

An exploratory study in to the money laundering threats,
vulnerabilities, and controls within the UK bookmaker
sector, with a specific focus on Fixed-Odds Betting
Terminals.



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Declaration

I am aware of, and understand, the University's policy on plagiarism. Therefore, I declare that this dissertation has been composed solely by myself and that it has not been submitted, in whole or in part, in any previous application for a degree. Unless stated otherwise by reference or acknowledgment, the work presented is entirely my own.



07.07.2017

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Abstract

The purpose of this exploratory study was to generate an understanding in to the money laundering threats, vulnerabilities and controls found within UK betting shops, with a direct focus on the exponential growth of Fixed-Odd Betting Terminals. Qualitative research methods facilitated eight semi-structured interviews with key stakeholders linked to the gambling and/or money laundering sphere. This included the Gambling Commission, Campaign for Fairer Gambling, an ex-Head of Security and Safety at a major bookmaker, and five regular Fixed-Odd Betting Terminal users. The interviews were recorded, transcribed and coded for thematic analysis, subsequently resulting in the emergence of six interesting and meaningful themes. These were (1) A lack of anti-money laundering training, awareness, and resources; (2) ineffective customer due diligence enforcement; (3) weak anti-money laundering safeguards unable to mitigate known threats; (4) the threat and resistance of anonymity; (5) the authority of the Gambling Commission; (6) the commercial consequences of increased regulations. By allowing a phenomenological framework to guide the data collection process, the interpreted subjective views and experiences of the participants involved, although somewhat limited, indicate that money laundering threats within the bookmaker sector are inherently high, with a lack of effective safeguards in place to mitigate the identified vulnerabilities.

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List of Abbreviations

3MLD	EU Third Money Laundering Directive
4MLD	EU Fourth Money Laundering Directive
ABB	Association of British Bookmakers
AML	Anti-Money Laundering
CDD	Customer Due Diligence
CFFG	Campaign for Fairer Gambling
EU	European Union
FATF	Financial Action Task Force
FOBT	Fixed-Odds Betting Terminal
LCCP	Licence Conditions and Codes of Practice
MLR2007	Money Laundering Regulations 2007
MLR2017	Money Laundering Regulations 2017
MLRO	Money Laundering Reporting Officer
NCA	National Crime Agency
NRA	National Risk Assessment
SAR	Suspicious Activity Report
UCLan	University of Central Lancashire

Chapter 1 – Introduction

This qualitative study sought to explore the money laundering threats, vulnerabilities and controls that exist within the UK bookmaker sector, with a direct focus on the Fixed-Odds Betting Terminals (FOBT) that can be found in over 8000 high street betting shops. With an estimated £56 billion staked on FOBT's in 2015 (Institute of Economic Affairs, 2016), an understanding was sought as to what customer due diligence (CDD) mechanisms are in place to ensure UK monitoring and reporting standards are being met to prevent potential threats. Similar gambling facilitators within the industry, such as land based casinos, have stringent safeguards in place such as an onsite Money Laundering Reporting Officer (MLRO) and compulsory identification entry requirements under the Money Laundering Regulations, 2007 (MLR2007). However, due to a lack of available literature, it remains unclear as to how these compare to high street bookmakers.

Cash-intensive businesses (such as betting shops) will always be vulnerable to criminals looking to launder their illicit proceeds (Gilmour and Ridley, 2015), and as such, one of the three licensing objectives set out in the Gambling Act (2005) was to prevent gambling from being used or associated with crime. Due to the variety of complex techniques used by criminals, it is impossible to calculate the extent of money laundering on a national scale (Harrison and Ryder, 2016). However, according to the National Crime Agency (NCA), it is estimated that this figure could be as high as £100 billion annually. (Transparency International UK, 2016). The purpose of this exploratory study is not to ascertain the numerical

extent as to how much, if any, criminal proceeds are laundered through FOBT's, more so it is to explore what opportunities exist, and how these potential avenues are detected and prevented by bookmakers.

Under the European Union's (EU) 'Council directive 2005/60/EC', 2005 (hereon referred to as 3MLD), which was implemented in part by the UK's MLR2007, casinos were the only gambling sector that were required to apply enhanced CDD. However, as per Financial Action Task Force (FATF) recommendations, the scope has now been extended to all forms of gambling (Gushin, 2016). Consequently, this attempt to strengthen global AML controls has been enacted in to the EU's 'Council directive 2015/849/EC', 2015 (hereon referred to as 4MLD). However, in March 2017, after consultations with the Gambling Commission, HM Treasury (2017a) utilised the powers provided within the directive to exempt bookmakers from the new regulations on "the basis of the proven low risk posed".

Firstly, there is an analysis of existing and impending AML laws and regulations to set the scene, taking in to account the various hierarchal and diffusive organisations that implement the very rules the gambling sector must adhere to. Secondly, there is a review of the current AML safeguards and controls that exist in alternative UK gambling sectors, such as online gambling and land based casinos. Thirdly, the identified AML laws will be broken down to ascertain how retail bookmakers are expected to comply with the regulations that have been set upon them. Fourthly, an attempt will be made to understand what opportunities exist for criminals looking to launder their criminal proceeds through FOBT's, and what risk-based approaches are required to ensure that operators have the required facilities to detect and prevent these treats.

Next, an empirical data collection exercise consisted of eight semi-structured interviews with important stakeholders. This included the Gambling Commission, a major bookmaker's ex-Head of Security and Safety, and five users of FOBT machines. Furthermore, an interview with not-for-profit organisation Campaign for Fairer Gambling (CFFG) was initiated, based upon their 2013 covert exercise on the potentialities of laundering criminal proceeds through FOBT's. Finally, the common themes that occurred with the various participants were scrutinised against the primary data analysis. This has ultimately lead to a greater understanding of the largely under-researched conundrum of the money laundering threats, vulnerabilities and controls that exist within the UK bookmaker sector.

Chapter 2 - Literature Review

The FATF and the Role of the Gambling Commission

The global governance of AML laws and regulations has a systematic food chain. In 1987, not a single country had a policy in existence to combat money laundering offences (Sharman, 2008); thirty years later, more than 180 jurisdictions currently have AML policies in place that mirror the recommendations of global standard setters the FATF (Findley, Nielson and Sharman, 2014). Founded in 1989 by the then G7 nations, inter-Governmental organisation the FATF were set up to formulate policies to combat money laundering on a national scale (Madinger, 2016). While none of the organisation's forty-nine recommendations are legally binding, the FATF have a variety of international sanctions at their disposal, such as the ability to blacklist uncooperative nations. Furthermore, they are the only global policy network that can restrict nations from accessing international financial markets (Jakobi, 2015). To illustrate the effectiveness of the FATF's 'governance without government' (Aas, 2013, p145) approach, these ongoing standards have formed the benchmark for four EU AML directives. Article 61(1) of the 3MLD stipulated that all 28 EU member states were required to adopt the provisions in to domestic legislation within two years of the directive's ratification, and as such, this formed the basis for the UK's MLR2007. Although the FATF recommendations were applicable only to casinos, the UK extended its provisions to cover online casinos in response to the hybridisation of betting formats (Häberling, 2012). The

MLR2007 required the relevant sectors to implement enhanced CDD systems and controls to prevent their organisation from abuse of money laundering.

As the primary regulator for the UK gambling industry, the Gambling Commission are tasked with ensuring that the businesses they regulate adhere to the three licensing objectives as set out in the Gambling Act (2005, s.1a), which requires all licencing authorities to take the necessary steps to “prevent gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime”. Brookes (2012) explains that the Gambling Commission have extensive powers to ensure that gambling operators are compliant with UK legislation, as well as with their own Licence Conditions and Codes of Practice (LCCP), by imposing financial penalties and/or revoke a license if breached. Prior to exploring the Gambling Commission's role in assessing the AML threats and safeguards that exist within betting shops, it is entirely relevant to assess the controls that have been installed in direct response to the MLR2007 by alternative UK gambling sectors.

Alternative Gambling Sectors: Online Gambling and Casinos

According to Levi (2009), the online gambling industry is vulnerable because of the anonymity of the client and subsequently, new players must provide identification prior to any withdrawals receiving authorisation. Online gambling organisations must verify the customer's personal information both internally and externally, and risk departments must have the facilities to monitor suspicious player activity (Banks, 2016). The money laundering risks of online gambling are

far lower in comparison to land based platforms, such as casinos and betting shops, due to the traceability of transactions, betting limits and customer identification controls (Dean, 2014).

