

SUMMARY OF THE SUPERVISOR-SPECIFIC RISK ASSESSMENT PURSUANT TO THE ANTI-MONEY LAUNDERING ACT

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1. GENERAL

This public summary presents the most significant gambling-related money laundering risks arisen in the risk assessment conducted by the National Police Board's Gambling Administration. The summary of the most significant risks aims to present the views of the gambling supervisory authority regarding different risks and to illustrate any risk control measures. The purpose is to present situations, services and other potential factors that may involve the risk of the use and conversion of illicit funds through gambling. As a result, the goal is to protect gambling operations from any misuse and, in part, to prevent the use of illicit funds in gambling. The public summary includes recommendations and guidelines for control measures regarding the presented risks. The public summary does not take any stand on any control measures used currently in the gambling sector or the measures that have been taken or have not been taken in the gambling sector to prevent or uncover any misuse or crime.

The risks discussed in this public risk assessment summary are based on the risk assessment conducted by the National Police Board's Gambling Administration as laid down in the Act on Preventing Money Laundering and Terrorist Financing (444/2017, hereinafter "the Anti-Money Laundering Act"). The risk assessment was conducted in its entirety between November 2018 and March 2019. The project involved the Gambling Administration's specialists in the supervision of gambling operations. The risk assessment process is described in more detail in the general risk assessment section. Therefore, this summary should be read alongside the general risk assessment section.

The assessment of the significance of risks and, therefore, the most significant risks discussed in this public summary are based on a risk analysis based, in addition to expert information, on the EU's supranational risk assessment of money laundering and terrorist financing risks, the national risk assessment, money laundering risk assessments of certain other countries regarding gambling operations, the Financial Action Task Force's (FATF) material and other literature. The sources of this summary include volumes of additional information about the characteristics, indicators and control measures of money laundering. References also include risk assessments conducted by supervisors of gambling operators in other countries. While these represent risks in the context of the country in question, they also apply to gambling in Finland regarding the money laundering risk assessment.

In the risk assessment, risks are divided on the basis of distribution channels, among others. Risks may connect different distribution channels, which means that risks do not change from one distribution channel to the next. It is also possible that a risk starts from one distribution channel and continues in another. Detecting such risks requires that customers are monitored across the boundaries of distribution channels. In addition to distribution channels, risks are divided to customer, product, payment arrangement and gambling operator related risks.

It should be noted that slot machines outside casinos, i.e. in gambling locations and specific game rooms, are not currently within the scope of the Anti-Money Laundering Act. However, the scope of the Anti-Money Laundering Act covers all other gambling activities run by the gambling operator.

2. BETTING AND THE MANIPULATION OF SPORTS COMPETITIONS I.E. MATCH-FIXING

The use of betting for money laundering purposes has been identified as a significant risk, both nationally and internationally.¹ Betting is a form of gambling, in which bets are placed, results are determined and winnings are paid within a short period of time. The following factors can increase money laundering risks associated with betting: a high return rate and fast pace, combined with the large number of available betting services, the payment of winnings immediately after final results, the unlimited amount of bets and the uninterrupted provision of betting services in the system. Betting during an event, i.e. live betting, may also be exposed to money laundering and other misuse.² This results from the broad range of events in live betting, as these may emphasise the opportunity of a single operator or a few operators to have an impact on the outcome of the betting event.

With regard to misuse, the purpose of gambling is not necessarily to win. Instead, it is sufficient that illicit funds appear that they have been won or received from gambling. In such a situation, it may not be relevant that some funds remain with the gambling operator and are not returned in full. This is important to understand when planning the supervision conducted by the gambling operator to prevent money laundering in betting. If betting activities are not under sufficient control and supervision, they may offer attractive means for money laundering. In gambling services, in which the knowledge and skills of the player are in a significant role, alongside chance, the risk of converting illicit funds into funds that appear legal is higher than in other forms of gambling.³ These services include betting and totalisator betting.

The manipulation of sports competitions may be associated with betting. In betting, the outcome of a gambling service is determined as a result of a competition or event. A party to a sports competition, such as a player or referee, can therefore affect the outcome of betting. The outcome of betting or a certain event can be affected for example by paying funds to a player, referee or another person who can influence the outcome of the betting event. As a result, a pre-determined outcome can be achieved for an event, for which a bet has been placed. This type of manipulation of sports competitions is often referred to as match-fixing.⁴

Cases that have involved or have been suspected to involve the manipulation of outcomes of events or other influencing on results of a betting event have been discovered both nationally and internationally.⁵ Operators in these sports events have also included non-residents and even players involved in a sports competition. The international scope of betting can also be seen in betting services, where the location of events outside Finnish boundaries presents challenges to activities in supervision. With regard to gambling, this must be addressed particularly in the selection of betting events and in their real-time supervision.

1 Kalb and Verschuuren 2013, pp. 59–61, pp. 63–65 and p. 67. SNRA Annex 2019, p. 194. Government Proposal 228/2016, p. 93. NRA 2015, p. 55. Lotteriinspektionen 2017, pp. 38–39.

2 Kalb and Verschuuren 2013, p. 54 and p. 119.

3 Kalb and Verschuuren 2013, pp. 113–114.

4 More information is available, for example, from publication 4/2019 of the Finnish Center for Integrity in Sports (FINCIS).

