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ANNEX

## **TYOLOGY 13**

### **MONEY LAUNDERING THROUGH CASINOS**

**YEREVAN 2014**

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## Chapter 1: Scope of Application<sup>1</sup>

1. Money laundering schemes devised by means of the methods and instruments set forth in this typology may be relevant for certain types of reporting entities defined under the Republic of Armenia Law on Combating Money Laundering and Terrorist Financing, particularly for persons and casinos organizing prize games and lotteries, as well as for banks.
2. In addition, the schemes described in this typology may be of interest, in informative terms, for payment and settlement organizations and persons, as well as for operators of payment and settlement systems licensed by the Central Bank and involved in issuing, servicing, and promoting means of payment defined under the Republic of Armenia Law on Payment and Settlement Systems and Organizations.

## Chapter 2: General Provisions

3. The variety, frequency and volume of transactions within the scope of services provided by casinos make the gambling sector particularly vulnerable to money laundering. Gaming industry by nature is related to significant turnover of both cash and non-cash funds at all three stages of gaming activity, that is the “buy in” stage (when gaming instruments are purchased by cash or other means of payment), during play (when purchased gaming instruments are used in play), and the “cash out” stage (when gaming instruments are exchanged for cash or other means of payment).
4. In order to detect and uncover potential schemes of money laundering through casinos, one has to have an understanding of the techniques and instruments used for realization of such schemes, as well as to define indicators or signs of suspiciousness pertinent to the personality or behavior of customers, which might signal about the possible existence of one or another money laundering scheme.
5. This typology provides a brief outline of certain methods of money laundering and their implementation instruments, followed by a description of the indicators or signs of suspiciousness characteristic for the given method. The methods comprise the following:
  - a) Use of casino value instruments;
  - b) Structuring of transactions;
  - c) Refining of banknotes;
  - d) Use of individual accounts and safe deposit boxes;
  - e) Use of false documents and means of payment;
  - f) Conspiracy for fixed game.

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<sup>1</sup> This typology has been developed on basis of the analytical material provided in the *FATF Report on Vulnerabilities of Casinos and Gaming Sector*, March 2009 (see <http://www.fatf-gafi.org/media/fatf/documents/reports/Vulnerabilities%20of%20Casinos%20and%20Gaming%20Sector.pdf>)

## Chapter 3: Description of Possible Money Laundering Schemes

### A.1) Methods of Money Laundering through the Use of Casino Value Instruments

6. Casinos utilize various value carriers or instruments to facilitate the gambling process, and the type and use of these instruments differ depending on both local legislative requirements regulating the industry and on internal rules established by the casino. The most common casino value instruments are cash, casino chips, gaming tickets, gaming machine credits, casino cheques, gift certificates, chip purchase vouchers, and casino reward cards. Among them, the most frequently used are casino chips and gaming machine credits, which are issued by casinos in, respectively, physical and electronic form, to be used in the gaming process. The following money laundering methods may be realized by the use of casino value instruments:

- 1) **Purchase of chips or credits with subsequent redemption of value by way of payment document:** In this scheme, money launderers typically purchase chips with cash or through their individual account with the casino. Repayment is then requested in form of a cheque or a bank draft or, in some cases, in cash. This method can be exercised more effectively by using a chain of casinos, where the chips or credits purchased in a casino are used in another jurisdiction, in which the casino chain has an establishment, by converting them into a cheque or a bank draft. At that, money launderers may hold the chips for a period of time, either using the chips to gamble in hopes of generating certifiable winnings or later redeeming the chips for a cheque, bank draft, or for cash.
- 2) **Purchase of chips or winnings from “clean” players at a higher price:** Money launderers may purchase chips or winnings from other un-associated casino customers with “clean” backgrounds. At that, to stimulate them for selling their chips or winnings, purchase is proposed at a price higher than the face value, which makes the deal beneficial for both the seller, who earns more in monetary terms, and for the buyer, who obtains means to legalize illegal income. Under the same logic, money launderers may purchase from “clean” players other casino value instruments, such as gift certificates or casino reward cards.
- 3) **Use of chips as currency in illegal transactions:** Money launderers may use value instruments, particularly chips, gift certificates or casino reward cards as currency to pay for the illegal purchase of goods (e.g. drugs, illegal arms, smuggled goods etc). The party having received the payment in the form of casino value instruments may, in turn, use them for payments to other persons, as well as exchange them for cash or bank draft at the casino.

Casino value instruments are easy to use as means of payment, since they are not recognized as currency, which means that they are not subject to all limitations and requirements applicable to the use and movement of cash (e.g. the requirement of cross-border declaration of currency above certain threshold).