Under the MLR2007, land based casinos must identify individuals who enter their premises, as well as adopt appropriate procedures to verify players who purchase or exchange €2000 or more within a 24-hour period (Siclari, 2016). Furthermore, all UK casinos are required to have an on-site nominated officer who must establish and maintain internal CDD measures, facilitate ongoing monitoring and record-keeping, and ensure that relevant staff are appropriately trained to detect the threats of money laundering (Gambling Commission, 2015). According to Stessens (2000), absolute anonymity is often sought after by money launderers, however the application of mandatory identification, compulsory reporting of suspicious transactions and by obliging organisations to keep ongoing records, businesses can significantly reduce the likelihood of abuse by criminals. By implementing such measures, it could be argued that casinos have stringent AML systems in place to reduce the threats associated with anonymity and thus, allowing each premises to correlate an audit trail to a specific individual.

What are FOBT's?

Often described as the “Crack Cocaine” of the gambling industry, FOBT's have revolutionised the way bookmakers do business (Demianyk, 2016). Long gone are the days of male dominated, smoke-ridden betting shops with blacked out windows, with a business model heavily reliant on the profits derived from the

horse and greyhound racing markets (Lamont, 2016). Since the enactment of the Gambling Act (2005), s. 172(8) provided retail bookmakers with the opportunity to install a maximum of four FOBT machines in to each of its premises. According to Gambling Commission (2016a) statistics, as of March 2016, there were 34,684 terminals located across 8809 UK betting shops, illustrating that the sector fully utilised the available provisions.

FOBT's are touch screen electronic gambling machines that facilitate a variety of traditional casino games, however according to Webb (2012), virtual roulette accounts for more than 90% of turnover. The maximum that can be wagered per roulette spin is £100, with the total winnings capped at £500. As per the speed that bets can be placed, it is possible to place a new £100 wager at a rate of three times a minute (Ramesh, 2014). The FOBT experience most commonly requires an individual to insert cash directly in to the machine, and should the player decide to withdraw their winnings, a ticket is printed and exchanged for cash at the bookmaker counter. Additional Gambling Commission (2016a) figures reveal that FOBT's contributed 51.5% of bookmaker profits in 2015/16, netting the sector a gross gambling yield of £1.7 billion.

Why Launder Money through a FOBT?

The purpose of money laundering is to obscure the origins of wealth acquired unlawfully and to subsequently create a mask of legitimacy (Beare, 2012). Criminals often use a range of highly sophisticated techniques to launder their

illicit profits, however in the case of FOBT's, the below section will demonstrate that the potentialities are far from elaborate. Although the maximum bet size is £100 per roulette spin, in response to the growing concern of gambling addiction, the Gaming Machine (Circumstances of Use) (Amendment) Regulations (2015) requires stakes over £50 to be processed via staff interaction or through account based play. Therefore, to correlate with Stessens' (2000) theory that criminals prefer absolute anonymity, a customer can limit stakes to £50 to avoid leaving a footprint. Furthermore, to mitigate the financial losses of an unsuccessful bet, the customer can cover every possible outcome by selecting red, black and zero on virtual roulette. (see figure 1).

Selection	Odds	Stake	Total Returns if Correct	Cost to Launder
Red	Evens	£24.20	£48.40	2.8% loss
Black	Evens	£24.20	£48.40	2.8% loss
Zero	35/1	£1.40	£50.40	1.2% profit
	Total stake	£49.80		

Figure 1: An example of how a criminal can mitigate their financial exposure by covering all outcomes

Although more time consuming than staking £100 per roulette spin, gameplay speed will still allow a customer to repeat the above process every 20 seconds. This means in just 15 minutes of non-stop gameplay; a customer could potentially stake £2241 anonymously, with a maximum laundering cost of just 2.8% per spin

– far more economical than the estimated underworld average of 5%-15% (Masciandaro and Balakina, 2016).

Should the customer stake less than 40% of the total deposit amount prior to withdrawing their funds, an alert is sent behind the betting shop counter. However, Ramesh (2013) argued that this is easily avoided by criminals who are aware of these parameters. Talking anonymously to the Guardian Newspaper (2013), a self-proclaimed drug dealer explained that FOBT's were the most convenient method to launder unlawful earnings. The criminal explained that his strategy involved covering his bets on virtual roulette, staking over the 40% trigger threshold, rotating between the 15 local betting shops and depending on the operator, transferring his winnings directly to his £100,000 bank balance. By spreading the risk factor across several locations, a criminal can use a method known as smurfing, a strategy that involves a low value but high volume of transactions in an attempt to avoid scrutiny (Chatain and Christen, 2011).

If this process was subsequently repeated at a physical roulette table in a land based casino, under the MLR2007, which states that when a customer, in a 24-hour period, pays to or stakes, or exchanges chips, in excess of €2,000, the casino would be required to carry out enhanced CDD on the individual. However, bookmakers are under no legal obligation to ask customers to present identification, nor is there a threshold that would require staff to question the size of customer deposits, stakes, or withdrawals (*see figure 2*). Moreover, the UK facilitates just 148 casinos in comparison to more than 8000 betting shops (Gambling Commission, 2016a), thus limiting the opportunity for an individual to mitigate risk across a large amount of venues.

<u>Area of Activity</u>	<u>MLR2007 (Casinos)</u>	<u>POCA (Betting Shops)</u>
'Know Your Customer'	Requirement to identify and verify customer identity	No absolute requirement under POCA
Checking/Monitoring Higher Risk Customers/Situations	Requirement to conduct enhanced due diligence where; Any situation which by its nature can present a higher risk	No absolute requirement under POCA
Monitoring/Ongoing Business Activity	Ongoing monitoring of a business relationship	No absolute requirement under POCA
Training Staff	Requirement to train relevant staff of the law and also regular training on how to deal with ML related activities	No absolute requirement under POCA

Figure 2: A snippet from a Gambling Commission (2017c) document sent to the author of this study, detailing some key comparisons between the MLR2007 and POCA.

Continuing from the above example, once the customer decides to withdraw their on-screen balance, a unique ticket is printed which can then be exchanged for cash at the bookmaker counter. Webb (2013) explains that allocating customers with an over-the-counter receipt can serve as proof of source of funds, essentially protecting a criminal from having their proceeds of crime seized. In November 2015, West Yorkshire Police executed a warrant at the home of a suspected narcotics dealer. Following the search, Police seized controlled drugs together with £18,000 in cash, £30,000 of designer clothes and finally, more than 400 printed FOBT tickets worth more than £36,000 in winnings (Bagot, 2016), illustrating a potential relationship between crime and FOBT usage.

Concealing the proceeds of crime using non-cash instruments creates enhanced difficulties for law enforcement when attempting to trace criminal assets (Hinterseer, 2002). In response, the impending Criminal Finance Bill which is due to enter UK legislation in 2017, will include FOBT tickets within the remit of cash forfeiture powers (Dawson, Edmonds and Seely, 2017). On collection of the winnings, it could be argued that this is the first stage of the FOBT experience in which a customer has no choice but to interact with a betting shop member of staff. The FATF (recommendation 15) state that properly trained and motivated staff are the first line of defence in detecting money laundering threats (Commonwealth Secretariat, 2006). Furthermore, the organisation expects businesses to take the required steps in ensuring relevant staff are aware of their statutory obligations, and the need to report suspicious activity.

The First Line of Defence – Bookmaker Staff

According to the ABB (2016a), employing highly trained betting shop staff ensures that anyone looking to launder their criminal proceeds within their premises has a high chance of getting caught. Furthermore, HM Treasury (2015) stress that bookmaker staff have the ability to recognise suspicious customers by appearance or patterns of spend. Betting shops are required to adhere to the Gambling Commission's LCCP, which are further supported by the obligations put in place by the Proceeds of Crime Act, 2002 (POCA), which requires all gambling operators to be alert to customers looking to gamble funds acquired

unlawfully. Under s.330 of the POCA, an individual within the regulated sector commits an offence should they fail to make the required disclosure to either the organisation's nominated officer or the NCA, if they become accustomed to knowledge or suspicion that another person has engaged in money laundering. It could be argued that reporting actual knowledge of money laundering abuse is objectively simple, however on the contrary, suspicion may prove more difficult. This is because suspicion is purely a subjective matter that may alternate between individuals (Card, Molloy and Cross, 2016). However, in an attempt to provide clarity, the Court of Appeal decided in *Da Silva* (2006) that for suspicion to occur there must be a "possibility, which is more than fanciful, that the relevant facts exist".

Following a recent Gambling Commission investigation, bookmaker Paddy Power were fined £280,000 for serious failings in its AML responsibilities, where it was deemed a customer was laundering stolen Scottish Bank notes by inserting them in to several of its FOBT's, and requesting payment back to their debit card (McCarron, 2016). The first and most challenging phase of laundering criminal proceeds is the placement stage, which involves injecting illicit profits in to the financial system (World Bank Publications, 2009). The purpose of this is to allow criminals the opportunity to then create multiple layers of transactions with the aim of disguising the illegal source of the funds (Griffith, 2010).

