



Financial
Intelligence Centre



TOOLKIT FOR COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

INTRODUCTION

The gambling sector makes a significant contribution to South Africa's economy through job creation and the payment of taxes while serving as a form of leisure to many. Besides the entertainment value, many people participate in gambling activities with the hopes of beating the odds that would result in an unexpected windfall.

Gambling institutions can, however, be a lure for criminals due to the high volume and frequency of large cash transactions that take place at these establishments. Schedule 1, Item 9 of the FIC Act defines gambling as: "A person who carries on the business of making available a gambling activity as contemplated in section 3 of the National Gambling Act, 2004 (Act 7 of 2004) (NGA) in respect of which a license is required to be issued by the National Gambling Board or a Provincial Licensing Authority".

The movement of funds between financial institutions and casinos, or between casino accounts held in different establishments raises the risk of money laundering. Gambling institutions can further provide a level of anonymity for illicit transactions while the casino value instruments such as chips and machine credits are often used for money laundering by converting illicit funds from one form to another.

The exploitation of casinos typically arises in gambling modes where the products are not restricted in terms of limits on "cash out" and "buy in". Other modes of gambling such as betting, limited pay out machines and bingo are typically less vulnerable because of product restrictions and the way in which patrons access these modes.

Crime syndicates or individual criminals seek out the legitimate functions and services of gatekeepers for nefarious purposes. Gatekeepers can be described as those who provide gateways to the financial system, through which potential users of the system, including launderers, are able to do business with institutions without revealing their own identities.

If unchecked, financial crime like money laundering and terrorist financing cause considerable damage to the economy, society and to businesses like gambling institutions, providing criminals an incentive for their illegal activities.

It is for this reason that gambling institutions are included as accountable institutions in the Financial Intelligence Centre Act, 2001 (Act 38 of 2001). The FIC Act places certain obligations on accountable institutions so that the Financial Intelligence Centre (FIC) can contribute to identifying the proceeds of crime, combating money laundering and terrorist financing.

As South Africa's financial intelligence unit, the FIC plays a key role in safeguarding the integrity of the country's financial system and its institutions, while making the financial system intolerant to financial abuse. It is the national centre for the collection of transaction and other financial information and through its work fosters collaboration in the criminal justice system, in business and

among other role players. Regulatory reports and other information submitted to the FIC by the sector is used for developing financial intelligence, which is shared with law enforcement and other competent authorities for their investigations and applications for forfeiture of assets. The case studies below, are illustrative of how valuable regulatory reporting in this sector is in helping to stem financial crime.

CASE STUDY ONE: Seizure of millions following bust at border post

A law enforcement investigation led to the arrest of the two subjects who were suspected of smuggling illicit bulk cash in and through South Africa and out of the country. Both subjects were part of an international syndicate that smuggles bulk cash that represents the proceeds of unlawful activities.

Subsequently approximately R76 million was seized at Lebombo border post. FIC analysis revealed that the subjects travelled very frequently through the border post in the morning, gambled at the casino, then travelled to Dubai the following day, returned two days later and then gambled again shortly thereafter.

The FIC identified that the subjects were spending the proceeds at the casino and acted as cross border cash couriers. The cash was seized on this basis, and the suspects were convicted of contraventions of the exchange control regulations, Customs and Excise Act, fraud and money laundering. The cash with a total value of R76 million and a Toyota Hilux were forfeited to the state.

Money laundering

Money laundering occurs when criminals disguise the true nature of how they have sourced their money. They then want to transform their proceeds into 'clean' or legitimate money in the financial system. To achieve this, criminals need to move their money to a place or many places where they can pay cash and exchange their dirty money for clean i.e. where they can legitimise their proceeds.

Criminals may source their proceeds from any range of criminal activities illicit trading and smuggling of weapons, poaching endangered flora and fauna, human or drug trafficking, gratification of bribery and corruption, fraud, theft, pyramid and Ponzi schemes, involvement in syndicated or organised crime, racketeering, and other crimes.

When they acquire these proceeds, criminals need to find options for spending the money in ways that will not draw attention to them directly, to how they have acquired their proceeds and to those who have assisted them in acquiring their proceeds, as this would link them to the criminal activities.

Criminals can, for example, buy a property for cash, sell it and make a profit from on-selling the property. They could then invest their profit further in other ventures in a seemingly legitimate way. These further transactions can make it difficult for authorities to retrace the steps to the origin of the dirty money.

Stages in money laundering

Stages in money laundering are often not distinct or sequential, there are generally three phases in money laundering.

