and for charitable purposes; they also require prior approval from the GGC. These would not be an attractive avenue for large scale ML and the GGC has seen no evidence that ML has taken place during such events.
 - Gaming machines are subject to licensing and must be monitored by staff or through the use of CCTV. They are not high stake machines. In respect of gaming machine suppliers, they are B2B operators and have no direct customer facing engagement although

End.