Although Paddy Power delivers AML training to all of its staff, the Gambling Commission (2016c) ascertained that several front-line employees involved in the identified incidents did not fully understand the policies that were set upon them. Furthermore, although the betting shop manager escalated his suspicions to

more senior members of staff, he was told that because the notes were British currency and were not stained or counterfeit, it was unlikely that they were the proceeds of crime. It remains to be seen whether these systematic failings were the product of ineffective AML training, senior management incompetence or a combination of both. Commentators such as Dare (2016) question whether these flaws were a one off, or a clear indication that the sector is yet to properly address the risks of money laundering abuse through FOBT's.

In addition to their AML duties, betting shop staff must also ensure they adhere to their social responsibility obligations. The Gambling Commission's (2017b) LCCP puts an onus on betting shop employees to effectively detect under age gambling and ensure that self-excluded customers do not attempt to gamble. Out of 30,226 processed self-exclusion requests in 2015/16, there were 19,028 individual breaches (Gambling Commission, 2016a). These failures are entirely relevant to the discussion of AML capabilities, because if self-exclusion breaches are so inherently high, it must be questioned whether staff have the resources to effectively prevent money laundering abuse within their shops. However, it must be noted that during a Gambling Commission age verification investigation in 2015, where a quantity of under-aged testers covertly attempted to gamble across five major betting shop chains, 85% of the minors were asked to provide identification before or during gameplay (Gambling Commission, 2016b). This at the very least indicates that betting shop staff do have the time resources to apply basic Know Your Customer (KYC) measures, based upon subjective judgement.

To further assist front-line employees, a notification is sent behind the counter for every 20 minutes of play or for every £150 that is inserted per FOBT session

(ABB, 2016b). Although this was installed as an addiction prevention control, it could be argued that such a trigger may alert staff to unusual gameplay, and subsequently create awareness for potential suspicious activity. However, this again links back to the subjective thought process of the specific member of staff, because, as mentioned earlier in this study, unlike the casino sector there is no legislation that requires betting shops to apply enhanced CDD if a customer exceeds a certain threshold.

Betting Shops and the EU Fourth Money Laundering Directive

At the time of writing this paper, the 4MLD it is yet to be implemented in to UK legislation. The latest directive is fundamental for the entire UK gambling industry because in response to extended FATF recommendations, the regulations under the 3MLD should now be applicable not only to the casino sector, but to all forms of gambling (Vlaemminck and Guzik, 2013). However, unlike its predecessor, the 4MLD provided the UK Government with the opportunity to exempt (in full or in part) certain sectors on the basis of proven low risk. This supranational approach to risk assessment was to allow each jurisdiction the opportunity to assess the broader principle of proportionality, effectiveness of current sector controls, and ultimately, reduce the burden on recipients where low risk was apparent (Siclari, 2016). In response to the new provisions, the ABB (2013) wrote to the Gambling Commission to express their concerns that widening the new directive's scope would cause a significant regulatory burden for betting shops, leading to a substantial increase in costs for the sector. The ABB continued to argue that the

consistently low sector submission of Suspicious Activity Reports (SARs) was a clear indication that UK betting shops present a low inherent risk to money laundering. The total number of SARs submitted to the NCA in 2014/15 amounted to 381,882, of this figure, just 520 were submitted by bookmakers (NCA, 2016). However, Levi (2009) argued that in itself, the amount of SAR's submitted by a particular sector is neither a success nor a failure of AML effectiveness. In response to the ABB, the Gambling Commission (2013) were highly resolute at the risks associated with money laundering within betting shops. The regulator explained that any business model that includes a high volume of cash transactions and high level of anonymity, presents a high money laundering risk, especially when one considers the substantial number of FOBT's spread across the large number of UK betting operators. The commission mirrored the theory of Levi (2009) by adding that a low submission of SARs did not necessarily correlate to a low level of risk, and subsequently, any enquiries made regarding the background of a customer's transaction or activity was perfectly reasonable.

To help assist the UK Government's consultation on whether to utilise its exemption powers under the 4MLD, the Gambling Commission (2017) executed a national risk assessment (NRA) on the AML threats, vulnerabilities and controls found within each individual gambling sector. The NRA contained several ongoing concerns about the money laundering vulnerabilities found within betting shops. First, the Gambling Commission issued the sector with a risk rating of 'higher' relative to other gambling sectors (*see figure 3*) and as such, in the same threat category as casinos and online gambling.

Casinos (non-remote)	Remote (casinos, betting and bingo)	Betting (non-remote)	Arcades	Bingo (non-remote)	Gaming machine manufacturers and suppliers	Lotteries (remote and non-remote)
Higher	Higher	Higher	Medium	Medium	Lower	Lower

Figure 3: Exert of money laundering risk rating by sector. Gambling Commission (2017)

Additionally, the Gambling Commission noted that FOBT's posed the greatest product risk within the sector, owing to the number and availability of machines, previous evidence indicating money laundering has taken place, and the ability for customers to remain anonymous. Furthermore, conclusions were made that the sector was failing to meet its AML obligations, adding that this has led to ineffective controls and subsequently, increasing the likelihood of money laundering abuse. However, in March 2017, "on the basis of the low risk posed", HM Treasury (2017a) utilised its powers within the 4MLD to exempt bookmakers from the impending regulations.

Chapter 3 – Methodology

Aims

The vulnerabilities highlighted above do not in any way prove that money laundering is wide spread within the sector, more so it demonstrates that there is the potential for criminals to achieve this purpose. Therefore, the aim of this study is to generate an understanding as to the money laundering threats, controls and safeguards found within UK betting shops. This largely understudied phenomenon will hopefully provide a greater understanding as to how the bookmaker sector comply with UK AML laws and regulations, with a specific focus on the growth of FOBT's.

Objectives

- To further explore the money laundering potentialities that FOBT's may present to criminals
- To investigate previous FOBT experiences through the eyes of current and ex- betting shop customers, to understand what, if any, CDD requirements they have been subjected to.
- To develop an understanding as to what expectations the Gambling Commission have for front-line bookmaker staff to monitor, detect and prevent money laundering threats within their betting shop.

- To ascertain whether the level of training received by betting shop employees is sufficient to effectively meet their AML obligations.
- To create further clarity on the current safeguards and controls in place to prevent FOBT's from money laundering abuse.
- To further explore HM Treasury's decision to exempt the bookmaker sector from the 4MLD, on the basis of the low risk posed.

Design

As this study aimed to tackle a potential problem on which little or no previous academic research had been done, the research was exploratory in nature (Brown, 2006). Exploratory studies that attempt to understand issues that have minimal exposure within existing literature are best suited by the implementation of a qualitative approach, because a conceptual question drives the research, rather than attempting to provide any generalisations (Gervais and Millear, 2016). Therefore, a qualitative approach was utilised with the hope of generating a firm understanding of the concepts held by the participants involved in the data collection process. Subsequently, this can lead to the exposure of new phenomena by uncovering trends that weren't apparent prior to the research (Corno and Anderman, 2015). By refraining from a hypothesis, this study was congruent with a phenomenological approach to knowledge which emphasized a clear focus on the participant experiences and their interpretations of the world. According to Littlejohn, Foss and Oetzel (2016), this philosophical approach

allows the generation of knowledge by listening to the participants' subjective view of the world, free from any preconceptions that the researcher may have.

As such, semi-structured interviews with open-ended questions and probing were initiated, as this allowed participants the opportunity to answer freely and avoid the restrictiveness of fixed-choice quantitative questions (Myers, 2009). The researcher's theoretical paradigm during this study was aligned with constructivism, which criticizes the belief that there is an objective truth. Constructivist's aim to understand the rules society use by investigating what happens in people's minds (Sekaran and Bougie, 2016). By conducting interviews, it was hoped that the collection of unique and rich data would be driven by how the participants interacted. To clarify, by having a firm acceptance of multiple realities, this study sought to understand the human experiences of relevant practitioners and FOBT users, how these experiences were conducted, and subsequently, nothing was attempted to be proved in an objective manner.

