

# AML Tuesday's Session #5 on:

The 2023 Casino Sectorial Risk Assessment

March 12, 2024

# Discussion Topics



Purpose and relevance of the SRA



SRA process and sources



SRA results



Follow-up to the SRA

# Purpose and relevance of the SRA

## FATF International standards on combating ML and TF

### Recommendation 1:

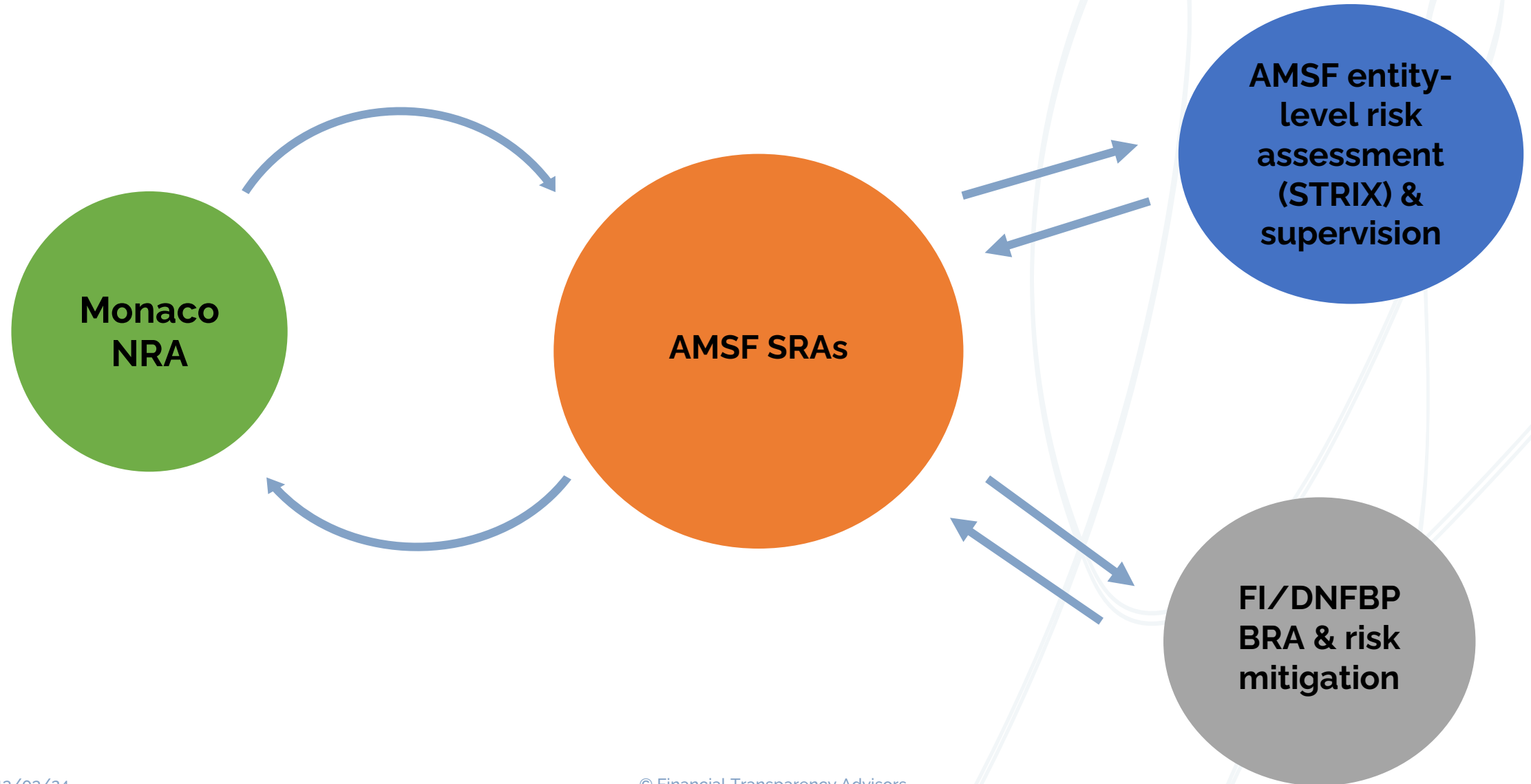
- **Countries** are required to identify, assess and understand the ML/TF risks to which they are exposed, and take effective action to mitigate these risks
- **FIs and DNFBPs** should be required to take appropriate steps to identify, assess and understand their ML/TF risks and take measures to manage and mitigate them

### Recommendations 26 & 28:

- **Supervisors** should apply a risk-based approach to the supervision of AML/CFT compliance by FIs and DNFBPs

Sectorial Risk Assessments conducted by supervisors are an important tool to help implement these recommendations.