5 Kalb and Verschuuren 2013, p. 57. SNRA Annex 2019, p. 193.

When selecting sports competitions on which bets are placed, it is important to identify safe betting events by assessing the competition organiser's position and commitment to the nationally and internationally accepted rules of the sport, competition or event. It must also be considered that the selected betting events concern a competition or event, in which the players are genuinely targeting a win. The selection of events other than sports competitions for betting should also be avoided if a single person can have an excess impact on their outcome.

In summary, when selecting the event on which bet is placed, it should be assessed how reliable the event is and how exposed it is to different suspicious activities. Events assessed or deemed especially risky should be excluded from betting.

To reduce risks, event on which bet is placed and betting itself should be supervised continuously. To ensure that supervision is effective, it must be systematic and proactive, as well as real-time during competitions and matches. Supervision must be targeted at gambling related to each event for which bets have been placed and, in particular, at payments made by players across all distribution channels, in which betting is offered. Therefore, the supervision of gambling operations and odds is necessary to detect any untypical activities.⁶ Supervision should also be targeted at events for which bets have been placed.

The use of restrictions on betting is an effective way to prevent money laundering and other misuse.⁷ Restrictions can be imposed on betting or events on which bets are placed. In addition, time-related restrictions and restrictions on money transfers or the use of assets in player accounts can prevent money laundering through gambling.⁸

Match-fixing is also associated with gambling carried out by a party to a betting event, such as an athlete. Sports associations have paid attention to sports manipulation and gambling. Association-specific or similar player contracts may include different clauses that prevent the player from gambling on matches in which they play.⁹ If the aim is to detect and prevent such misuse in gambling, the gambling operator must target its own supervision at athletes and people close to them (such as coaches, trainers, managers, etc.), both in offline and online channels.

Considering the supervision of gambling, it should also be noted that customers are identified in digital channels, while offline gambling can be anonymous. Offline gambling is also possible using cash, which often cannot be tracked. The use of cash is one of the most probable ways of converting illicit funds.¹⁰ Increasing customer due diligence, e.g. monitoring customers across distribution channels and increasing the use of traceable payment methods in gambling, is one way to reduce the money laundering risk. Risks associated with gambling can also be significantly reduced by only enabling certain high-risk forms of betting after the customer has been identified.¹¹

6 Kalb and Verschuuren 2013, pp. 139–141.

7 Gambling Commission 2017, p. 14.

8 Kalb and Verschuuren 2013, pp. 120–121, p. 125, pp. 160–161.

9 FINCIS 2019, pp. 24–25.

10 SNRA Annex 2019, pp. 28–30. MER 2019 pp. 19–20.

11 SNRA Annex 2019, pp. 194–195. Kalb and Verschuuren 2013, pp. 121–122. Lotteriinspektionen 2017, pp. 57–58.

3. GAMBLING LOCATION / GAMBLING RETAILERS / HORSE RACING TRACKS¹²

According to the Anti-Money Laundering Act, a gambling operator may assign the measures established for customer due diligence to a third party under certain conditions. However, the gambling operator, i.e. the obliged entity, is responsible for all obligations laid down in the Anti-Money Laundering Act (Anti-Money Laundering Act, chapter 3, section 7).

The most significant risks associated with a gambling operator’s dedicated authorised gambling locations involve any neglects in relation to the obligations of the Anti-Money Laundering Act. Here, “gambling locations” refers to all gambling locations of gambling retailers (the traders and corporations that supply registration and charges for participation in gambling provided by Veikkaus, i.e. Veikkaus’s retailers, hereinafter “gambling retailers”) and horse racing tracks. Furthermore, anonymous gambling and the use of cash significantly increase money laundering risks at gambling locations.¹³ The provision of all gambling services (excluding casino games) at gambling locations, as well, increases the money laundering risk (e.g. betting services with higher money laundering risks than other forms of gambling).

Gambling retailers have highly varying experience in and knowledge of money laundering risks. This is also affected by employee turnover. With regard to new employees, in particular, attention must be paid to a sufficient level of know-how in the prevention of money laundering and to their ability to detect any suspicious transactions. As gambling locations also have employees other than the gambling operator’s employees, responsibilities for the fulfilment of money laundering obligations are divided between a large number of people.¹⁴

In addition, two significant interlinked risks associated with the obligations of the Anti-Money Laundering Act have been identified regarding gambling locations. When selling gambling services, it is possible that customers are not identified when the threshold value is exceeded and that any suspicious transactions are not identified or reported.

These risks have also been considered to be significant in other distribution channels. The risks of customers not being identified when the threshold value is exceeded and any suspicious transactions not being identified or reported may also exist similarly in distribution channels, while different distribution channels may be able to control these risks in various ways.

In gambling activities, customers must be identified and their identity verified, in accordance with the Anti-Money Laundering Act, in situations where the total value of a single payment or several linked payments is at least EUR 2,000 when placing bets or paying winnings. Gambling activities should be supervised so that illicit funds cannot be entered in the system, for example, by avoiding the limit of EUR 2,000 defined for customer identification and identity verification in the Anti-Money Laundering Act. When selling gambling services at gambling locations, customer identification and verification of identity should not only be based on the legal limit of EUR 2,000; instead, any transactions below this limit should be supervised to identify any interlinked transactions. Suspicious transactions must also be identified. This

12 Government Proposal 228/2016, p. 86

13 SNRA 2019, p. 6. SNRA Annex 2019, p. 31.

14 SNRA Annex 2019, pp. 194–195.

requires that those whom are responsible of the identification know what activities are indicators of the misuse of gambling.¹⁵ Identifying customers and verifying their identity are significant measures in the prevention of money laundering and terrorist financing. The aforementioned obligation must be underlined because, if customers are not identified and their identity verified in conjunction with suspicious transactions, they may remain unidentified, even if any misuse is discovered later in conjunction with the activities. It may not be possible to verify the identity of customers afterwards.

