



AUGUST 2009

Industry Voices



Managing Risk With High Profile Casino Clients

by Kenneth Rijock, Financial Crime Consultant, World-Check

Newsletter by World-Check, the recognised authority on reducing risk through intelligence.

www.world-check.com/industryvoices



Compliance officers employed by gaming companies engaged in casino operation face an ongoing problem similar to those faced by their brethren in the banking industry: how to minimize the special risks of high net-worth and high profile clientele, and still keep their goodwill and their lucrative business. Such individuals are often seen by management as both cash centres for the casino, and celebrity magnets that attract the ordinary gaming public into the casino, both to see the rich and famous, and also to share a bit of the glamour that they impart to the casino by their very presence.

The compliance staff must discharge their professional obligations, which include screening out high profile clients when, in the measured and objective opinion of compliance, the risks of reputation damage, financial loss, money laundering, civil litigation, criminal prosecution regulatory fines, penalties & sanctions, or even potential loss of operating licenses, could result from acceptance of a new client, a continuation of an existing client, or the failure to immediately terminate a client relationship. This must be prudently conducted in the context of the long-term financial objectives and business plan of the casino, which exists for the purpose of earning a reasonable profit for its ownership. Compliance is a risk management tool to ensure that untoward or unplanned events involving clients do not jeopardise either the brand or its profits.

Let us then survey two types of high profile potential clients who demonstrate high levels of possible risk, the specific threats that they literally bring to the table, and the methods employed by compliance to control risk, but resulting in the minimum amount of interference and inconvenience for the active gaming client.

The Politically Exposed Person

more commonly known by the acronym PEP, politically exposed persons are generally considered to be senior governmental officials, field grade military officers, senior officials of government-controlled companies, leaders of charitable entities, non-governmental organisations [NGO], unions, political parties or fraternal organisations, and those closely linked or associated with them, either through family ties, business arrangements, or social relationships. Individuals who have formerly held such positions are also regarded as PEPs, though authorities differ on the exact amount of time that must have elapsed since such employment has been terminated before their PEP status expires.

Such individuals often have access, by virtue of their positions of trust, to substantial public, governmental, official, or private funds or accounts, which could be accessed without authorization and consent of the agency or entity that owns such assets, and illegally appropriated for the individual's own improper use. Since such embezzlement or larceny is often undetected until long after the funds are dissipated, their gaming activities must be monitored to ensure that wagering of funds in excess of their known income and assets is not allowed to occur. Such activities, if not detected on a real-time basis, can cause reputational damage for the casino, and even civil litigation.

“Regular monitoring of the status of the PEP client is also required, for promotions do occur in the public, military, charitable and NGO sectors, and such action will upgrade the ability of the PEP to wager larger sums.”

Therefore, compliance officers are tasked with the responsibility of identifying PEPs amongst prospective clients at the initial stage. They also should periodically monitor ongoing clients, to ensure that private clients, who acquire PEP status later on, are identified and appropriately monitored for risk management.

Compliance officers initially employ the same customer identification procedure [CIP] that is utilized at financial institutions. Personal identifying information is collected and independently verified, using a variety of sources, including commercial off-the-shelf programmes and databases. Clients whose names appear on official sanctions lists are excluded from consideration. Passport information should also be checked in a manner that will ensure that altered or forged identities are uncovered. Since passports now contain OCR information, relevant software features can be utilized for that purpose.

When PEP status is ascertained, and independently verified, management is then immediately notified, with estimates calculated for the annual salary, income and wealth of the client, so that measures can be put in place to ensure that any wagering by this client, which exceeds set parameters, is immediately flagged for the appropriate casino management team tasked to deal with such issues.

Regular monitoring of the status of the PEP client is also required, for promotions do occur in the public, military, charitable and NGO sectors, and such action will upgrade the ability of the PEP to wager larger sums. Negative events could also impact whether the client should, or even could, on a risk basis, be retained. It is suggested that compliance officers at casino organisations practice the same type of regular client monitoring as is done at major financial institutions: run the names of all their active clients against a comprehensive high risk database, to ensure that the client has not been arrested on felony charges somewhere, or designated or sanctioned by any one of a number of governmental regulators, meaning that you can no longer carry him as a client without risking the imposition of fines and penalties upon the casino corporate entity.

PEPs are also high risk because their positions often expose them to possible bribery, kickbacks or illegal compensation from companies who wish to conduct business with the governmental entity or NGO. In countries where there is little or no transparency or accountability, such arrangements are common, and can result in a huge amount of disposable, though illicit, income for the PEP. Precautions must be taken by compliance to ensure that ill-gotten gains, received outside legal channels, do not end up being wagered in casinos.

Some PEPs merit what is known as Enhanced Due Diligence, an extensive investigation into the finances and background of the individual, due to the presence of several high-risk factors. Whilst such action is usually outsourced to companies with extensive experience in this field, the costs are justified where the potential income that the PEP, and his associates, should bring into the casino, or the prestige his presence as a client would confer is judged by management to be worth the expense. Enhanced Due Diligence goes much further than simple client identification procedures; it delves into all aspects of the potential client's background, and a comprehensive and inclusive report is the result.