# Key functions of SRAs and links to other risk assessments



# Why is the SRA relevant to the private sector?



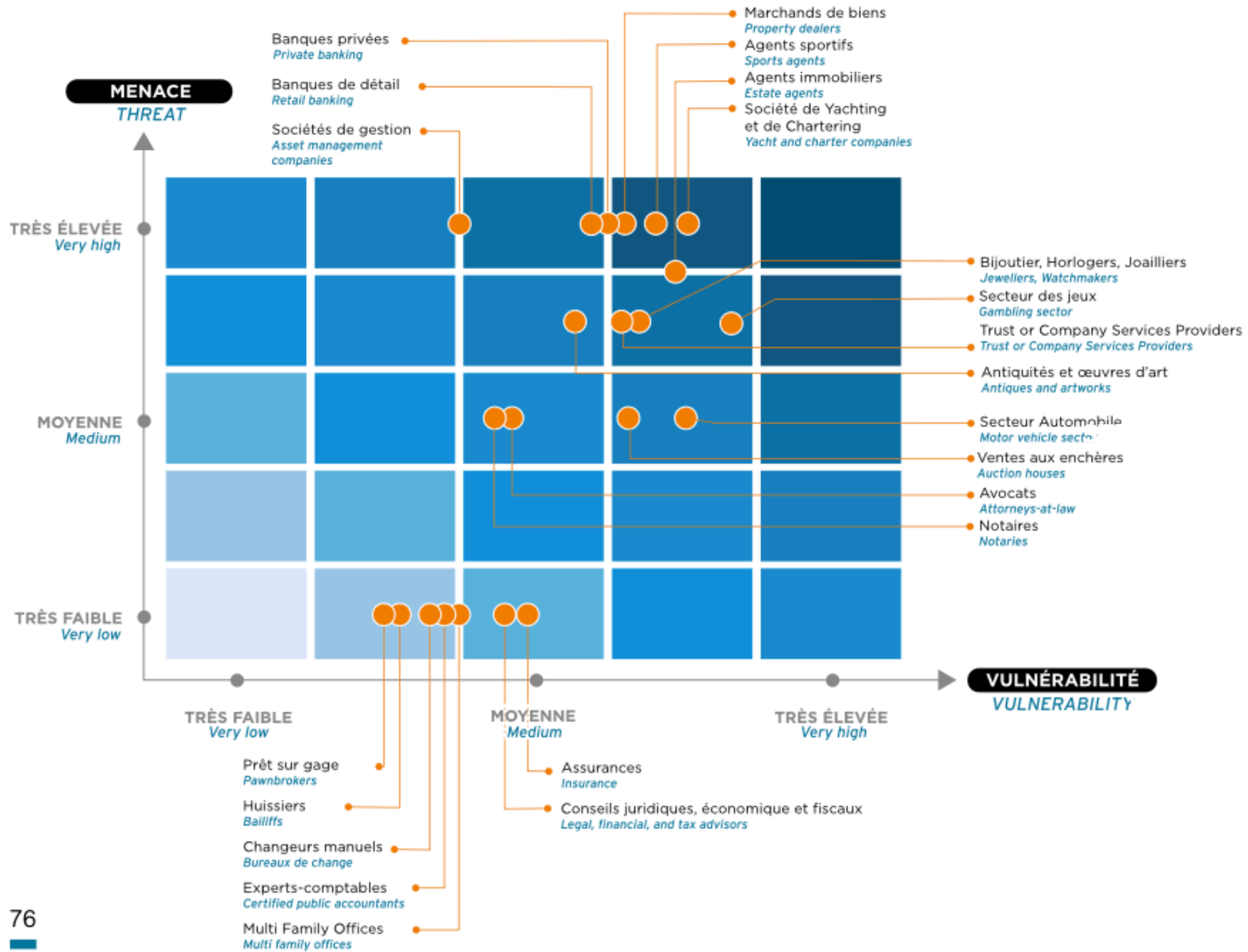
# Monaco – SRAs as part of NRA 2

See **Chapter 2.III** (Threats by sector) & **Chapter 4** (Sectorial vulnerabilities) of **NRA 2** (2021)