Participants

All participants had a direct link to either gambling, money laundering or a combination of both and as such, were identified and selected based upon their knowledge, experience and exposure to the phenomenon of interest. This purposeful sampling technique, although non-representative of a target population (Sugathan, 2015), can be highly beneficial to a study which is exploratory in nature because when used effectively, it often ensures that the collected data is both meaningful and rich (Palinkas et al., 2013). Such

mechanisms were paramount to this study because although interviews sought clarity, it was also hoped that knowledge outside of the current literature would be generated. An employee from within the Gambling Commission was recruited in the hope that he would provide an invaluable insight in to the identifiable money laundering controls and threats found within betting shops, as well as provide further clarity on the recent 4MLD exemption. Introduction to this key participant was made possible through an Associate Lecturer at the University of Central Lancashire (UCLan). As a sub-section of purposeful sampling, snowballing refers to the process of asking a third party to introduce the researcher to individuals they may know that will provide substance to the study (Babbie, 2016). A further advantage of snowball sampling is that it can also facilitate communication with hard-to-reach individuals who would otherwise be difficult to recruit. Often due to their special characteristics or sensitivity of the study subject, participants of this nature can provide invaluable data of which would not be possible without the degree of trust generated through the primary contact (Bhopal, Shaghaghi and Sheikh, 2011). Subsequently, an interview was also secured with a major bookmaker's former Head of Security and Safety [hereon referred to as Security1]. This participant was responsible for leading a team of investigators across the UK and Ireland, performing AML risk assessments, and liaising with law enforcement agencies. According to Brookes (2012), AML and counter fraud personnel with a direct link to upholding and maintaining the integrity of an organisation can be difficult to reach and therefore without referral by CFFG, this would not have been feasible. As an exploratory study, it was understood that the views expressed by Security1 would in no way be representative of the entire

industry, more so it was an opportunity for the individual to describe personal experiences during his time in the position.

Two additional participant groups were secured by direct negotiated access. CFFG, a not-for-profit organization that actively campaign for maximum FOBT stakes to be reduced (Davies, 2017), were initially approached by telephone. It was hoped that directly communication with the organisation would deliver further details on their 2013 brief covert investigation in to the potentialities of laundering criminal proceeds through FOBT's (Webb, 2013). Direct negotiated access was also initiated with current and ex-users of FOBT's to ascertain what, if any, AML controls they had previously been subjected to when depositing, staking or withdrawing funds. The set criteria imposed for inclusion required each participant to have deposited or withdrawn €2000 (approximately £1600 at the time at this study) or more within a 24-hour period of play. The rationale behind a minimum threshold of €2000 was based upon the obligatory CDD requirements that must be enforced by casinos under the MLR2007, and therefore it could be argued this amount indicates a level of gaming that warrants additional monitoring.

In total five FOBT users were identified using a variety of online platforms such as gambling forums, blogs and YouTube videos. This allowed the researcher to engage in dialogue with individuals who shared a strong interest in the phenomena being studied, or who had unique experiences to share (Weslowski, 2014). Such a platform provided the opportunity to pre-screen potential participants by reading public posts, thus ensuring that the set-criteria could be met prior to communication.

It was felt that the inclusion of eight stakeholders from a variety of angles linked to the gambling and/or money laundering arena would yield some interesting exploratory results. Therefore, the disadvantages that are often a consequence of a small sample size, such as limitations in the ability to generalize a researcher's findings to a wider population (Bonnell and Smith, 2014), were not applicable in this study. On the contrary, this approach was undertaken to allow the researcher to build and maintain a close relationship with the participants (Crouch and McKenzie, 2006). Furthermore, because conducting, analysing and interpreting qualitative data is often labour intensive (Aurini, 2016), a small sample size ensured that the "*depth of data, evocation of creativity, and the exploration of attitudes and views*" (Harrington and Voehl, 2016), could all be documented within the allocated academic timeframe.

Materials

The researcher opted for semi-structured interviews, tailor made to meet the aims and objectives of each homogenous participant. This is an effective tool to ensure that each point of discussion is covered, as well as help refocus the interview back on track if the conversation goes off topic (Turner, 2010). Furthermore, this approach also provides the interviewer with the flexibility to explore unanticipated topics that may arise during the conversation (Crichton, Flin and O'Connor, 2013). The questions that were put forward to each participant differed based upon how the stakeholder sat within the phenomena being discussed (see Appendix 1 for pre-determined questions). By refraining from distributing the pre-

determined question set in advance, it restricted participants from having the capacity to prepare regimented answers, which may have limited the broadness of the results. All interviews took place by telecommunication, each lasting between 45-90 minutes. Qualitative researchers are interested not just in what the participants say, but also the way that they say it (Sutton and Austin, 2015). As such, although this communication method did provide social cues such as voice intonation and tonal deviations, the interviewer had no access to the extra sources of information that face to face meetings can often provide, such as a change in body language (Opdenakker, 2006).

By facilitating each call using Skype, it allowed the researcher to use third party software to record the interviews in full. Frequent pre-recording checks were made prior to each scheduled call, to ensure that a clear and complete account of the full interview was available for post-analysis. Furthermore, although notes were taken during the interview, this was to ensure no points of discussion were missed, and subsequently kept to a minimum to ensure that the participants had the researcher's full attention.

Ethical Considerations

The researcher followed the core principles found within the Economic and Social Research Council's (2015) guidance notice and therefore all participants were all recruited voluntarily. Subsequently, no interviews were conducted until full ethical approval was obtained from the UCLan Ethics Committee (see *appendix 2*), which

ensured that the study was fully complicit with the Data Protection Act (1998). Prior to arranging a scheduled interview date and time, a consent form was emailed across to each participant (*see appendix 3*). This explained the right to withdraw at any time, and that the interview would be recorded. Furthermore, each participant was advised that they would be given full anonymity, whilst in the case of practitioners, would only be referred to as the organisation they were representing. Wiles et al. (2008) note that anonymity and confidentiality of recruited participants are pivotal in keeping research ethical. When investigating sensitive topics such as the phenomena being studied, anonymity assurances can increase the likelihood that individuals will provide more candid information (Given, 2008), and therefore this can often be advantageous. Additionally, questions were constructed in a non-biased and impartial manner to ensure that interviewee experiences were not contaminated (Edwards and Holland, 2013). Each participant returned a signed copy of the consent form and emailed this back to the researcher in advance of the call. Academic procedures such as the above ensure that researchers maintain integrity, honesty, and openness at all times, and that the study will not cause harm to anyone involved (Staunton, 2016).

Analysis

According to Forman and Damschroder (2008), qualitative research that is complex in nature must first be managed and prepared prior to analysing the collected data. As such, all audio files were password protected and then labelled to represent the participant's individual ID number/organisation, along with the

researcher's initials. Furthermore, an additional copy was made and transferred to a portable memory device, and subsequently locked in a safe cupboard for backup. When transcribing the interview audios in to text, a form of intelligent verbatim transcription was preferred. This method is entirely faithful to what the participants said, but it does not include every filler word, hesitation, or false start (Hadley, 2016). The final step of the data preparation process involved removing any text that identified personal or organisational information, such as specific bookmaker names, in line with the agreed ethical assurances.

Next, the data was examined line by line using a process called open coding. By labelling interesting and relevant data, the researcher was able to rearrange the transcribed text in to analytically meaningful categories and subsequently, facilitated the development of themes (Brodie, Hollebeek and Conduit, 2016). Furthermore, the creation of defining and developing categories based on their properties and dimensions (Khandkar, 2009) will often provide a researcher with the basis to identify "*significant events, explicit statements, and implicit concerns*" (Staunton, 2016), especially across multiple interviews. This process did not require the use of coding software, rather the researcher manually read through the text and underlined sections that were relevant to the aims and objectives of the study.

To complement the open coding process, a qualitative foundation framework (Braun and Clarke, 2006) known as thematic analysis was then initiated. This synthesizing strategy and meaning-making process is a tactic often used to reduce and manage large quantities of data without losing the essential context, and provided the opportunity to constantly compare data against codes, note interpretive insights, and inductively build exploratory patterns (Mills, Durepos

and Wiebe, 2010). The majority of themes that emerged from the data analysis were consistent with the issues demonstrated within the literature review, however one original theme that was not considered by the researcher did subsequently become apparent.

Chapter 4 – Results

Thematic analysis of the conducted interviews presented the emergence of six common themes, which supported by the relevant quotes, can be found under the appropriate subheading below. To summarise, the identified themes are titled: (1) A lack of AML training, awareness, and resources; (2) Ineffective CDD Enforcement; (3) Weak AML Safeguards Unable to Mitigate Known Threats; (4) The Threat and Resistance of Anonymity; (5) The Authority of the Gambling Commission and (6) The Commercial Consequences of Increased Regulations.

A Lack of Staff AML Training, Awareness, and Resources

There was a common view amongst three of the participants that front line bookmaker staff do not have the required tools to effectively monitor, detect and prevent money laundering threats within their premises. Firstly, there was a concern that the AML training delivered to staff was fundamentally too basic, brief, and unelaborate. The participant employed by the Gambling Commission was highly critical in his view on this.

I've seen some of the material rolled out – you don't need to be a brain surgeon to pass. With regards to staff training, most of it is a ticky box.

You can imagine the dilemma that staff face in betting shops. I can't see that level of training given to people, they are just told to monitor things

and if they have a feeling they are not sure about they should forward it on to the MLRO.

This understanding of the AML training provided to staff was also shared by the CFFG employee.

My understanding is that it's very primitive, it's a tick box exercise on a computer. It's not rigorous at all.