The risk of the non-fulfilment of the obligations laid down in the Anti-Money Laundering Act can be reduced and the know-how of employees can be increased by means of continuous and repeated training and by ensuring the dissemination of up-to-date information about money laundering indicators, for example. Gambling retailers and other responsible employees must be trained to identify and detect suspicious and interlinked transactions and any excess of threshold values. In practice, gambling products should only be sold by individuals who have completed relevant training based on the Anti-Money Laundering Act and risk assessments. The gambling operator must ensure that individuals who sell gambling services understand the significance of reports on suspicious transactions in the prevention of money laundering and terrorist financing.

Risks can also be controlled by reducing the possibility of human neglect and error, for example, by automating customer due diligence functions. For example, a gambling sales system could guide the process so that, if the threshold value is exceeded, a customer due diligence function, which cannot be by-passed, is activated. Furthermore, the system could register the customer due diligence information required in sufficient detail and save all customer information defined in the Anti-Money Laundering Act and other significant information.

Because gambling at gambling locations involves significant money laundering risks, the gambling operator needs to ensure that gambling products and services provided in their distribution channels do not generally include functions that are not sufficiently supervised to prevent money laundering, such as payment arrangements. This also applies to other distribution channels. New functions and technologies must always be assessed considering the prevention of money laundering and other misuse, and sufficient controls must be established for new functions.

It must also be noted that the Anti-Money Laundering Act sets a *minimum requirement* of EUR 2,000 for customer due diligence and the verification of the identity of customers made in single transaction or several transactions that appear to be linked.¹⁶ Even though the act defines a threshold limit for customer due diligence, lower risk-based limits can also be set. A lower threshold limit for identifying and verifying the customer based on risk assessments can be set for example for gambling services or payment methods that involve the highest risks. Sums below the threshold value set may also be suspicious. It is important to assess, on the basis of risks, whether the threshold value fulfils the targets set for it. The money laundering risk can also be reduced by increasing customer due diligence in gambling, especially regarding high-risk products, and traceable payment methods.

¹⁵ Money laundering indicators 2019.

¹⁶ Government Proposal 228/2016, p. 104

4. SPECIFIC GAME ROOMS

Specific game rooms differ from gambling locations in that specific game rooms are exclusively or primarily intended for gambling (Lotteries Act, chapter 1, section 4(6)). If specific game room employees are employed by and the room is controlled by the gambling operator, risks may be lower, whereas higher stakes and winnings in certain gambling services and a broader range of gambling services may increase risks compared with gambling locations. Risks are also increased by ticket vending and currency exchange machines and the option to withdraw cash in game rooms. Even though specific game rooms are expressly intended for gambling, customers can play anonymously and use cash, which affects their risk levels.

Playing anonymously and using cash also present a risk in this distribution channel. The ability of customers to play and collect their winnings without any contact with employees increases the risks associated with this distribution channel.¹⁷ Specific game rooms also involve higher stakes and winnings than gambling locations. However, the most significant risks are the same as those presented above with regard to gambling locations.

Considering the supervision of gambling, the aforementioned functions that increase risks in specific game rooms need to be addressed specifically. When selling gambling services, it is possible that customers are not identified and their identity verified when the threshold value is exceeded and that any suspicious transactions are not identified or reported.

In specific game rooms, the aforementioned money laundering risks can be reduced by supervising gambling and customers, both automatically and in real time. Here, “automated supervision” means an alarm system connected to tickets and ticket vending machines, which helps to detect any suspicious transactions and unusual gambling. Automated supervision also includes CCTV systems in specific game rooms. “Real-time supervision” means the continuous monitoring of customers by employees and the opportunity to react to alarms triggered by an alarm system in real time.

When defining the retention time of recorded material (such as video recordings), the ability to identify customers and transactions afterwards must be considered. Because anonymity and the use of cash are significant factors that increase the money laundering risk in specific game rooms, restrictions on the use of ticket vending and currency exchange machines need to be considered. Restrictions may be time-based, so that tickets are only valid for a specific time, or quantity-based, so that sums falling below a specific limit can only be purchased from a vending machine. On the basis of risks, restrictions can also be imposed on other activities. For example, currency exchange or cash withdrawals alone without any intention to play should not be possible. The aforementioned control measures can also be carried out in gambling locations, where applicable.

Increasing identification and verification of the identities of the customers and registering gambling activities in customer information are strong risk control measures.

¹⁷ Gambling Commission 2017, pp. 17–18.

5. RISKS ASSOCIATED WITH CASINOS AND SPECIFIC GAME ROOMS

Casinos and specific game rooms share certain money laundering risks considered to be significant. The first risk is the neglected identification of suspicious transactions, as in other distribution channels. If suspicious transactions are not identified, the person behind them may remain unidentified, provided that bets can be placed and/or winnings can be received without any contact with employees.¹⁸ Therefore, identifying suspicious transactions and intervening in them should not depend on employees' activities alone. The second significant risk is the avoidance of the threshold value set for customer due diligence. If customers are not identified and their identity verified in conjunction with suspicious transactions, it may not be possible to verify their identity afterwards. In addition, casinos and specific game rooms may enable different procedures to directly exchange cash into cash. For example, illicit funds, such as small banknotes, may be exchanged into larger banknotes.¹⁹

The gambling operator can use a high-coverage CCTV system at casinos and specific game rooms, provided that they are controlled by the gambling operator. CCTV recordings should be retained for a sufficiently long period. To discover suspicious transactions, automated and real-time supervision is needed in gambling. The entire customer gambling process (placing a bet, playing and claiming winnings) must be supervised and follow necessary verification steps. In addition to the aforementioned control measures, providing employees with training and keeping them updated on money laundering risks and indicators are required to reduce the probability of risks.