**ÉVALUATION  
NATIONALE  
DES RISQUES** #  
**2**  
DE BLANCHIMENT  
DE CAPITAUX  
ET DE FINANCEMENT  
DU TERRORISME **NATIONAL  
RISK  
ASSESSMENT**  
OF MONEY  
LAUNDERING  
AND TERRORIST  
FINANCING



# Monaco - Sectorial risk distribution in NRA 2



# Relevant MONEYVAL findings

“Monaco has done a considerable amount of work to identify the ML/TF risks to which it is exposed. (...) However, **further analysis is needed regarding some sectors (casino, CSPs, trusts/trustees and virtual assets) and threats (organised crime, external threats).**”

“The authorities should ensure that **reporting entities carry out risk assessments** appropriate to the nature, size and other characteristics of their business, analyse in depth the ML and TF vulnerabilities and threats specific to Monaco.”





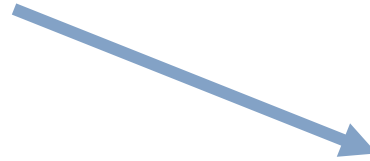
# SRA process and sources

AMSF conducted two SRAs in 2023 to follow up on MONEYVAL's recommendation for further in-depth analysis regarding certain sectors:

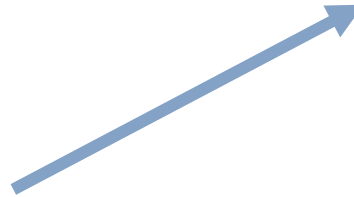
→ one for the TCSP/trustee sector

→ one for the **casino sector**

Assessment of  
ML/TF **threats**  
to the sector &  
**inherent risks /**  
**vulnerabilities**  
in the sector



Assessment of  
**controls /**  
**mitigation**  
**measures** in  
the sector



Assessment of  
the **residual**  
**risk** in the  
sector

# 2023 SRA casino sector - main sources

International and regional reports (e.g. FATF, EC, Egmont Group)

AMSF intelligence

Law enforcement information

NRA 2 & recent national-level topical risk assessments

STRIX survey results and analysis

AMSF inspection findings

# SRA results - International reports – ML risks

- The nature of casino sectors present a number of vulnerabilities for ML abuse, notably the fact that casinos are **cash intensive businesses** where **high-speed, high volumes** of large cash transactions take place
- The **routine exchanges of different value instruments** going on in casinos make casinos an attractive target for those seeking to launder money, e.g. by providing ample opportunities for **structuring/smurfing** and **refining of cash**, including through the **use of mules**.
- **Financial services offered by casinos** to players, including casino accounts, providing advances/possibilities to play on credit, remittances, foreign currency exchange, and safety deposit boxes, may be subject to less strict regulation and supervision than equivalent services provided by FIs
- **Categories of customers whose activities may indicate a higher risk** include politically exposed persons (PEPs), high spenders/VIPs, disproportionate spenders, minimal/no-play customers and customers introduced by junkets/other types of introducers.

# SRA results - International reports – TF risks

- Significant **TF instances through the casino sector have not been identified** in international or regional reports. According to FATF, this may be due to the characteristics of TF that make it difficult to detect.
- The EC's 2022 sNRA went so far as to consider the TF threat and vulnerability for the physical casino sector within the EU to be “not relevant”.
- At the same time, risks cannot be fully excluded that profits of gambling may be directed towards terrorist-related investments, especially in case of **links to higher-risk jurisdictions for TF purposes**.
- Detection efforts are mostly based on sanctions screening and monitoring transactions linked to countries or geographic areas where terrorists are known to operate.

# SRA results - International reports – new/emerging risks

- The growth of the **online gambling sector** means that huge sums nowadays flow through online casinos. It can offer an attractive alternative for ML activities thanks to potential for anonymity.
- An **emerging risk** has been reported in relation to **crypto assets**. Some land-based casinos have installed crypto-ATMs from which customers can withdraw cash directly, and it can also be a payment means for online gambling. Given the high vulnerabilities of crypto assets for criminal or terrorist exploitation, thanks to the potential for anonymous use, this can raise ML and TF risks.
- According to the EC's 2022 sNRA, **online gambling nowadays poses very high ML and TF risks.**