PEPs are not excluded by compliance solely for the reason of their PEP status; properly checked and monitored, they will become valuable clients.

"Celebrities generally, by virtue of their occupation, assets, business success or inheritance, have sufficient wealth to properly participate in casino gaming, often at an extremely high level. The funds are rarely an issue; it is their other activities that expose the casino to reputational or financial damage."

Celebrities

Individuals regarded by the public as celebrities, such as cinema stars, professional athletes, millionaires, musicians, prominent political figures and assorted famous, infamous and notorious figures, are in a class all by themselves for compliance purposes. Please note that some may also qualify as PEPs. These types of clients present both potentially high threat levels, and the obvious marketing advantages when the media extensively cover their visits to the casino. The publicity that they generate simply cannot be purchased. It is a difficult task, but if correctly managed, by both compliance and management, celebrities can bring both valuable intangible, as well as financial, benefits to the casino who hosts them.

Celebrities generally, by virtue of their occupation, assets, business success or inheritance, have sufficient wealth to properly participate in casino gaming, often at an extremely high level. The funds are rarely an issue; it is their other activities that expose the casino to reputational or financial damage.

Compliance officers vetting celebrities face a daunting challenge when asked by management to provide a risk-based profile, for the major issues are serious ones:

Drug and alcohol abuse

Remember the massive adverse publicity when a certain celebrity expired at a casino hotel. How many times was the casino's name mentioned in the media frenzy? Any serious history of abuse could represent an unacceptable level of risk.

Security

The physical safety of the celebrity must be ensured during his or her visits to the casino. Have there been previous incidents? Where did they occur? Does this celebrity have a higher than normal exposure to stalkers, kidnappers, individuals who want to injure or kill the celebrity, or cranks? Remember, there can be collateral

damage (e.g. injury or deaths of casino patrons) during such an incident. Is there any threat from potential terrorist organisations? The celebrity's history should be thoroughly reviewed by compliance, to rule out any unusual threat scenarios.

Domestic violence

Does the celebrity, (or his/her significant other, or partner or spouse, or other relatives) have any history of domestic violence or a propensity to express anger through violent acts? Does anyone have a grievance or court case pending that might manifest itself in violence? Remember, bystanders injured during such an incident, or the victim, could bring a civil action against the casino, claiming that the celebrity's prior history made the incident foreseeable. Civil litigation records, domestic violence court records, restraining orders, criminal charges must all be reviewed.

Firearms and other weapons

The celebrity and/or his or her bodyguard, entourage, partner or staff member, may be, lawfully or otherwise, carrying a concealed weapon. Remember, any actions taken toward self defence inside the casino grounds, either by the celebrity or his staff, could injure, maim or kill others in the line of fire. Has the celebrity or his staff been issued a carry permit? Does your casino security screen for firearms and weapons, and do you exempt celebrities (or anyone else) from screening? Lawsuits by next of kin can result in verdicts in the millions of dollars, highly damaging media coverage, and can also instill fear in potential casino clients, who may stay away after a high profile incident.

Associates

When the celebrity and his entourage show up, there may be individuals who represent an unacceptable level of risk just by being present in the casino. Does the celebrity closely associate himself with anyone who is completely unacceptable as a casino patron? Is there a history of this individual being present? Again, the photos taken by society columns, and even paparazzi, may provide clues.

All of the above are admittedly high risk, and even controversial, subjects. Compliance officers detailed to investigate celebrities can be called upon to research these matters, well in advance of the appearance of the celebrity at the casino, and to advise management on all potential risk-related facts and concerns.

We have presented here a brief summary of the risk control issues compliance officers confront daily regarding Politically Exposed Persons, and celebrities, who become casino clients. Issue perception and recognition is an important component of the compliance process, and management expects compliance to be adept at issue identification, and to assist, where appropriate, at problem solving. High risk casino clients, when properly vetted, are valuable assets; strive to accept them wherever possible, within your compliance risk management parameters.

This article first appeared in the 3rd quarter edition 2009, of Casino and Gaming International Magazine

About the author

J.D. University of Miami School of Law, 1973. Mr. Rijock is believed to be the only former banking and corporation lawyer-turned career money launderer who has thereafter served as a compliance officer. He regularly lectures globally on financial crime for World-Check, and his articles can be found at www.world-check.com

About Industry Voices

IndustryVoices is a collection of articles and papers that address common issues and challenges faced by the compliance community. World-Check has embarked on this project with the aim of facilitating debate among committed professionals from the financial, legal, regulatory and enforcement sectors. To produce such a library of knowledge, World-Check has invited industry experts, scholars, consultants and professionals to contribute to this series.

The articles can be viewed on www.world-check.com/industryvoices