¹⁸ Gambling Commission 2017, p. 32.

¹⁹ FATF 2008, p. 26.

6. CASINOS

Casinos have been recognised internationally as gambling activities that involve the highest money laundering risk.²⁰ The inclusion of casino activities in core functions of the prevention of money laundering for several years has partly reduced risks associated with the activities.²¹ However, casinos involve various factors that increase risks. Casinos have higher stakes and winnings than other distribution channels. Casinos offer a broad range of gambling services. Furthermore, casinos may provide other services, such as cash withdrawals, currency exchange and deposits to bank accounts, that also increase the money laundering risk.²² With regard to money laundering, it must also be remembered that funds acquired from illegal activities taking place in another country in full or in part can be used in gambling activities. Casinos have many foreign customers, which may have an impact on the money laundering risk.²³ The amount of information available about these customers differs slightly from domestic customers. The gambling operator must access available national sources and systems to acquire information about customer activities or, for example, the origin of funds. Because the duration of a single visit to a casino is limited and, therefore, the opportunity to intervene in suspicious transactions in real time is lower, it is difficult to obtain information for customer due diligence purposes. If necessary, information must also be obtained after a customer's visit.

Casinos involve the same risks as gambling locations and specific game rooms: customers are not identified when the threshold value is exceeded and suspicious transactions are not identified or reported. At casinos, every customer is identified and their identity is verified when they enter the casino.²⁴

The continuous monitoring of customers needs to be addressed specifically at casinos so that customer monitoring does not remain insufficient. If customer monitoring is defective, the threat is that not all bets placed by customers, the exchange and claiming of chips or cash withdrawals are connected to the customer account.²⁵ If there is no sufficient function to register customer transactions, the risk is that not all gambling activities of customers can be connected to the customer in question. Examples of the registration of transactions include customer cards and other similar tools, in which all customer-specific transactions are recorded.²⁶

The identification of customers, the verification of their identity and the registration of customers upon arrival at a casino are among the most significant ways to customer due diligence. Furthermore, they are the only effective ways to identify any politically exposed persons or other such customers, regarding whom the gambling operator must adopt enhanced customer due diligence or prevent a customer from accessing the casino. Once a customer has arrived at the casino, the gambling operator must ensure that the customer's transactions, gambling activities, winnings and the purchase and claiming of chips at the casino can

20 SNRA Annex 2019, pp. 203–204. FATF 2009, pp. 26–27. Government Proposal 228/2016, p. 93. In Finland, casinos were stated to involve a significant money laundering risk in the country-specific FATF assessment, FATF 2019, p. 31.

21 SNRA Annex 2019, p. 203.

22 FATF 2009, p. 10 and p. 25.

23 FATF 2012, p. 63.

24 SNRA Annex 2019, p. 203.

25 FATF 2008, pp. 31–32.

26 SNRA Annex 2019, p. 203 and p. 205 (player card).

be connected to the specific customer account.²⁷ This is a requirement for conducting a risk assessment for each customer and for complying with the obligation to obtain information, such as the identification of unusual transactions of the customer concerned. Camera surveillance must be comprehensive at casinos and recorded CCTV material must be retained for a sufficiently long period to investigate any misuse. Special attention must be paid to obtaining information about customer activities from sources other than the customer, especially regarding foreign customers. Even if gambling transactions are connected to customer accounts, customer activities must also be monitored otherwise at the casino, and any suspicious activities must be dealt with in real time and connected to the specific customer account.

Risks associated with the use of cash are particularly high at casinos, where higher amounts of cash are used than in other distribution channels. Higher amounts of cash can be used at casinos than in other distribution channels due to higher stakes and the broader range of gambling services.²⁸

Special attention must be paid to the transfer of cash and the comprehensive identification of customers' gambling activities and financial situations. Here, effective supervision involves a combination of automated supervision and observation-based monitoring.²⁹ Entries made in customer information must indicate, for example, the gambling activities in which funds have been used, the amount of funds used and the gambling activities from which winnings have been received. Special restrictions can also be used at casinos. Examples include a specific approval of high stakes and limits set for cash withdrawals.

At casinos and in other gambling activities that enable the transfer of funds outside Finland, the identity of customers, the authenticity of identity documents³⁰ and, to a sufficient extent, the party receiving funds must be verified by available means. In addition, the transfer of funds must only cover the depositing of funds won as a result of gambling. This may also involve various restrictions, such as limits.

27 Government Proposal 228/2016, p. 104 FATF 2012, p. 81 and FATF Recommendation 22.

28 FATF 2008, p. 26. SNRA Annex 2019, p. 203.

29 SNRA Annex 2019, p. 203.

30 Money laundering indicators 2019, pp. 4–5.

7. ONLINE GAMBLING/PLAYER ACCOUNTS

International online gambling, alongside casinos, has been stated to present the most significant risk in gambling.³¹ As gambling and the range of gambling services are increasingly shifting to the internet, misuse risks associated with this distribution channel are also increasing.³² Online gambling also involves functions that are partly outside the scope of supervision by the gambling operator or subject to supervision by several parties, such as the gambling operator and a bank.