# SRA results - International reports – quality of controls

- According to a recent stocktaking report of the FATF (2022), **casinos are generally the best performing DNFBP sector** in terms of applying AML/CFT preventive measures. A little over half of casinos have average to very good risk understanding; 40% of them apply average to very good mitigating measures to address risks; and over one third file suspicious transaction reports in line with risk profiles. While this is above average compared to other non-financial sectors' performance, it is obvious that **a lot of room for improvement remains**.
- According to the EC's 2022 sNRA, the inclusion of casinos in the EU's AML framework for more than 10 years has **raised the level of awareness** of the sector's vulnerability to ML. Checks are more efficient and the staff are better trained.
- At the same time **some weaknesses remain**, particularly in the implementation of CDD requirements. Moreover, the level and quality of STR reporting by the sector is reported to remain uneven.

# SRA results – Monaco NRA 2 findings

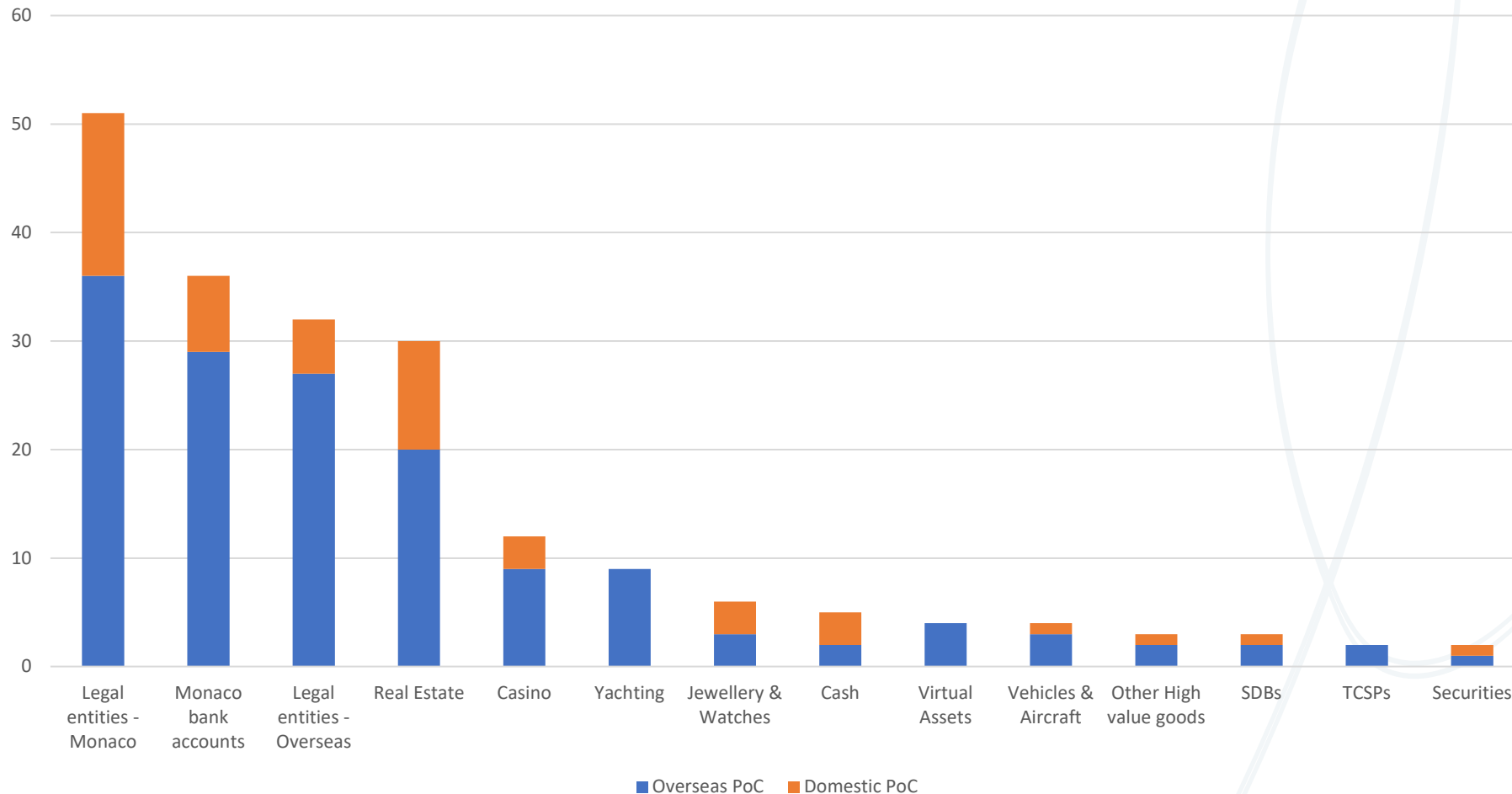
Some of the main findings from NRA 2 analysis on casino sector:

- The level of threat to the sector is assessed as **medium-high and rising**. The sector featured in a number of investigations or proceedings in the reference periods for NRA 1 & NRA 2 with an increasing trend of ML cases per year.
- The level of vulnerability of the sector is also assessed as **medium-high**.
- Main **risk factors** contributing to the level of vulnerability are formed by **customer risk** (international client base, HNWIs) & **transactional risks** (high level of cash transactions).
- Main **mitigation measures** moderating the level of vulnerability are formed by the robust AML/CFT legal framework and availability of reliable means of identification. Other controls were found to be lagging behind, e.g. **lack of mandatory training** of sector professionals and **understaffed compliance function**.



# SRA results – Threats to the sector

Sectors identified in case studies (NB – often more than one per case)



# SRA results – Threats to the sector

Up-to-date information from intelligence and law enforcement shows that the threat level for the casino sector can still be assessed as **medium-high and rising**.

- The largest threat Monaco faces from an ML perspective is from **overseas nationals** residing outside Monaco, which is also the main customer base of the casino.
- Around half of the STRs involving the casino sector in 202–2022 concern **cash**.
- Several cases involve persons known or suspected to be related to **organized crime** / mafia activities in other countries, incl. neighbouring countries.
- Examples in ML threat assessment relate to:
  - Suspected laundering through the casino by organised group of foreign nationals linked to illegal lending and extortion activities
  - Suspected laundering of the proceeds by a foreign individual convicted in another country for organised crime activities, who asked for invoices to be issued to a company linked to investigations into high profile OCGs.

# SRA results - Inherent risks

## High customer risks

- + Internationally oriented customer base
- + High numbers of customers spending high value of funds
- + High potential for exposure to PEPs and HNWIs (yet underreported)
- + Exposure to customers from higher-risk jurisdictions
- + VIP / membership programmes

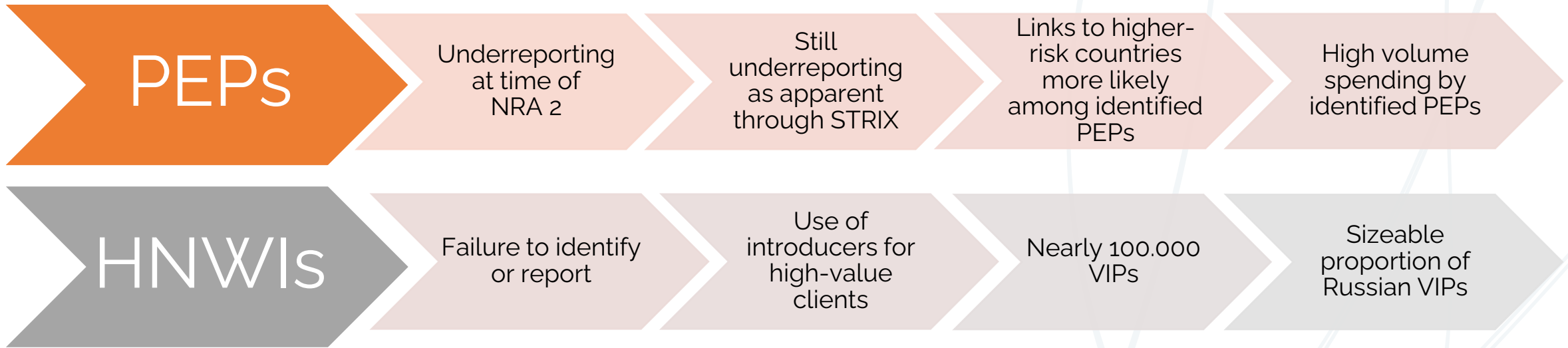
## Medium-High risks relating to products, services & transactions

- + High proportion of transactions taking place in cash
- + Provision of financial services by MCFC
- No exposure to virtual assets
- No safe deposit boxes or gift certificates

## High risks relating to delivery channels

- + Use of introducers for the highest-value players with attractive incentives being offered