Security1, with his inside exposure as the Head of Security and Safety at a major UK bookmaker, echoed this viewpoint in greater detail.

The ABB have gone public and stated that staff are well trained. Well they are not. There is a disparity on the level of training given to individuals. One bookmaker gives class room training when you join, updating it every year, also in a class room – Another bookmaker operates online modules, and each module, whether it's on crime, AML, violence, health and safety ect., they are only 20 minute modules.

There are no rigorous checks or balances in place to check the understanding of the individuals, on the training they have undertaken.

However, on a more positive note, the Gambling Commission employee was reasonably optimistic about the future, recognising that staff awareness was improving, which has also led to an increase in submitted SAR's.

The staff do know the difference between the MLR and POCA. They do know what we mean by CDD. It has increased significantly.

Prior to this, the staff working in the betting shops weren't aware of what suspicion was, what belief was and so on, and now that they are through training, they are escalating a lot more

The second front line employee-related weakness that became apparent during the interviews regarded the common use of single staffed shops. It was felt that in addition to the pressures of age verification and self-exclusion responsibilities, alongside everyday core duties, front line staff do not have the time resources to effectively monitor AML threats when shops are run single-handedly. The Gambling Commission employee stated:

They can't do everything. In reality, they can't monitor a customer with regards to money laundering, self-exclusion, age verification, as well as making tea, paying out, placing bets- it's a relentless job.

When this issue was put forward to Security1, he also amplified the problem of staff not having the facilities to apply their AML responsibilities when working solo.

With the amount of responsibilities that staff have now, and with the increase over the last 3 years on social responsibility issues, they can't properly manage everything to the level that should be expected. To my knowledge, they end up getting disciplined because of the faults identified, but the reality is, it's not their fault, they have too much to do. The responsibility placed on shop workers is unacceptable.

CDD Enforcement

Across the five FOBT users that were interviewed, none had ever been subjected to any CDD measures, nor were they aware that such a control existed. User1,

who claimed to have lost in the region of £16,000 over the course of four years, explained:

When I used to play FOBTS a lot, I would put in thousands sometimes and would not be identified, equally I would withdraw thousands and never got identified. And two of those years I was underage.

A similar situation was identified by User3, who explained that on collection of approximately £2500 in FOBT winnings, the shop did not have sufficient cash on-site. Thus, the staff member suggested paying the winnings by cheque. On request of identification, the participant only had a debit card available, however subsequently this was accepted without issue.

I remember one of my biggest wins. The shop didn't have enough cash to pay me out so they offered me a cheque. They did ask me for photo ID but all I had was my debit card. That was fine though.

Interestingly, Security1 specifically identified the presentation of a debit card as an acceptable form of identification.

Invariably, if you've got a debit card, they will accept that as identification. No photograph – no.

The Gambling Commission employee spoke about instances where CDD enforcement was far below what they would expect from the operators they licence, noting that even in the case where a customer was spending thousands and thousands, bookmakers had done little to know their customer.

...lots of cases where a customer is spending thousands and thousands.... quite often they apply the absolute minimum – as long as they get the house or street locations or they have a car, and some form of employment, that gives them the green light to treat a customer like a VIP without truly knowing the source of funds and then allow them to continue.

Furthermore, when asked about their 2013 covert investigation in to the potentialities of laundering proceeds of crime through FOBT's, the CFFG employee explained that they were subjected to no CDD.

No questions were asked, the money was just paid out on each occasion.

Weak AML Safeguards Unable to Mitigate Known Threats

Excluding the FOBT users, participants who had a direct interest in gambling legislation were fully vocal on the AML weaknesses currently found within bookmakers, especially with regards to FOBT machines. When the researcher inquired about the automatic triggers discussed in the literature review, participants were pessimistic about their effectiveness. The participant employed by CFFG stated:

If a customer doesn't turnover 40%, the staff member will get an alert. However, it's very easy with roulette in your example. You could do five spins covering your bets and there is no way of monitoring this. So the checks aren't really effective.

The Gambling Commission employee was also concerned with the viability of the triggers, explaining that some staff members turn these off during busy times:

You can switch these triggers off if you want to and some do because they are so busy with other things. It's very much down to the competencies of individuals working in the betting shop.

An additional weakness that the participants identified was the ability for criminals to print their FOBT winnings, and then either withdraw the cash at another bookmaker of the same chain, or alternatively hold the ticket as a safer way of concealing their criminal proceeds. The participant employed by the Gambling Commission explained:

Again, a recent case, he went in there, used the FOBT machine, printed the tickets and then went to another betting shop around the corner of the same entity, and then withdrew the money there. We are trying to put a stop to this because it's all about monitoring the customer.

Security1 was also aware of this criminal potentiality:

If criminals are highly organised, they can really camouflage their criminal activity. There's nothing stopping them giving the ticket for someone else to cash out.

The Threat and Resistance of Anonymity

It became apparent during the interviews that a key precursor of the weaknesses discussed centred around the issue of anonymity. The Gambling Commission employee explained that historic cases have shown operators need to do more to remove the AML threats that this can bring to the industry.

The expectations from the gambling commission is that they should know their customer, who they are, whether that's full name, what the source of funding is, what their background is.

When discussing a recent case which resulted in an arrest for money laundering charges, the Gambling Commission employee also stated:

He came in to the shop one day with a carrier bag with £30,000 cash, gambled over a period of time and then left with a load of money. In these instances, anonymity works very well because the betting shop knew nothing else about him.

Yes we have applied new conditions but in reality, it's still a very much a cash transient and anonymous environment.

Security1, who explained that his exposure to the phenomena also stemmed from his 34 years' experience as a Police Officer, shared his understanding of the issues surrounding anonymity.

To be a member of a casino, you need to go through CDD checks, but you don't in bookmakers, in a bookmaker's you can remain anonymous.

Because, there are threats posed by criminals at all level...the issue of anonymity should be removed.

These views were interesting because they correlated with the experiences of User4, who was also a frequent visitor of land based casinos:

When I first joined my local casino here in London, I was required to supply my driving license, as well as my address details. I then received a membership card through the post which is what I use whenever I visit.

The Authority of the Gambling Commission

Two participants were highly critical of the Gambling Commission and felt that the Government's decision to exclude bookmakers from the 4MLD was the sole responsibility of the national regulator. Security1 stated that:

It surprises me that they have been excluded from the 4MLD. I would have thought with the high turnover of money, and the potential for money to come from the criminal fraternity...

The Gambling Commission need to grow a pair of balls, bearing in mind they are part funded by the industry. They really need to be more rigorous, more independent.

When the topic of the 4MLD was discussed with the CFFG employee, he also had issue with the Gambling Commission's role in the exemption.

The Gambling Commission have said themselves that bookmakers are an inherent high risk to money laundering. On that basis, you would expect them to utilise all the powers they have to prevent money laundering.

However, on discussing the 4MLD exclusion process with the participant working at the Gambling Commission, it became apparent that the regulator did not get result they wanted. On the contrary, the participant made it clear that the organisation fully supported the inclusion of bookmakers within the new regulations:

Most definitely, yes. It would have given us a lot more leverage over what we can and can't do and it also protects the consumer a lot more.

Various investigations that we have conducted over the past 3 years demonstrated that there were significant weaknesses within operators with relation to AML controls and therefore we felt that the money laundering regulations should have been extended to betting operators.

I think the work we've undertaken over the last 18 months, it demonstrates to us there is massive risk of money laundering within the betting sector and that's what we've highlighted to the UK Treasury.

The Gambling Commission employee emphasised that the above recommendations were put forward to HM Treasury, however he continued to add that they were met with resistance:

We have focused on AML issues on the basis that we wanted to get them match fit for the risk assessment and the 4MLD, naively think that HM

Treasury would listen to us and they would apply additional regulation – but clearly not.

There are still discussions within the Gambling Commission on whether to appeal on the HM Treasury decision - I'm not sure if we will officially appeal.... HM Treasury never gave us any feedback really.

The Commercial Consequences of Increased Regulations

A unique theme that was not considered by the researcher in the literature review became apparent when several participants discussed the commercial consequences of increased regulations in the bookmaker sector. The Gambling Commission employee explained:

If betting shops were included within the 4MLD like we wanted them to then the fall out would be a lot less for betting shops. They would have had to have 2 staff members, complete more forms and know everyone that goes through the door. It does make you wonder which side of the fence the UK Treasury were looking at.

This led to two of the participants speculating on the reasons behind the UK government's justification to exempt the sector. Security1 believed it was a possible reduction in taxation and potential loss of jobs that drove the decision.

It's political with the government, it is a taxation issue. The increase in revenue that FOBT's bring.... I believe the FOBT's constitute around 55%

of bookmaker profits. It shows you the extent of the aggressive lobbying that the ABB and bookmakers exert on parliamentarians.