Phase one: Placement – in this initial phase criminals begin introducing proceeds or assets into the domestic and/or international financial system. They may do this via financial and non-financial institutions, businesses and gambling. Criminals could opt to enter the financial system via cash purchases for high-end goods such as yachts, artwork, luxury motor vehicles, property purchases, jewellery and other sought-after items which can also be resold and where payment can be made in cash, by cheque or via electronic fund transfers.

Phase two: Layering – The primary objective in this phase is to create distance between the criminal proceeds and themselves, thereby creating anonymity and those involved in the source of the proceeds. This is done using various instruments to create complex layers of anonymity or disguise using various financial transactions. These are intended to blur audit trails, the source of proceeds and who owns them. Some methods include transferring money across jurisdictions, purchasing of shares, bonds and life insurance and reselling of high-end goods.

Phase three: Integration – In this final stage of money laundering, proceeds are fully part of the financial system. Criminals are now free to buy even more luxury items and deepen the spread of proceeds into the financial system through the purchase of property and businesses. Criminals may also look to grow proceeds even further seeking legitimate or illegal investment opportunities.

Gambling establishments and casinos are primarily used for placement activity, as it is common for cash to circulate here freely and in fairly large quantities. Therefore, criminals may not find it too difficult to introduce the proceeds of their illegal activities into circulation in this environment.

Terrorist financing

In some instances, funds are accumulated for use in the financing of terrorists, acts of terror and/or related activities. Those involved in terrorism may also launder money to accumulate further wealth for funding of their activities. The key difference between money laundering and terrorist financing is that those involved in terrorism are keen to accumulate funds for immediate or future use in financing of terrorists, acts of terrorism and/or related terrorist activities. In these instances, whether the source of funds is legitimate or appears to be legitimate, the destination and use of the funds is disguised and hidden.

WHAT CAN THE GAMBLING SECTOR DO?

The money laundering control measures in terms of the FIC Act impose certain obligations on financial and non-financial accountable institutions such as the gambling sector. These compliance obligations are geared to assist in identifying the proceeds of crime, combating money laundering and terrorist financing. The FIC Act obligations include:

- Register with the FIC via the FIC's electronic registration and reporting system
- Apply a risk-based approach to identifying and verifying customers
- Develop a risk management and compliance programme in managing money laundering and terrorist financing
- Keep records of transactions
- Submit regulatory reports to the FIC
- Provide ongoing training to employees on FIC Act requirements
- Appoint a compliance officer.

Registering with the FIC via the FIC's electronic registration and reporting system

As a pre-requisite for gambling institutions to begin reporting to the FIC and to contribute in the fight against crime, they first need to register with the FIC. This can be done via the FIC's website, using the registration and reporting portal – goAML.

Applying a risk-based approach to identifying and verifying customers

Gambling institutions must have a good understanding of their clients i.e. their source of funds for transactions, changes in client conduct in relation to transaction or client undertaking, and identification and verification information.

This is done through the client due diligence process of establishing and verifying clients (natural person or legal entity) whether it is a new or existing business relationship.

Adopting a risk-based approach to onboarding of customers allows gambling institutions the flexibility to determine the extent of customer identity verification as well as assessing and managing the money laundering and terrorist financing risk.

Institutions can vary their approach to customer identification and verification, depending on factors such as the type of customer, business relationship, product or service offering, and location. This allows gambling institutions to work smarter and not harder in meeting their FIC Act obligations.

Developing a risk management and compliance programme in managing money laundering and terrorist financing

Every gambling institution must develop, document, maintain and implement a risk management and compliance programme (RMCP). The programme refers to a whole organisation approach in the identification and managing of money laundering and terrorist financing. The programme identifies the roles and responsibilities down and across accountable institutions, including gambling institutions. The programme needs to be agreed upon by top management and filtered into the organisation.

Keeping records of transactions

Gambling institutions must keep records of both the client identification and verification information and all transactional information. These records must be kept for five years from date of transaction and/or business relationship being concluded.

Submitting regulatory reports to the FIC

Importantly, it is a requirement that gambling institutions first register with the FIC, in order to submit reports to the FIC. As accountable institutions, gambling institutions are required to file the following reports with the FIC:

- Cash threshold (section 28) – reports on cash transactions exceeding R24 999.99
- Suspicious and unusual transaction – reports on transactions that raise suspicions of which seem out of the ordinary
- Terrorist property – reports where it is suspected that the client or the accountable institution may be holding property related to the an individual or organisation involved in terrorism.

Provide ongoing training to employees on FIC Act requirements

The gambling institution must ensure that all employees undergo the appropriate level of training on the FIC Act and the practitioner's RMCP.

