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# Get to Know Your Casino Customer to Mitigate Risk

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The Financial Crimes Enforcement Network (FinCEN) continues to stress the importance of compliance with the *Bank Secrecy Act* (BSA), as well as implementation of effective anti-money laundering (AML) programs within the gaming industry. Casinos with gross annual gaming revenues of more than \$1 million meet the definition of financial agencies under Title 31 (31 USC 5312(a)(2)) and are required to comply with the BSA. They, and the banks that provide financial services to them, are continuing to enhance and refine the AML programs to manage compliance risk.





## Roll the dice

The gaming industry thrives on games of chance and the accompanying risk. Whether casual players on slot machines or high rollers, gamblers at casinos are drawn in by the thrill of that chance and its associated risk. When it comes to financial institutions, however, risk management and mitigation are critical components of operational and reputational stability. With implementation of an effective BSA risk-mitigation strategy, gaming industry clients can be a profitable market niche.

According to the BSA/AML examination manual issued by the Federal Financial Institutions Examination Council (FFIEC), “a bank that violates certain BSA provisions ... faces criminal money penalties up to the greater of \$1 million or twice the value of the transaction.”<sup>1</sup> With such high stakes on the line, an effective BSA/AML program can enable banks to stay ahead of the curve and protect against the risk of reputational damage, costly fines, and penalties. While there will be an initial and ongoing investment for banks in terms of the time and resources necessary to establish and monitor such customers, with additional training and procedural enhancement, the benefits can outweigh the costs. Through proper risk-mitigation strategies, banks can effectively identify and manage the risks and realize returns on that investment. Banks that have implemented AML programs are in a better position to leverage their BSA/AML expertise to assess and monitor casino customer relationships and BSA/AML programs.

## Know your risks

It is imperative to understand the nature and purpose of the customer relationship in order to develop an accurate customer risk profile. Such a profile should include execution of enhanced due diligence (EDD) including review of a casino customer's BSA/AML program. Effectively managing BSA/AML risk for casino customers requires a customized EDD approach to mitigate the unique BSA/AML risks of the gaming industry. By implementing EDD training focused on gaming red flags and developing procedures targeting common gaming industry BSA/AML concerns, management can significantly reduce the BSA/AML risk associated with casino customers.

As stated in the BSA/AML examination manual, EDD standards generally focus on identifying the customer's "business activity, ownership structure, anticipated or actual volume and types of transactions."<sup>2</sup> Expanding EDD procedures to determine the maturity of the casino's BSA/AML program can significantly mitigate BSA/AML customer risk. Casino EDD program enhancements should focus on BSA/AML gaming industry-specific risks. Banks

can further improve the quality of EDD by reviewing and assessing casino BSA/AML program documentation. Aligning casino customer EDD procedures to the BSA pillars can enhance a bank's awareness of BSA program maturity and potentially reduce the compliance risk of banking with these potentially high-risk customers.

The BSA/AML examination manual states that a BSA compliance program must include a system of internal controls to confirm ongoing compliance with the BSA, as well as making sure independent testing for BSA/AML compliance is in place. Designated individuals responsible for the coordination and monitoring of BSA/AML compliance should also be put in place and appropriate training should be provided for all required personnel.<sup>3</sup>

To manage risk effectively, banks should place additional emphasis on their gaming industry customers to identify and assess their BSA/AML programs. While banks have no obligation to audit a casino's BSA/AML program, it is prudent to review and assess the scope and maturity of the casino's BSA/AML program as a component of EDD.