The Gambling Commission employee speculated from a different angle, adding:

It left us to assume as a regulator, that when you compare the amount of money going through the gambling industry compared to the finance industry for example, it's relatively small beans. Finance is more high risk ect. That's the only reason we can think that they exempted all other sectors

Chapter 5 – Discussion

Firstly, it was hoped that the potentialities of laundering criminal proceeds through FOBT's could be explored in greater detail. Prior to the data collection exercise, minute literature pertaining to previous cases and journalistic reports indicated that avenues may exist. Some of the participants revealed that AML weaknesses have, and potentially still do, facilitate criminal activity. This begins with the ability for betting shop customers to remain anonymous throughout their gambling experience. The Gambling Commission employee identified this as key precursor to the previous AML failings that the regulator has identified. It is interesting that some commentators believe that the threats of anonymity have subsequently been reduced in both the online (Levi, 2009) and casino (Byrnes and Munro, 2017) sectors, owing to increased regulations and subsequently enhanced CDD requirements. Furthermore, this links back to the theory of Stessens (2000), who argued that by implementing mandatory identification, businesses can significantly reduce the likelihood of abuse by criminals.

In the one isolated FOBT user experience, where identification was requested prior to the issuance of a cheque, the presentation of a debit card was sufficient to satisfy the betting shop employee's CDD obligations. Other than that, none of the other FOBT users that were interviewed had ever knowingly been subjected to any form of AML control. Interestingly, Security1, during his time as the Head of Security and Safety at a major bookmaker, explained that a debit card was often accepted as proof of identification. The participant employed at the Gambling Commission stated that previous field studies have indicated that

operators often apply the absolute minimum when attempting to know their customer. Moreover, in terms of bookmaker enquiries in to a customer's background and source of funds, the employment status or residential location has often been sufficient to satisfy any suspicions.

According to Banks (2016) KYC controls most commonly seek to verify a customer's personal identity through photographic identification and a proof of address. This is further supported by HMRC (2013), who advise that the best way to fulfil CDD requirements is to request a government issued document such as a passport, a recent bank statement, and the use of external sources such as the electoral roll. However, these recommendations only apply to businesses who are covered by the MLR2007, which bookmakers are not. It could be argued that the ABB (2013) were justified in their views that applying this level of CDD to all customers would be a significant regulatory burden for betting shops. However, according to Security1, as there is no deposit or withdrawal threshold that would require a customer to verify their identity, this ultimately makes it a challenge to monitor a customer's activity, thus, hindering the opportunity to reduce anonymity.

The two key AML safeguards that this study identified were automatic FOBT triggers and staff subjectivity. A key finding was that the triggers were dependant on staff members using their training, experience, and competencies to make a judgement call on whether transactional activity should be defined as suspicious. Tyler (2016) further supports this theory, who notes that automatic triggers are only effective if they are actioned with an appropriate response, most specifically, human interaction. The first major flaw was identified by the CFFG employee. The participant mirrored the views of Ramesh (2013), insofar that criminals that

are aware of the 40% minimum deposit turnover could simply ensure they stayed above this threshold, subsequently avoiding the automatic trigger that would alert betting shop staff. Secondly, with regards to the automatic trigger activated for every £150 staked, or for every 20 minutes of gameplay, the Gambling Commission employee was aware of incidents where staff were often turning the alerts off during busy times or simply ignoring it. Thirdly, as discussed in the literature review, FOBT players seeking to stake £50 or above are required to either arrange this with a staff member, or through account based play. According to Allson (2017), since these regulations were introduced in 2015, 85 per cent of customers attempting to bet above this level have subsequently decided not to, rather opting to stay below the threshold. Again, to re-iterate, much like the other automatic triggers in place, it could be argued that individuals who are aware of these perimeters can simply ensure they stay within the relevant threshold, ensuring that anonymity is protected. This contravenes the theory of Ioannides (2016), who believes that highly effective money laundering controls are crucial if an organisation is to disrupt criminal activity.

A large part of this study also sought to explore the level of AML awareness, and more crucially, the level of training, that front line staff are accustomed to. The FATF have previously stated that properly trained staff within the regulated sectors are the first line of defence in detecting money laundering threats (Commonwealth Secretariat, 2006). Both HM Treasury (2015) and the ABB (2013) have stated that betting shop staff do in fact have the ability to recognise suspicious customers, and by employing highly trained individuals, any criminals looking to launder their illicit proceeds have a high chance of getting caught. However, several of the participants were less optimistic.

The first issue that became apparent was that the AML training supplied by operators is far from rigorous. Security1 advised the researcher that the money laundering training offered by his previous employer consisted of a 20-minute online module, with no processes in place to ensure individuals understood the material they were exposed to. Participants employed at the Gambling Commission and CFFG echoed this sentiment, explaining that the AML training provided to bookmaker staff is far from elaborate, adding that this often consists of a simple 'tick-box exercise'. In line with Venkatesh's (2013) theory that money laundering is an *"extremely complex, highly sophisticated and intelligent exercise"*, it could be argued that the above participant AML training experiences do not go far enough to meet the FATF's recommendation, that front-line staff within the regulated sectors should be the first line of defence.

Nevertheless, the emergence of an additional staff related weakness became apparent. Some of participants felt that the frequent use of single staffed betting shops also severely hindered AML capabilities, specifically in relation to workload. The Gambling Commission employee was of the opinion that in reality, alongside core duties such as placing bets, paying out, self-exclusion awareness and age verification, staff working single-handedly were unable to effectively monitor money laundering threats. There was a lack of available statistics on the quantity of bookmakers operating single staffed, however according to the experiences of the Gambling Commission employee and Security1, this was often the case during core day time hours.

The ability to remain anonymous within the bookmaker sector has therefore created some identifiable money laundering opportunities.. For example, in line with the theory of Broom (2005), who argued that criminals who hold large

amounts of cash will often be vulnerable to the attention of law enforcement, betting shop customers have the option to withdraw their FOBT winnings in the form of a ticket, and then subsequently leave the shop for collection at a later date. This correlates with Hinterseer's (2002) belief that criminal assets held in the form of a non-cash instrument are far more challenging for law enforcement to trace.

Furthermore, the Gambling Commission employee confirmed that although the ability to exchange a FOBT ticket for cash at an alternative betting shop of the same entity was something the regulator was assessing, this still remained an option. This potentially facilitates the smurfing technique discussed earlier in this study, whereby criminals strive to mitigate their risk by laundering less suspicious amounts across various locations, especially when one considers that as of October 2016, William Hills, Ladbrokes and Corals had 6,275 high street betting shops between them (see Farrell, 2016; William Hill Plc, 2017).

A common money laundering practice is the attempt to represent criminal profits as gambling winnings, both concealing the true origin of the assets and legitimising them (Gilmore, 2011). Several participants supported this theory in relation to obtaining a receipt on collection of any winnings, subsequently providing the criminal with a proof of source of funds. This could be useful for a number of reasons, such as protecting a criminal from having their proceeds of crime sized by law enforcement. As decided in Angus (2011), cash forfeiture powers utilised by officers under the POCA must on the balance of probabilities demonstrate that the cash was obtained through criminal conduct.

During the Government's consultation period on whether to exempt certain sectors from the 4MLD, the Gambling Commission were tasked with performing

a NRA on the threats, vulnerabilities, and controls found within each gambling format, with Engel (2014) arguing that any structure that has the potential to be abused by criminals must be included. The national regulator informed the researcher that based upon 18 months of in-depth independent analysis, evidence suggested that there is a “*massive risk of money laundering in the bookmaker sector*”. Subsequently, the Gambling Commission strongly advised HM Treasury that the bookmaker sector should be included within the remit of the MLR2017, however this was overruled, ultimately paving the way for the Government to utilise its powers within the directive “on the basis of the proven low risk posed” (HM Treasury, 2017a).

When one considers the UK Government’s Serious and Organised Crime Strategy (October 2013, paragraphs 4.45-4.57), whereby a key objective is to pursue the assets of all who profit from crime, it is interesting that the substantial AML weaknesses identified by the Gambling Commission did not encourage the UK Treasury to reconsider its decision. Moreover, the Gambling Commission employee also advised the researcher that they have considered appealing the exemption, illustrating the strength of their concerns. The UK Treasury (2017a) have themselves recognised that the “*gambling industry is not immune to money laundering*” and that therefore this makes it attractive to criminals looking to conceal or disguise the origins of illicitly derived cash, however they concluded that the industry in its entirety is low risk in relation to other regulated sectors. The banking industry for example reported 318,445 SAR’s in 2014/15 compared to the gambling industry’s 1,431 in the same period (NCA, 2016). Although it could be argued that such a comparison does not provide a true reflection of the

inherent risks of the industry per se, it does clearly indicate where gambling fits within the wider picture (Remote Gambling Association, 2016).