# Focus on risks relating to PEPs & HNWI's



# SRA results – controls

## Areas of strong compliance

+ Record-keeping

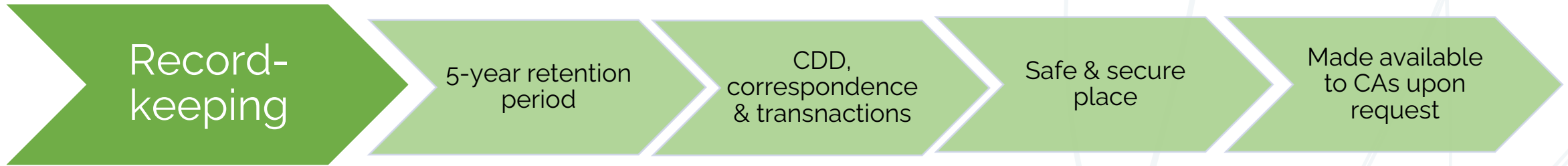
## Areas of moderate compliance

+/- AML/CFT Control Environment  
+/- Oversight by Board & senior management  
+/- Business Risk Assessment  
+/- Monitoring

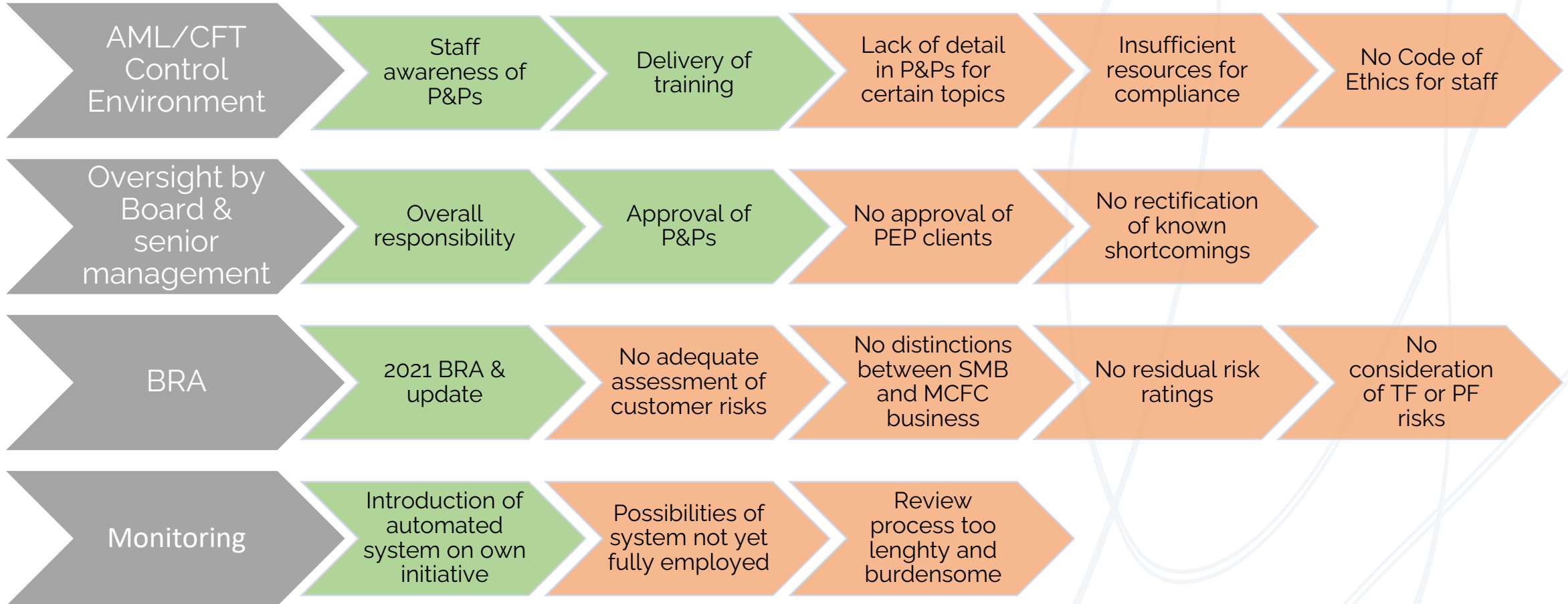
## Areas of weak compliance

- KYC/CDD & Customer Risk Assessment  
- Enhanced Due Diligence  
- Suspicious Transaction Reporting  
- Targeted Financial Sanctions