## Enhance your due diligence

As a result, in addition to these basic measures, banks should consider steps specific to casinos that can further strengthen an EDD review to effectively identify and manage the BSA and sanctions risks related to casino customers, including:

- Holding regular consultative discussions or making site visits
- Verifying that institutions have implemented effective sanctions screening programs
- Determining if appropriate levels of BSA-related policies and procedures exist and are up to date and used accordingly
- Performing a high-level assessment of the casino management team responsible for Title 31 compliance
- Reviewing the completeness of the casino's AML risk assessment methodology and corresponding execution
- Evaluating procedures to monitor, identify, and report suspicious activity
- Understanding procedures for aggregating cash and filing currency transaction reports
- Assessing the annual training program used for BSA/AML compliance

Casinos are susceptible to money laundering due to the nature of services offered. In some instances, it is possible that patrons could place illegal funds and use them in a legitimate way through legal gambling. Primary risk factors include the high volume of cash transactions, anonymity of patrons, and multiple cash-in and cash-out locations. Therefore, a comprehensive approach to EDD is required for banks that do business with casinos due to the money laundering risk, as well as other possible financial crimes such as tax evasion. While individuals can face prison time and large fines if convicted of money laundering, banks can be subject to significant fiscal impact and reputation risk if casinos use their services to facilitate money laundering or other financial crimes, whether knowingly or not.

## Know when to hold 'em

The key to EDD efforts is to understand exactly how the casino manages its BSA/AML risk. To be BSA compliant, casinos must have an effective, risk-based AML program. The nature of casino operations introduces unique challenges to a BSA/AML program. For example, while patrons might open an account or a loyalty program at many casinos, it is not required, which introduces challenges in obtaining know-your-player information. As a result, casinos do not have the same opportunity to gather identification and risk-rate their patrons. Casinos often use loyalty programs, gaming floor suspicious activity referrals, and surveillance to help build a profile of casino patrons and their possible sources of funds in order to help identify red flags and suspicious transactions. If the casino has proper BSA/AML components in place, the bank can establish and maintain an effective risk strategy. Personnel completing EDD reviews should be aware of industry-specific challenges, as these do not necessarily represent a weakness in a casino's BSA/AML program.