Appoint a compliance officer

A gambling institution that is a legal entity must have a compliance functionary to assist the senior management team. They must appoint a designated individual with appropriate and sufficient competencies to assist in the discharging of the gambling institution's FIC Act obligations

By fulfilling these FIC Act compliance obligations, gambling institutions assist in the fight against crime, helping to create a safer and more stable business, economic and social environment, encouraging and improving domestic and foreign investor confidence and growing the economy. For more information on FIC Act obligations of all accountable institutions, visit www.fic.gov.za or call the FIC's compliance contact centre on +2712 641 6000.



CASE STUDY TWO: Illegal trade in precious metals

The FIC alerted a law enforcement agency to a series of suspicious transactions at a casino, sparking an investigation that led to the arrest of a police officer.

The subject placed large amounts of cash at the casino, thereby distancing himself from the illicit origins of the funds. He also gambled at the casino in the hope of winning, thereby legitimising his funds.

The subject's gambling activities prompted the submission of a large number of cash transactions reports. The FIC also received a large number of suspicious and unusual transaction reports detailing the suspect's continual purchases of bank cheques. Other suspicious and unusual transaction reports detailed the suspect's significant cash buy-ins at the casino.

The FIC used the information submitted to it to develop financial intelligence reports which assisted authorities to identify the money laundering methods used by the police officer. It was established that the subject was spending more money than his monthly South African Police Service salary as a constable.

The subject was arrested and charged with fraud, theft and money laundering, out R6.8 million.

--- IMPORTANCE OF FILING REPORTS ---

The FIC uses the transactional and other data reports submitted by accountable institutions to conduct analysis and create financial intelligence reports. As the national centre for the production of financial intelligence, the FIC is the only authority empowered to produce these reports and, where necessary, shares them with competent authorities. Law enforcement, investigative and prosecutorial authorities use the financial intelligence reports of the FIC for investigations and applications for asset forfeiture.



CHECKLIST FOR GAMBLING INSTITUTIONS



Methods associated with laundering illicit proceeds in the attorney's sector.

Listed below are some of the methods used by criminals in trying to channel their proceeds through the gambling sector. The list is intended to assist the gambling sector and is by no means exhaustive or complete, as criminals may adapt and review how they conduct money laundering activities.

Risk indicators:

The methods and techniques used by criminals to launder money may also be used by clients with legitimate means for legitimate purposes. Because of this, indicators should always be considered in context. The mere presence of an indicator is not necessarily a basis for a suspicion of money laundering or terrorist financing, as a client may be able to provide a legitimate explanation.

These indicators should assist the gambling sector in applying a risk-based approach to their customer due diligence requirements of knowing who their client and the beneficial owners are, understanding the nature and the purpose of the business relationship, and understanding the source of funds being used. Where there are several indicators, it is more likely that a gambling institution should have a suspicion that money laundering or terrorist financing is occurring.

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Use of casinos value instruments

Casinos use value instruments such as chips and machine credits to facilitate gambling and gaming activities.

The value instruments may be bought with cash payments or on account. Repayment is then requested by cheque or any other traceable method of payment.

The audit trail on payments for instruments if the value instrument is transferred to another jurisdiction where the casino chain has a branch, or where the credit is then converted into a cheque or bank draft.

Money launderers may also purchase value instruments from other casinos' customers who are not directly or indirectly associated to them, at a price higher than the face value of the chips so as to make the deal beneficial for both parties.

Chips, casino gift certificates or casino rewards may also be used as currency in illegal cross border transactions. This offers considerable advantage to those involved in the transaction as they would not be subject to the limitations applicable to the use and movement of cash.

Casino employees and managers should pay attention to certain transactions as they may point to money being launder through casino value instruments.

These transactions may include the purchase of casino chips followed by immediate cashing in of those funds with little or no gaming activity; customers' gaming history in the context of their financial situation and profiles, and/or the clear absence of any intention to win.

Exchanging low denomination currency for high denomination currency

Individual launderers or organised groups use casino services to refine large amounts of low denomination bank notes into more manageable high denomination notes. Bank notes may be handed at the cashier's desk, used at gaming machines that accept cash or used at individual casino accounts.

Money launderers may feed low denomination bank notes into the machine to accumulate credit on the individual account with little or no play, before redeeming the credits for high denomination banknotes.

In cases of groups, they may seek to refine money by dividing it among the group before entering the casino. This includes:

- Refining using the cashier's desk
- Refining using 'note acceptors' or gaming machines that accept cash
- Use of casino account for refining

Structuring of transactions

This requires the distribution of a large amount of money into several smaller transactions under the threshold that would trigger reporting requirements. This practice is known as smurfing.