Online gambling involves several significant risk factors. First of all, players are not present during the identification and similarly they are not present during gambling or other transactions involving the player account (apart from the establishment of a player account in the gambling operator's gambling location).³³ In other words, the identification of customers and the verification of their identity take place without the customer being present, and customers are not identified face-to-face by employees. The player account user may, therefore, be other than the person indicated in the customer information linked to the account.³⁴ The registration of an online player account and online gambling may enable the use of the player account by a person other than the person for whom the player account was originally registered. It is also possible that a person gives their player account to another person or that the player account is used without permission. These types of activities have been identified, for example, in bank accounts in conjunction with money laundering offences.³⁵

When a player account is established and the information linked to it is changed, the correctness of the information must be verified in accordance with the Anti-Money Laundering Act. For example, it must be ensured that the bank account or payment card linked to the player account belongs to the customer in question, provided that such a function has been activated.³⁶ The risk is that a customer links another person's bank account or payment card to his/her player account. If a customer frequently changes the bank account or payment card linked to his/her player account, this may be an indicator of aforementioned types of activities. The purpose of these activities is to make it more difficult to track funds or identify the ownership of funds.³⁷

Because the player can independently transfer funds and change information linked to their player account, such as payment details, the player may be tempted to use the player account for purposes other than gambling. Indicators of the use of a player account for purposes other than gambling include³⁸:

Player accounts are used to circulate funds: In this situation, a customer transfers illicit funds to their player account, after which they do not gamble using the funds or use only a small part of the funds, but they transfer the funds from the player account in full or in part. By

31 SNRA Annex 2019, p. 220. Government Proposal 228/2016, p. 93.

32 SNRA Annex 2019, p. 190.

33 SNRA 2019, p. 4.

34 FATF 2012, pp. 63–64. SNRA Annex 2019, pp. 219–221.

35 Gambling Commission 2017, p. 55.

36 SNRA Annex 2019, p. 225.

37 NRA 2015, pp. 92–93.

38 Money laundering indicators 2019, p. 16.

means of circulation, the aim is to make the funds appear as if they were won by means of gambling and/or to make them more difficult to track.³⁹

Player accounts are used to transfer funds to another person: Funds are transferred to a customer's player account from another person's bank account for gambling or for forwarding them to another or third person. The aim is to make it more difficult to track the funds.⁴⁰

In order to control risks associated with customer due diligence, the gambling operator must consider at least the following control measures⁴¹:

Customers must be identified and their identity verified using the methods defined in chapter 3, section 11 of the Anti-Money Laundering Act. In addition to customer due diligence in conjunction with the establishment of a customer relationship, it is also useful to use other means to increase customer due diligence when logging in to the player account. These include two-factor authentication. For example, a sufficiently strong additional identifier and other means to verify the identity of the customer when logging in to the player account. These other means include multi-step verification, such as the confirmation of login data and changes to the player account through an email link. Requiring customers to change their password at regular intervals also increases customer due diligence. In summary, the gambling operator must ensure that information linked to a player account (automatically or by the player) is authentic information about the customer in question and carry out measures to verify that the player account is used by the person for whom the player account is registered.

An automated monitoring system is the most significant control measure related to playing and the transfer of funds.⁴² However, it requires that the monitoring system's flags and alarms have been established to truly identify the most significant situations considering activities. The monitoring system must be built so that it helps to discover any suspicious and unusual activities in player accounts at a sufficient level. In addition, the gambling operator must have a process in place to ensure that it can intervene in different situations in real time, if necessary. Activities other than gambling involving the player account must also be addressed. Supervision must focus on identifying the customer's gambling history and other player account activities (such as gambling, money transfers, changes in the account to which funds are transferred) and reacting to them.

Restrictions can also be imposed on player accounts to reduce misuse risks. The account balance, money transfers, playing and payment transactions must be restricted on the basis of risks. Any non-playing (keeping funds in the player account) and the use of the player account for money transfers alone must be supervised and intervened in, if necessary. The functioning of restrictions must be assessed, and it must be possible to add and remove or increase and reduce restrictions. For example, special attention must be paid to money transfers from an unusual number of different bank accounts. It may also be significant that a bank

39 SNRA Annex 2019, p. 219.

40 SNRA Annex 2019, p. 219.

41 SNRA Annex 2019, pp. 224–225.

42 FATF 2008, pp. 31–32.

account which has already been used in the customer system is added again to the system. Only allowing one player account per customer is a significant control measure.

Returning funds transferred to a player account and sending any winnings to the bank account, from which related funds were originally transferred to the player account, is another significant control measure. This makes it easier to track funds and more difficult to circulate funds to hide the origin of the funds.⁴³

43 Kalb & Verschuuren 2013, p. 162.

8. CUSTOMER

In gambling, money laundering risks associated with a single customer or customer group include gambling using illicit funds and the circulation of funds through gambling activities without any intent to play. Customers' goal of playing or money transfers may be other than winning. Customers may aim to make the origin of funds they possess look like they have come from gambling activities.⁴⁴ In gambling, perpetrators may be attracted by a gambling service, from which they can recover most of their funds they have invested in gambling. For example, any irregularly fast-paced use of funds in gambling may be a sign of suspicious transactions. It must also be noted that illicit funds can be used and consumed in gambling for recreational purposes.