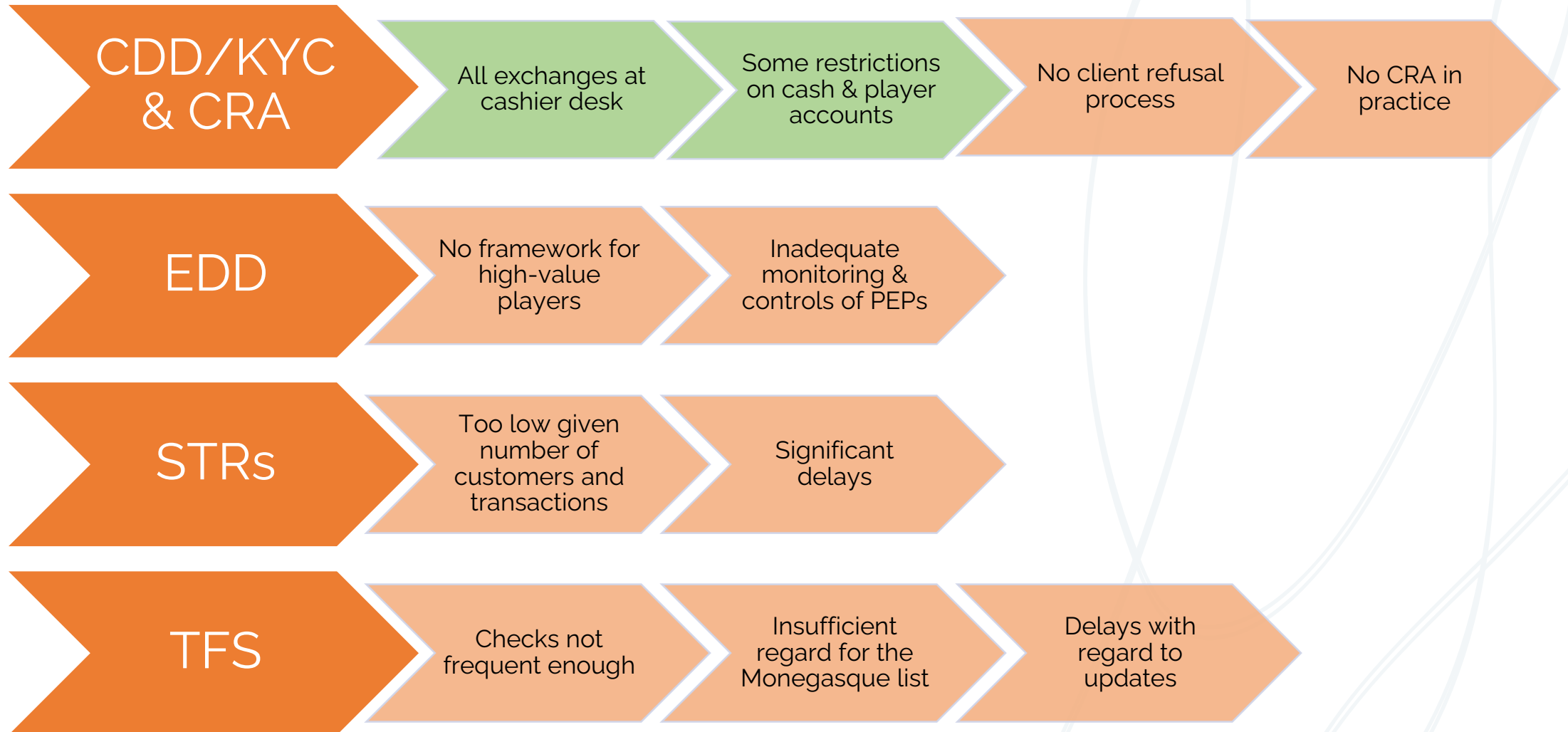
# Areas of strong compliance



# Areas of moderate compliance



# Areas of weak compliance





# SRA results – Overall ratings

	Rating
<i>Inherent risks relating to customers</i>	<i>High</i>
<i>Inherent risks relating to products, services &amp; transactions</i>	<i>Medium-High</i>
<i>Inherent risks relating to delivery channels</i>	<i>High</i>
<b>Overall Inherent risk</b>	High
<b>Controls</b>	Moderate
<b>Residual risk</b>	<b>High</b>