The technique may involve regular deposits of cash below the threshold value, the use of third parties to undertake several smaller transactions, and/or the switching of gaming tables, gaming rooms or even casinos when the wagering amounts are approaching the threshold. Money launderers may also request dividing winnings into cash and chips payment components that are below the threshold.

Casino accounts and facilities

Casino accounts provide criminals further opportunities to attempt laundering criminal proceeds. Many casinos offer deposit accounts and lines of credit with less scrutiny and customer due diligence (CDD) requirements than financial institutions. This includes:

- Casino accounts and facilities
- Deposits into casino accounts by wire transfers or bank cashier's cheque
- Foreign holding accounts (FHAs)
- Safety deposit boxes

Use of individual accounts and safety deposit boxes

Casinos offer a variety of services often similar to those available at financial institutions such as banks. The services on offer at casinos, however, require less scrutiny and fewer customer due diligence requirements compared to, for example, the banking sector. VIP and so-called 'high roller' casino customers are able to open deposit accounts, receive lines of credit, or even use safety deposit boxes.

Money launderers may exploit these services by depositing their casino account cash and various types of cheques. They can then use the balance of their account, or the funds in their casino accounts to purchase casino value instruments across jurisdictions. Safety deposit boxes held with casinos are often not regulated and may be used by third parties with a total lack of transparency.

Winnings

The intention of buying winning tickets from legitimate winners for more than they are worth seeks to create the impression that the funds were derived from a legitimate source, such as:

- The use of illicit funds to gamble
- Buying winnings from legitimate customers
- Parallel even money betting
- Betting against associates or intentional losses

Movement of people and money to casinos

A vulnerability of junket programmes is that they involve the movement of large amounts of money across borders and through multiple casinos by third parties. Junket participants generally rely on the junket operators to move their funds to and from the casino which creates layers of obscurity around the source and ownership of the money and the identities of the players. This is made more difficult if the junket operator is complicit in any money laundering activity by the players or is solicited by criminals to blend illicit funds with the pool of legitimate funds.

Employee complicity

Employee complicity is another method in which third parties are used to facilitate money laundering. Individual employees or organised groups comprising employees from different departments could conspire with customers to enable money laundering transactions to go undetected. Methods include:

- Failing to file suspicious and unusual transaction reports or cash threshold reports
- Destroying documents or transactions reports related to due diligence or reporting processes
- Falsifying player ratings and other gambling records to justify the accumulation of casino chips and/or gaming machine credits.

Conspiracy of fixed games

By fixing games, money launderers can attain a desirable outcome of the game. Usually requiring two or more persons, the most common technique is to play a fixed game with an associate. Players place opposite equivalent bets on even money wagers in the same game. The intention here is not to increase the winnings, but rather to create the appearance of gaming, without taking on the risk of losing money to the casino.

Purchases of casino rewards cards

Money launderers use illicit funds to purchase casino reward cards from legitimate customers paying them a premium amount, usually above the value of the reward.

False documents

As with financial institutions, money launderers use false documentation to disguise the origin of criminal proceeds and to protect the identity of those laundering the proceeds.

Indicators of money laundering activity

- Patrons who are unable or unwilling to provide identification when purchasing chips or cashing in their chips
- Patrons whose chip purchases consistently do not match their gambling, i.e. purchases in large quantities, of which the patron then only plays a small proportion, before cashing them all in again
- Patrons whose appearance and apparent status are inconsistent with the values of their chip purchases (may also indicate that they are acting as an intermediary for an unknown third party)
- Instructions to forward the cash-in value of leftover chips to someone other than the patron (may also indicate that they are acting as an intermediary for an unknown third party)
- Frequent deposits of cash, cheques, bank cheques or wire transfers into casino accounts
- Casino account transactions conducted by persons other than the account holder
- Funds transferred from casino account to a charity fund
- Use of casino account as a saving account
- Use of false and stolen identities to open and operate casino accounts
- Customer name and name of account do not match
- U-turn transactions occurring with funds being transferred out of country and then portions of those funds being returned
- CDD challenges, e.g. refusal, false documents, once-off gambling, tourist gamblers
- Requests of casino accounts from foreign prominent public officials (FPPOs) and domestic prominent influential persons (DPIPs)
- Money laundering risks associated with gambling providers

Information sourced from:

<http://www.fintrac-canafe.gc.ca/>

<http://www.fatf-gafi.org/>

<http://www.acams.org/>

<http://www.fic.gov.za/>

<http://www.austrac.gov.au/>



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Find out how criminals target the property sector and how you can help break the cycle of abuse by visiting the Financial Intelligence Centre (FIC) campaign website page (www.fic.gov.za/campaign).