Customers may have multiple roles in money laundering. Through gambling and associated services (such as player accounts and payment arrangements), funds related to money laundering can be received, used, converted, transferred, forwarded, transmitted and held.⁴⁵ A customer may not have any knowledge of or part in the event, from which illicit funds have been obtained. A customer may only be part of a chain of criminal activities and funds circulation. When identifying risks and considering control measures, this entire system of money laundering offences must be addressed.

In gambling activities, it must be noted that, according to the Anti-Money Laundering Act, the customer must be identified before they can have control over funds associated with a transaction or before a transaction can be completed (Anti-Money Laundering Act, chapter 3, section 2). If customer identification and verification are not possible as required in the Anti-Money Laundering Act, a transaction shall not be completed (Anti-Money Laundering Act, chapter 3, section 1).⁴⁶

The following risks associated with customers and customer activities have been identified:

A customer may split a large amount of money into smaller amounts by playing in different locations or distribution channels to reduce the risk of being caught.⁴⁷ In this situation, it is possible that the customer remains unidentified and customer's identity unverified. A third party may be used in playing, purchasing chips or claiming winnings, in which case the actual owner or recipient of funds may remain unidentified.⁴⁸ Therefore, the owner of funds and/or the recipient of winnings may be other than the person using the services.

It is possible that a risk assessment conducted for a customer is incomplete if enough information cannot be obtained about the customer's activities or different transactions carried out by the customer in a single distribution channel or in several distribution channels cannot be linked together.⁴⁹ Another possible deficiency is that a customer's playing behaviour and/or money transfers change, and the change is ignored in customer monitoring and the changed behaviour is not identified. If a customer is not monitored in real time, suspicious transactions may not be suspended or reacted to on time. In the supervision of gambling, it is necessary to

44 SNRA Annex 2019, p. 28.

45 Lotteriinspektionen 2017, p. 12.

46 Government Proposal 228/2016, p. 102

47 Gambling Commission 2017, pp. 30–31. Money laundering indicators 2019, p. 16.

48 Gambling Commission 2017, p. 17.

49 Gambling Commission 2017, p. 17.

identify situations where a customer's playing behaviour is not correctly proportional to their funds or it differs from a previous customer assessment.⁵⁰

The aforementioned risks can be divided into risks that are directly associated with customers (such as the use of cash, third parties) and risks that can materialise through any insufficient monitoring of the customer and gambling activities by the obliged entity and the fulfilment of the obligations defined in the Anti-Money Laundering Act. Control measures can have an impact at least on identifying any suspicious transactions and avoiding situations that concern neglect by employees or neglect resulting from a person's activities.

Cash has already been defined in this summary to present a significant risk in gambling. Risks associated with cash can be controlled by setting general limits for bets that can be placed and for the receipt of cash.

In addition, the following can be stated regarding control measures related to customers:

For customer due diligence and the identification of any unusual activities, customer monitoring must be both manual and automated, as well as take place in real time, and it must be verifiable afterwards for a sufficiently long period. The means available for customer monitoring depend on the distribution channel. In addition to customers, the gambling operator must monitor the activities of different customer groups to identify suspicious activities.

Transfers to and from player accounts, playing and changes in banking details must be monitored actively in gambling activities. Customers must be monitored continuously, for example, to identify any changes in player account behaviour. Public sources can be used, considering data protection regulations, in customer due diligence, for example, to identify people involved in sports or politically exposed people. Previously stated limits must also be used in online gambling to reduce risks, even if cash was not directly a risk associated with the distribution channel in question. The effectiveness of limits must be assessed and changed, if necessary.

Identifying a customer's financial situation is one of the most significant measures in customer due diligence. Customers must be monitored before a threshold limit set is exceeded, regardless of the distribution channel. The origin of funds must be identified from the customer, other public sources or other sources available to the obliged entity, if necessary. Presumably, when asking the origin of illicit funds, the holder of the funds will not state that they have been obtained from illegal activities. Information provided by customers should also otherwise be investigated to identify any suspicious transactions (e.g. whether it is possible, based on a customer's profession, that the customer has access to legal funds), and information about customers should be obtained from different sources.⁵¹ It may also be significant to compare information with information provided previously by a customer, for example, if the origin of funds has, for some reason, been investigated on several occasions. Special attention must be paid to the very close monitoring of the biggest gamblers identified, also across distribution channels.

⁵⁰ Money laundering indicators 2019, p. 2.

⁵¹ Money laundering indicators 2019, pp. 3–4.

To avoid and identify human or intentional errors, an automated monitoring system (such as a flag or alarm system) is necessary to define usual activities and, therefore, identify any unusual activities and intervene in them. An automated monitoring system, combined with manual monitoring, enables interventions in suspicious transactions, even in real time in some cases.

As in the case of other risks, training provided for employees is necessary for example to identify suspicious transactions. To reduce risks, the gambling operator must regularly review different forms of suspicious transactions with the employees.⁵²

52 Money laundering indicators 2019, p. 16.

9. PAYMENT ARRANGEMENTS

Cash is generally used in illegal activities.⁵³ The use of cash has generally been stated to be one of the most significant money laundering risk because it enables anonymity and the quick transfer of funds to another person (both use and transfer of cash can be anonymous).⁵⁴ In gambling, cash can be used as a payment method in several distribution channels. Tracing the origin of cash is challenging due to the anonymity it enables. The risk is the misuse of gambling and gambling activities by converting illicit funds, which often consist of cash in money laundering cases, into funds that appear legal.⁵⁵ With regard to different distribution channels, gambling locations, specific game rooms and casinos, in particular, are exposed to risks, because gambling can there be paid for in cash. Laundering cash through gambling may be an attractive option, as players can recover most of the funds they have used by playing certain gambling products.⁵⁶

As already stated, when using cash, customers can remain completely anonymous. Identification can be avoided, for example, by avoiding a specific limit set for identification or by decentralising funds. Identifying customers may be difficult or impossible afterwards.