On defence of the 77.19% year-on-year growth of submitted SAR's, HM Treasury (2017a) explained that this does not necessarily correlate to a rise in criminal activity, rather that the industry has a "*greater awareness in the sector of money laundering*". However, this understanding of 'SAR quantity' contradicts with the views illustrated in the literature review, whereby the ABB (2013) argued that a low SAR submission indicated that the bookmaker sector was a low money laundering risk. This incongruity supports the theory of Levi (2009), who believes that in itself, the amount of SAR's submitted by a particular sector is neither a success nor a failure of AML effectiveness. On the contrary, based upon the views expressed by several of the participants involved in this study, the submission of a SAR relies heavily on subjective judgement, insofar that if front-line betting shop employees have the appropriate training and resources to recognise AML threats, only then can suspicious activity be detected.

There was a theory between several of the participants that HM Treasury's decision may have been influenced by the negative commercial consequences that tighter regulation may have brought the bookmaker sector. Evidence certainly suggests that betting shops are overly reliant on the revenues derived from FOBT's, with the 2015/16 gross gambling yield of £1.7 billion constituting 51.5% of sector gains (Gambling Commission, 2016a). The Department for Culture, Media and Sport are currently reviewing the possibility of reducing maximum stakes, which, if successful, Ahmed (2017) argues would result in a loss of taxation to the UK purse of £250 million per annum, along with a loss of 20,000 jobs by 2020. Furthermore, Chancellor of the Exchequer Phillip Hammond

has publicly spoken of the need to protect Government revenues to safeguard the UK against a possible negative impact from its impending EU departure, explaining that the Government will not sanction any proposals that will reduce tax receipts.

Chapter 6 – Limitations, Future Recommendations and Conclusion

Limitations

As this study sought to provide insight in to a topic on which little or no research exists within current literature, several of the themes identified has generated knowledge that was not previously available in the public domain. However, like most limited exploratory studies, results are often tentative and therefore certain limitations must be considered (Verma, 2015). Moreover, as a study that opted for a phenomenological framework, the themes identified were an interpretation of the subjective views and experiences of the participants involved, and therefore the readers must take conclusion from the results with extreme caution.

Although the small sample size provided the opportunity to build a closer relationship with the participants, this limited the ability to generalize the findings to a wider population. Furthermore, the inability to recruit other key stakeholders surrounding the discussed phenomenon, such as betting shop employees, HM Treasury, and bookmaker operators, limited the scope of the study. Additionally, the data collection exercise revealed that the research question was potentially too broad for a study of this nature, therefore supporting Supino and Borer's (2012) theory that a single investigation cannot possibly provide relevant information in its entirety, if the problem is too comprehensive. Nevertheless,

exploratory studies are often the initial foundation of a new phenomenon, forming the basis for more conclusive research in the future (Singh, 2007).

Recommendations

A key recommendation for future studies would be to further explore the individual themes identified in the paper in far greater depth. For example, with regards to the effectiveness of AML training and awareness, a quantitative study engaging directly with front-line betting shop staff could provide the framework to test the phenomenon discussed (Taylor, 2105), and subsequently provide policy influencers with the level of rigorous objectivity that is often sought (Head, 2010). A further quantitative study could also investigate the levels of CDD enforcement on a much larger scale, to objectively ascertain whether the FOBT user experiences explored in this study are representative of the wider population.

Conclusion

This study sought to explore the largely under-researched topic of the money laundering threats, vulnerabilities and controls found within UK betting shops. In the literature review it was made clear that although there were several publications in the public domain pertaining to the potentialities of laundering criminal proceeds through FOBT's, previous research was minute in quantity. Therefore, semi-structured interviews with key stakeholders linked to the subject

matter of gambling and money laundering revealed some, although limited, interesting results. As the national regulator for gambling services in the UK, the Gambling Commission employee was clear in his belief that there is a “*massive risk of money laundering in the bookmaker sector*”. Based upon extensive monitoring, field studies, and engagement with betting shop operators, the AML weaknesses identified resulted in the regulator striving for enhanced regulations, most notably, inclusion with the impending MLR2017. The threats identified by the participants involved included the ability to remain anonymous throughout the gambling experience, mitigating risk by keeping stakes within automatic trigger safe zones, utilising the vast amount of bookmaker premises to avoid detection, and exchanging illicitly derived profits for non-cash tickets.

Ultimately, it became apparent to the participants involved that front-line employees have to a certain degree been left to subjectively police the shops they work in. However, it was also made clear to the researcher that for this to result in effectiveness, it is imperative that the level of AML training provided to betting shop staff must be reviewed to ensure individuals have the appropriate awareness to detect and prevent money laundering risks.

This study also offered FOBT users the opportunity to discuss their deposit and withdrawal experiences, which, along with the views of the other participants involved, revealed that CDD enforcement was often applied loosely, with examples including the presentation of a debit card as sufficient proof of identity, and source of wealth checks limited to the customer’s employment status. Fundamentally, there was a consensus amongst several of the participants that unless gambling operators consider reducing the amount of single staffed betting shops, front-line employees will not have the capabilities to effectively meet their

AML obligations. It therefore came as a surprise to the researcher to learn that although the Gambling Commission strongly advised HM Treasury to include betting shops within the remit of the MLR2017 on the basis of the inherent money laundering risks identified, this was subsequently overruled, with exemption being facilitated on the “basis of the low risk posed”.

Some participants notified the researcher that the negative economic side-effects of increased regulation may have played a part in HM Treasury’s decision. This centred around the issue of commercial viability, where it was felt that the requirement to install two staff members on duty at all times would have resulted in shop closures, which subsequently would have led to job losses, and a substantial reduction in taxation for the UK purse. Taking in to account the commercial threats that enhanced CDD would have presented to betting shops, it is interesting that HM Treasury did not find some middle ground. Protection against certain money laundering potentialities such as removing the ability to withdraw winnings at an alternative betting shop of the same entity, or restricting the ability to print winning tickets for collection at a later date, would provide bookmakers with an extra layer of protection against the identified threats, without conflicting with commercial viability.

Nevertheless, draft regulations of the MLR2017 specify the production of a further risk assessment by June 2018, to review whether each gambling sector (other than casinos) should remain exempt. When one considers that the Gambling Commission have considered appealing HM Treasury’s verdict, along with the Government’s decision to include FOBT tickets within the remit of cash forfeiture powers, ultimately this is an area of financial crime that stakeholders will be keeping a close eye on.

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Appendices

Appendix 1 - Pre-Determined Semi-Structured Interview Questions

As stipulated within the methodology section, order of questions were determined by the direction of the interview

[1A] The Gambling Commission

- How do the safeguards found within casinos and online gambling websites compare to the controls used by bookmakers to prevent FOBT's from money laundering abuse?
- In the national risk assessment, bookmakers were given the same higher risk rating as casinos, however bookmakers are not required to follow the same level of CDD regulations. From a money laundering perspective, what is it that makes casinos more vulnerable to abuse?
- If the decision for exemption from the 4th Money Laundering Directive was purely down to the Gambling Commission, what would your decision have been?
- In line with the views of the FATF that employees within the regulated sector are often the first line of defence in preventing money laundering abuse, what expectations are there for front line bookmaker staff to detect potential threats? - Is this more difficult to achieve during times of the day when shops are single staffed?
- What level of anti-money laundering training do front line bookmaker staff receive, and is this updated on an ongoing basis?

- Out of 30,000 processed self-exclusion requests in 2015/16, there were over 19,000 individual breaches. With figures such as this, do single staffed betting shops have the resources to ensure shops are compliant with anti-money laundering regulations?
- You also mentioned in your national risk assessment that the use of CCTV and employee interaction helps operators build profiles of customers. How easy or difficult is this to achieve when more than 34,000 FOBT's are spread over 9000 UK locations?
- According to the ABB, staff receive a notification behind the counter for every 20 minutes of play or for every £150 that is inserted per FOBT session. Is there a transactional threshold that would lead the betting shop employee to report the activity as suspicious, or would it be down to employee's personal judgement?
- In a publicly available letter to the ABB in 2013, the Gambling Commission argued that the low level of SAR's reported by the bookmaker industry each year does not necessarily correlate to a low level of inherent risk - why do you think the amount is so low, when one considers the size and nature of the industry?
- Under the proposed Criminal Finance Bill, which will be reviewed by the House of Lords at the end of the April 2017, printed FOBT tickets will be included within the remit of cash forfeiture powers under the remit of POCA. What are the procedures available when exchanging tickets for cash. For example, can this be done at a later stage and if so, is there a time limit? Also, can tickets be exchanged at other locations of the same chain?

- Have the Gambling Commission ever considered the possibility of extending the requirement to use loyalty style cards for stakes of more than £50 to all FOBT usage?