# SRA conclusions – in relation to ML risks

- The main sectorial risk which is generally emphasised in international/regional reports in relation to the casino sector is the fact that they are cash intensive businesses. This also applies to Monaco where **cash transactions continue to account for a very large proportion of the casino's transactions.**
- Also, risks related to the **cross-border movement of funds associated with gambling tourism** is often emphasized in reports. Risks are exacerbated in case of **high value players/transactions**. In Monaco, nearly all casino clients are non-residents, and the casino attracts luxury tourists from worldwide, including PEPs, HNWI & clients from jurisdictions with high corruption, ML or TF risks.
- At the same time, the sector was found **not to apply sufficient checks** to identify higher risk customers or to apply adequate enhanced measures to them, including for high-value players and PEPs.
- International reports have also flagged the ML risks related to junkets or other **client introduction programmes**. In Monaco, as mentioned, existing high-value players introduce new high-value players to the casino, including from higher-risk jurisdictions, and there is a risk that **commercial incentives take priority over the need for scrutiny** in such cases.
- ML cases in Monaco show that the **casino sector, together with the banking, TCSP & real estate sectors, is exposed to the highest ML threat**, mostly from **external sources of proceeds**.

# SRA conclusions – in relation to TF risks

- **Emerging TF risks** are noted in international and regional reports which are observed elsewhere in the world, including in Europe, in relation to the casino sector. It concerns the use of exchangeable tokens used in online gambling qualifying as crypto-assets and crypto-ATMs being placed in casinos.
- **Such risks are not assessed to be relevant for the Monegasque context** for the time being, as there is no online gambling offered by the Monegasque casino sector and the MC casino has not installed any crypto-ATMs nor does it accept virtual assets as payment means or plan to do so in the near future.
- However, **there remains a risk** that persons associated to terrorism may seek out the casino to gamble and **may direct profits to terrorism causes**. Findings from the SRA are highlighted that there are clients with links to high-risk jurisdictions for TF purposes, and that the sector does not yet effectively implement screening for targeted financial sanctions.

# SRA conclusions – main developments since NRA2


- After a difficult period for business due to the COVID19 pandemic, tourism and casino visits picked up again, creating the risk that **incentives to bring business back to pre-pandemic levels** got priority over a promoting a culture of stronger scrutiny and compliance.
- **Improvements are noted in the AML/CFT knowledge** of professionals working in sector thanks to better training programmes in 2022, including training of cashier desk staff who are the gatekeepers for cash entering the casino system.
- Also, the casino has introduced an **automated tool for the monitoring of transactions** and has introduced **stronger controls for cash transactions**.
- At the same time, **deficiencies relating to the effectiveness of the compliance function** remain, as the responsible department for AML/CFT compliance is still understaffed compared to the size and risk profile of the establishment.
- Also, the casino sector still has **deficiencies relating to the identification and mitigation of risks posed by their customers**, including PEPs as flagged also at time of the NRA2.

# Follow-up to the SRA


## **AMSF follow-up actions:**

- Follow-up to 2023 inspection
- Guidance and outreach
- Data collection and analyses for upcoming round
- Periodic updating of SRA


# Risks flagged in the SRA – What should OEs do in practice




**BRA Review**  
Review BRA in light of SRA findings



**Review CRA**  
Is there a need to introduce new risk factors



**Review Transactions and Customers**  
Select customer profiles  
Select transactions based on risks reported in SRA



**Review Existing Controls**  
Are sufficient controls in place to address Risks i

# SRA Response – for the casino sector

Review the monitoring/reporting process to speed up the analysis

Enhance the BRA, e.g. by distinguishing between SBM & MCFC

Implement policies & procedures on CRA also in practice

Enhance PEP screening & measures

Strengthen the resources of the compliance function

Ensure timely sanctions screening for all relevant parties to transactions

# SRA Response – for other sectors with exposure

Assess and mitigate any risks posed by forming a business relationship with a casino

Hold regular consultative discussions / visits

Distinguish in CRA whether customer is related to the casino sector

Assessing the annual training program on AML/CFT compliance

Verify the implementation of effective sanctions screening programs

Understand checks on cash & procedures for aggregating cash



*Thank you for your  
time*

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**Next Session:**

19.03.2024 (for FIs) &  
26.03.2024 (for DNFBPs)

**Topic:**

AMSF Supervisory  
Findings 2023

Today's Host: Tamar Goderdzishvili

Today's Presenter: Suzanna van Es