Other identified risks include the use of a third party in gambling (including exchanging funds, placing bets, claiming winnings and purchasing/claiming chips). Cash, in particular, can be divided into smaller sums and handed over to a third party or parties for playing or exchanging. The use of mules (who transfers illicit funds or goods for a fee)⁵⁷ and collaborators (who covertly act in the name of another person) is associated with the use of third parties.⁵⁸

With regard to the supervision of cash, real-time monitoring by those who supply gambling services is highlighted. In order for monitoring by employees to be effective, the gambling operator must ensure that employees are aware of money laundering indicators, i.e. the activities that may be indications of misuse. In addition to manual monitoring, specific game rooms can be equipped with CCTV systems for recording and real-time monitoring purposes. Monitoring carried out by gambling retailers must be supported by means of technical surveillance, including the supervision of the receipt of bets in real time, if possible, and the supervision of gambling sales afterwards.

In order to reduce risks associated with cash, a limit for bets can also be considered regarding certain gambling products or events selected on the basis of risk assessments.⁵⁹ To reduce money laundering risks when playing using cash, players could be identified in certain situations and their identity could be verified on the basis of risk assessments. For example, the threshold value set for identifying customers and verifying their identity could be lower when using cash than when using other payment methods. When combined with higher-risk gambling products, such as betting, in particular, the aforementioned measure may offer effective means for preventing money laundering risks. To reduce risks associated with cash, the

53 SNRA 2019, p. 2. SNRA Annex 2019, p. 28.

54 SNRA Annex 2019, p. 18 and pp. 20–22. NRA 2015, p. 55. Gambling Commission 2017, pp. 18–19.

55 SNRA Annex 2019, p. 32.

56 SNRA Annex 2019, p. 192 and p. 201.

57 SNRA Annex 2019, p. 201.

58 Money laundering indicators 2019, p. 22.

59 SNRA Annex 2019, pp. 20–21.

non-acceptance of large banknotes (EUR 200 and EUR 500) in gambling may be an effective measure.⁶⁰

With regard to all payment methods, it may not be possible for the gambling operator to be aware of all customer payments. Not all money transfers are noticeable to the gambling operator, especially in player account activities. In this case, it is possible to play on credit or using another person's funds. Because the monitoring of money transfers is a crucial factor in the prevention and detection of money laundering, the gambling operator must be sufficiently aware of the activities of the customer in question and the normal behaviour of the customer group or gambling product in general (such as odds).

The gambling operator must monitor the money transfers of its customers so that any unusual activities can be identified. Payment arrangements and functions, as well as new technologies, the adoption of which is considered, must be assessed from the perspectives of money laundering and terrorist financing and other misuse prior to the adoption, and risk assessments must be continuous throughout their lifecycle. When selecting payment intermediaries, or payment services, it must be considered whether the operator or service is within the scope of the Anti-Money Laundering Act and that the activities comply with the obligations defined in the Anti-Money Laundering Act.

If the gambling operator uses functions, in which gambling and the receipt of winnings can take place without any contact with employees (in this summary ticket vending machines), special attention must be paid to supervision. For example, keeping ticket vending machines available for use requires special supervisory measures. To control risks, restrictions and a flag system must be applied to ticket vending machines. Technically, it is possible to limit the amount of winnings, the time and amount of claimed winnings, and to only limit the claiming of winnings to the location, in which playing took place. Equipping a currency exchange or ticket vending machine with a function that identifies players who do not use any funds or use only small amounts to play is another significant control measure. Special vigilance is required from the employees of distribution channels regarding the continuous monitoring of customers and real-time intervention.

In money laundering, funds are to be mixed with other funds to make it more difficult to track their origin. Cash could be, *e.g.*, converted into funds deposited in player accounts. If there are no sufficient means to identify and verify customers and verify the origin of funds, the mixing of funds must not be enabled. If funds are mixed, it is impossible to identify afterwards which funds are from illegal and which from legal activities or whose funds they even are. It must also be noted that gambling activities may only be a part of a money laundering chain. Gambling can be used as a single part of money laundering, for example, by circulating or using funds. It must also be noted that part of circulated or used funds may be from illicit activities, while part may be from legal activities. In addition, an apparently reasonable transaction may include an activity or part thereof, which involves something suspicious.

60 SNRA Annex 2019, pp. 23–25.

10. GAMBLING OPERATOR

The risk assessment also identifies risks associated with the activities of the gambling operator. The most significant risks involve any neglect or breach of the gambling operator's obligations defined in the Anti-Money Laundering Act. The gambling operator is independently responsible for the fulfilment of the obligations laid down in the Anti-Money Laundering Act, although the act allows, under certain conditions, the fulfilment of obligations concerning customer due diligence on behalf of the obliged entity.