- I read an article recently suggesting that bookmakers may have the facilities to collect historical data which could identify shops that have an unusually high deposit rate against low gameplay turnover. Is this something that is has ever been considered?

[1B] Campaign for Fairer Gambling

- With regards to Campaign for Fairer Gambling's 2013 investigation in to the money laundering potentialities, when you printed the winning £500 ticket and you handed it to the betting shop employee, were any questions asked as to why you put so much money in to only turn over 60%?
- Where you ever asked to present any documentation prior to receiving the cash?
- Were you ever given the option to receive the £500 by an alternative payment method, such as back to a debit card or through a bank transfer?
- If this exercise was repeated on a much larger scale, what anti-money laundering systems do you think bookmakers have installed to prevent money laundering abuse?
- In this section, I would like to understand why FOBT's may be appealing to criminals looking to launder their illicit proceeds. Are there any money laundering threats that you can think of that led Campaign for Fairer Gambling to conduct the above investigation in 2013?
- How anonymous can FOBT players remain when depositing and withdrawing funds? Do you think this a concern with regards to money laundering threats?
- Do you think that the speed in which players can gamble would appeal to a criminal looking to launder their illicit proceeds?

- Why would a criminal choose to launder their illicit proceeds through a FOBT, rather than through a casino?
- Are there any deposit or withdrawal limits that you are aware of that would alert the betting shop to potential threats?
- What would stop a criminal inserting cash in to the machine and then just withdraw the funds back?
- According to the ABB, automatic financial triggers on products alert staff to the threats of money laundering. Do you know what these triggers are?

[1C] Ex-Head of Security and Safety at a major UK bookmaker

- Can I ask a bit about your background and what your knowledge or views are on the money laundering threats that FOBT's may present?
- How anonymous can FOBT players remain when depositing and withdrawing funds? Do you think this a concern with regards to money laundering threats?
- Do you think that the speed in which players can gamble would appeal to a criminal looking to launder their illicit proceeds?
- Why would a criminal choose to launder their illicit proceeds through a FOBT, rather than through a casino?
- Are there any deposit or withdrawal limits that you are aware of that would alert the betting shop to potential threats?
- What would stop a criminal inserting cash in to the machine and then just withdraw the funds back?
- According to the ABB, automatic financial triggers on products alert staff to the threats of money laundering. Do you know what these triggers are?
- In line with the views of the FATF that employees within the regulated sector are often the first line of defence in preventing money laundering abuse, what expectations are there for front line bookmaker staff to detect potential threats? - Is this more difficult to achieve during times of the day when shops are single staffed?

- What level of anti-money laundering training do front line bookmaker staff receive, and is this updated on an ongoing basis?
- Out of 30,000 processed self-exclusion requests in 2015/16, there were over 19,000 individual breaches. With figures such as this, do single staffed betting shops have the resources to ensure shops are compliant with anti-money laundering regulations?
- Under the proposed Criminal Finance Bill, which will be reviewed by the House of Lords at the end of the April 2017, printed FOBT tickets will be included within the remit of cash forfeiture powers under the remit of POCA. What are the procedures available when exchanging tickets for cash. For example, can this be done at a later stage and if so, is there a time limit? Also, can tickets be exchanged at other locations of the same chain?

[1D] Users of FOBT machines

- How often do you play FOBT machines?
- Would you visit the same bookmaker or would you visit various? Why?
- On average, how much do you deposit in one session?
- What is the most you have ever deposited in the same day?
- On average, how much do you stake per game? For example, per roulette spin?
- What methods do you use to deposit? Why?
- What are some of the largest wins you have withdrawn from the FOBT machine? How were these paid out? Were you offered alternative withdrawal options? Were you given a receipt?
- Have you ever been asked to provide identification when either depositing or withdrawing? What did this entail?
- Have you ever been questioned by bookmaker staff for the amount you are depositing, staking, or withdrawing? If not, are you aware of anyone that has?
- Have you ever printed a FOBT ticket from one operator, and exchanged the ticket for cash at a different betting shop of the same bookmaker chain?

- Have you ever printed a FOBT ticket and then withdrawn the cash at a later date?
- Are you aware of any anti-money laundering controls installed within betting shops?

Appendix 2 – UCLan Ethics Committee Proposal Confirmation

Proposal Decision Form

Health, Safety and Ethics Committee

School of Forensic and Applied Sciences (Policing)

The proposal submitted by [REDACTED] was considered by the Health, Safety and Ethics Committee of the School of Forensic and Applied Sciences (Policing).

The committee's decision regarding the proposal was:

x	Approved	You may proceed with the research project
	Approved by Chair's Action	You may now proceed with the research project
	Approved Pending Minor Revisions (see comments below)	You must make the suggested changes to be signed off by your supervisor before proceeding with your data collection.
	Requires Major Revision (see comments below)	The proposal must be revised extensively and resubmitted to the committee as a whole
	Rejected (see comments below)	The research proposal is not acceptable

Comments:

NB: It is the responsibility of the student/supervisor to ensure all Risk Assessment / COSHH Forms are kept up to date.

The committee thanks you for your submission and wishes you all the best.

Appendix 3 – Copy of Informed Consent



University of Central Lancashire

How is the UK gambling industry complying with anti-money laundering laws and regulations with the exponential growth of bookmaker Fixed-Odds Betting Terminal (FOBT) machines?"

What is the study about?

This qualitative study will explore how UK betting shops currently protect themselves from the threats of money laundering. With a specific focus on FOBT machines, the study will seek to understand what anti-money laundering (AML) controls are in place to ensure betting shops are not targeted by criminals looking to launder their proceeds of crime. It will specifically strive to ascertain how much of a risk FOBT machines pose to the UK's fight against money laundering. With the UK government utilising its powers under the impending European Union's Fourth Money Laundering Directive to exempt betting shops from enhanced regulations, how will the sector ensure it keeps its shops crime free?

What will happen if I agree to take part in this research?

As a relevant stakeholder, your contribution in this study will be of grave importance to the research findings. Your participation will entail a short semi-structured interview via Skype or on the telephone about your experiences surrounding the subject matter. The interview should last no longer than 1 hour.

Once the interview has commenced, you will be provided with full details on how to access the results of the completed study.

What are the risks associated with taking part in the research?

There are no risks associated with taking part in this study. This is an exploratory project and your participation will help to build a broader picture of where the industry currently stands with regards to AML threats.

What are the benefits of taking part in the research?

There are no personal benefits associated with taking part in this study, other than providing the researcher with an invaluable data set to help improve awareness of the risks, threats and controls currently facing betting shops.

How will we ensure any personal information used during the research is kept confidential?

Your interview will be recorded in real time using software that can capture Skype calls. The interview will then be transcribed in to text. Your name will not be used in the final study and subsequently you will remain anonymous throughout the whole process. If you are representing an organisation, you will be identified as a representative from this organisation. All data will be held on a secure system within the University of Central Lancashire server, accessible only by a protected password.

Can I withdraw from the study?

If at any time, either prior, during or after your interview you decide you would like to withdraw from the study, please get in touch with the researcher and all of your information will be destroyed. Should you decide to withdraw post-interview, please provide your study number as we will not be able to identify you by your name.

Further Information:

For further information or to request the interview to take place in a different format then please contact [REDACTED] at [REDACTED] or [REDACTED]. Alternatively, please contact my study supervisor [REDACTED] at [REDACTED]

If you wish to raise a concern about the study, and in particular about the conduct of the study or the individuals involved, that would be inappropriate to raise with the principal investigator, these should be addressed to the University Officer for Ethics at UCLan: OfficerForEthics@uclan.ac.uk Please include the study name or description (so that it can be identified), the principal investigator, and the substance of the complaint in your email.

Complaints:

We hope you enjoy taking part in the study and find the process interesting. However, we realise problems may from time to time occur. If you have any concerns, please contact the researchers listed above. We will do our best to answer any problems.

By taking part in the study, you are agreeing that you understand the information provided and agree to the following:

- ☐ I confirm that I have read and have understood the information sheet dated for the above study. I have had the opportunity to consider the information, ask questions and have had these answered satisfactory.
- ☐ I understand that my involvement in the study will remain anonymous and once my responses have been submitted any identifiable information will be replaced with a code. If you wish to remove your data at any point you would need to reference this unique code.
- ☐ I understand that my participation will be anonymous and any details that might identify me will not be included in any reports or publications produced from the study.
- ☐ I understand that I am free to not answer any questions and may stop the interview at any point.
- ☐ I agree to the interview being audio recorded.
- ☐ I agree to anonymised quotes being used within reports/other publications produced from the study.

By taking part in the interview after reading this information you are agreeing that you understand the information provided and agree to us analysing the answers you give.

Thank you for taking the time to read this information.

Participant:

Signed:

Date:

Researcher:

Signed: S40

Date:

1 copy to participant

1 copy to researcher (for filing)