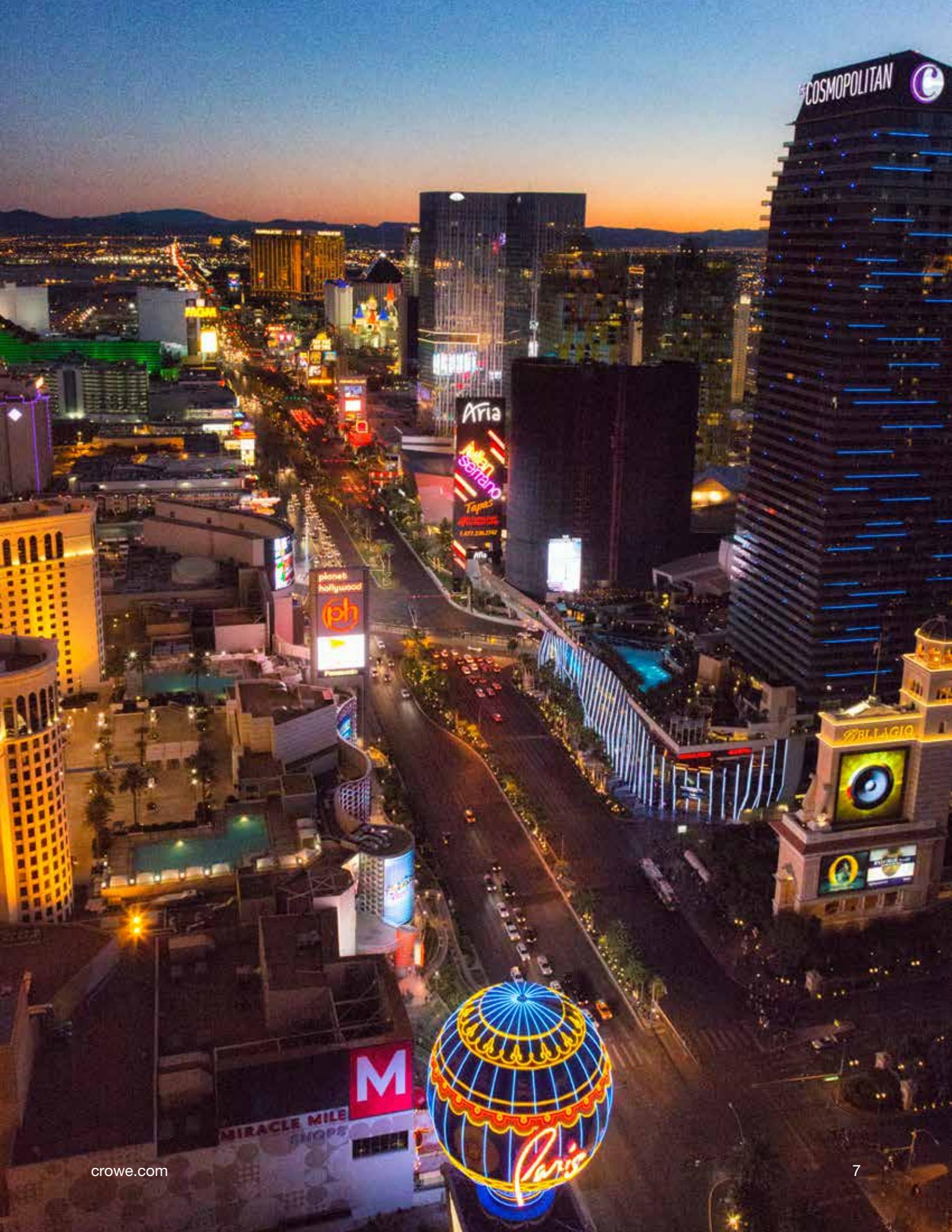
## Evaluate the player, not the game

As the gaming industry evolves and laws change – such as with the May 14, 2018, decision by the U.S. Supreme Court<sup>4</sup> that allows for legalized sports

gambling – banks might find that current EDD programs for casino customers lack the necessary rigor to properly evaluate the casino's BSA/AML program. Illegal sports betting is estimated as a \$150 billion annual business, according to the American Gaming Association.<sup>5</sup> It is likely that soon, significant revenues from sports betting will be integrated within casinos large and small, and individuals who are the sources of that income might or might not be reputable. While some casinos will most likely be able to absorb the additional transactions with limited adjustments, many other casinos might not have an adequate BSA/AML program in place, which puts their banking relationship at increased risk. Consequently, banks must carefully consider how to manage these casinos.

## Beat the odds

At its core, business is a gamble. Organizations of all sizes put equity, capital, and reputation at risk every single day. Moving forward in the exciting yet lucrative and risky gaming industry requires significant due diligence on the part of the casinos, as well as the banks that provide the financial services to them. Proper investment of time, energy, and strategy, and a clear understanding of the risks and risk mitigation strategies, can help all parties succeed and beat the odds.





## Learn more

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<sup>1</sup> Federal Financial Institutions Examination Council, Bank Secrecy Act/Anti-Money Laundering Examination Manual, Feb. 27, 2015, v.2, p. 9, [https://www.ffiec.gov/bsa\\_aml\\_infobase/documents/BSA\\_AML\\_Man\\_2014\\_v2.pdf](https://www.ffiec.gov/bsa_aml_infobase/documents/BSA_AML_Man_2014_v2.pdf)

<sup>2</sup> Ibid, p. 57.

<sup>3</sup> Ibid, pp. 28-29.

<sup>4</sup> Lawrence Hurley, "U.S. High Court Paves Way for States to Legalize Sports Betting," Reuters, May 14, 2018, <https://www.reuters.com/article/us-usa-court-gambling/us-high-court-paves-way-for-states-to-legalize-sports-betting-idUSKCN1F1WN>

<sup>5</sup> "Hot Issue: Sports Betting," American Gaming Association, <https://www.americangaming.org/advocacy/policy-positions/hot-issue-sports-betting>

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