In gambling activities, it must be ensured that any gambling retailer or the gambling operator's employees fulfil the obligations laid down in the Anti-Money Laundering Act. Certain functions in gambling activities involve a high employee turnover and varying degrees of employee experience in the prevention of money laundering. The gambling operator must ensure, through continuous, regular and comprehensive training and communication that all parties involved in its activities and acting on its behalf receive updated information about money laundering and terrorist financing risks associated with gambling. Furthermore, the gambling operator must ensure that it has a channel in place, through which it can quickly transmit information to gambling retailers and those employees who are responsible for monitoring gambling activities, if necessary. Training with regard to the prevention of money laundering and terrorist financing must be regular and continuous to ensure compliance with the Anti-Money Laundering Act and any provisions issued pursuant to it. It is important that the gambling operator supervises that the obligations laid down in the Anti-Money Laundering Act are fulfilled in the activities of parties acting on its behalf. Therefore, the gambling operator must arrange its supervisory activities so that any deficiencies can be detected and intervened in as early as possible. Any background checks conducted when selecting third parties, such as gambling retailers, and when their agreements are extended, as well as other continuous measures in supervising third parties, are requirements for sufficient measures in preventing and monitoring any misuse. In addition to the procedures of the gambling operator needing to be in compliance with the Anti-Money Laundering Act, as well as clear and straightforward for parties acting on its behalf, the gambling operator must supervise that its procedures are implemented in practice. The gambling operator must also intervene in any neglect or other deficiencies it has discovered and establish functions at the level required in the Anti-Money Laundering Act.

According to chapter 4, section 5 of the Anti-Money Laundering Act, a transaction shall be suspended for further inquiries or refused if the transaction is suspicious or if it is suspected that the assets involved in the transaction are used for terrorist financing or a punishable attempt of such an act.⁶¹ The obliged entity shall not accept or transfer any funds in gambling activities if it suspects that they are illicit. The gambling operator must have procedures in place to suspend any suspicious transactions sufficiently quickly in all distribution channels, such as to suspend money transfers to or from a player account. To ensure that funds associated with a suspicious transaction are not transferred out of reach of the system, the monitoring of transactions must be real-time and continuous and based on continuous customer monitoring and the monitoring of any irregular transactions.

With regard to risks associated with distribution channels, the importance of training and communication in risk control has been highlighted in many sections. The obliged entity must ensure that its employees are provided with sufficient, recurring and repeated training

61 Government Proposal 228/2016, pp. 114–115

and that their knowledge and skills are up to date. In addition to training, the clarity of processes and responsibilities can be emphasised in risk management. Employees must clearly know their roles in identifying and reporting money laundering risks.

In addition to supervising the activities of third parties, the gambling operator must also supervise the activities of its employees. The gambling operator can carry out internal monitoring by supervising playing, using a CCTV system, signing agreements with employees, carrying out spot checks and conducting background checks when recruiting employees (e.g. regular background checks). With regard to the gambling retailers, background checks must be conducted for the owners of the companies to act as retailer. The activities and playing behaviour of the gambling retailers must be monitored actively in their gambling locations to identify and intervene in any unusual activities. Supervision must address privacy protection, applicable laws and any other regulations.

For overall management and for verifying the implementation of control measures, the gambling operator must conduct internal checks to measure the sufficiency of its functions and to monitor their implementation. The gambling operator must adopt a critical approach to monitoring its own activities, when necessary: Are the measures sufficient? What has been achieved with the help of the measures? What measures are needed to make changes?

11. CONTROL MEASURES IN GENERAL

It is obvious that the obliged entity must have an understanding of the characteristics of money laundering offences and predicate offences, as well as a practical knowledge of money laundering methods. The obliged entity must have, and independently and actively obtain, up-to-date information about money laundering phenomena. The aforementioned factors are requirements for preparing a good risk assessment and, therefore, for selecting and implementing suitable control measures. Furthermore, it must be stated that the responsibility of the obliged entity is not to assess whether an offence has taken place or whether a customer is guilty of something or aware of the illicit origin of its funds.⁶² Instead, the responsibility of the obliged entity is to detect any suspicious transactions, suspend the transaction and report suspicious transactions to the Financial Intelligence Unit. Therefore, the obliged entity must be well aware of all the forms of money laundering used in this sector.

This summary has described money laundering risks currently recognised as the most significant ones. It should be noted that the obliged entity must also consider all other risks associated with its activities and also aim to reduce these risks. Although risks are divided on the basis of distribution channels in this summary, risks and control measures should be considered as a whole. In addition, customers and gambling activities must be supervised across distribution channels so that any transactions carried out in different distribution channels can be connected. The control measures listed in this summary are not an exhaustive list of sufficient control measures. Instead, they are examples of measures, using which risks can be reduced or even prevented. What is more, one control measure may enable means to control several risks, and a certain risk may require the use of several control measures.

Gambling is not only a way to launder money, but also an activity, in which illicit funds can be used in gambling without any intent to recover the funds. In this case, illicit funds are used for recreational purposes. It is important to address this when considering risks and related control measures. The range of control measures per risk may be very broad. Some risk-reducing measures are prescribed by law, such as risk assessments and training and the protection of employees, while some measures that reduce and prevent risks are control measures that can be used at discretion. The obliged entity is responsible for the use of sufficient control measures to control money laundering and terrorist financing risks (to prevent, identify, reduce, intervene in, report and rectify). The implementation of control measures must be addressed specifically.

If control measures are insufficient or non-existent, there are opportunities for misuse. The obliged entity must be aware of the actual impact of each control measure. The existence of a control measure alone may not be proof of its effectiveness. Instead, the effectiveness of a control measure must be assessed on the basis of checks and tests. The adoption of a control measure must be monitored, its results must be assessed and any changes must be made when necessary.

62 Money laundering indicators 2019, p. 2.

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