## **A.2) Indicators of Money Laundering Suspicions Related to the Use of Casino Value Instruments**

7. The following indicators may point out to the possible existence of money laundering schemes through the use of casino value instruments:

- Purchases and cash outs of casino chips with little or no gaming activity;
- Multiple exchanges of cash for chips and vice versa during the same day;
- Similar or equal amount of purchased and cashed out chips;
- Customer purchases chips and leaves casino shortly after;
- Purchase of chips through third parties;
- Detection of chips brought by customers into the casino;
- Customer presents for payout chip purchase vouchers dated prior to date of redemption;
- Customer requests to add cash to casino winnings, and then exchanges the combined amount for a single cheque or bank draft;
- Customer purchases chips by depositing multiple cheques or bank drafts into individual account, or requests the winnings to be paid out in form of multiple cheques or bank drafts;
- Customer inserts funds into gaming machines and claims those funds as credits on individual account with little or no gaming activity;
- Customer claims gaming machine credit payouts with no jackpot;
- Customer frequently inserts substantial amounts of cash in gaming machines that have high payout percentages and does not play "max bet" to limit chances of significant losses or wins, thereby accumulating gaming credits with minimal play;
- Customer requests transfer of credits to individual account with another casino;
- Abrupt changes in wagering or betting pattern;
- Customer's intention to win is absent or secondary.

## **B.1) Methods of Money Laundering through the Structuring of Transactions**

8. Structuring or "smurfing" involves the distribution of a large amount of money into a number of smaller transactions in order to minimize suspicion and evade identification or threshold reporting requirements. The following money laundering methods may be realized by the structuring of transactions:

- 1) **Regular depositing of cash:** In this scheme, money launderers make regular deposits of cash or cheques, both with value below the identification and (or) reporting disclosure threshold.
- 2) **Use of third parties to undertake transactions:** The organized group of money launderers uses individual casino accounts opened in their own names or in the names of other customers to transact amounts below the identification and (or) reporting disclosure threshold.
- 3) **Utilizing shift changes to conduct transactions:** Money launderers trace the work schedule of casino personnel shifts at cash desks and conduct transactions below the identification and (or) reporting disclosure threshold systematically, e.g. at the beginning and end of each shift of the personnel.
- 4) **Regularly switching the place of gaming:** In this scheme, money launderers regularly switch gaming tables, gaming rooms, or even casinos when the wagering amounts closely approach the identification and (or) reporting disclosure threshold.
- 5) **Requesting division of winnings:** In some cases money launderers prefer the amount of winnings, which exceeds the identification and (or) reporting threshold, to be broken down into cash or cheques below the threshold.

## B.2) Indicators of Money Laundering Suspicions Related to the Structuring of Transactions

9. The following indicators may point out to the possible existence of money laundering schemes through the structuring of transactions:

- Frequent purchases of value instruments and (or) frequent wagers in cash just below the identification and (or) reporting disclosure thresholds;
- Purchases of value instruments with cheques issued by different banks with face value just below the identification and (or) reporting disclosure thresholds;
- Purchases of value instruments with cheques issued on behalf of third parties (relatives or third persons);
- A third party is present for all transactions of the customer, but does not participate in the actual transaction;
- Use of the customer's individual account by third parties;
- Cash received from third party for purchasing chips;
- Cash handed to third party after exchanging chips;
- Transfer of funds from one individual account to multiple individual accounts;
- Transfer of funds from multiple individual accounts to one individual account;

- Customer waits for changes of casino personnel shift to purchase or exchange chips just below the identification and (or) reporting disclosure thresholds;
- Customer moves from table to table or room to room or leaves the casino every time before the amounts of transactions reach the identification and (or) reporting disclosure thresholds;
- Customer requests the winnings to be paid out in form of separate cash amounts, multiple cheques or bank drafts just below the identification and (or) reporting disclosure thresholds.

### C.1) Methods of Money Laundering through the Refining of Banknotes

10. Individual launderers or organized groups use casino services to refine large amounts of low denomination banknotes into high denomination notes. This method of money laundering is more often associated with the legalization of proceeds of crimes, such as drug sales, generating large amounts of low denomination bills, which need to be exchanged with high denomination ones. Most commonly, money laundering schemes through the refining of banknotes is organized by a group of several people, who seek to refine money by dividing it amongst the group before entering the casino. The following money laundering methods may be realized by the refining of banknotes:

- 1) **Refining at the cashier's desk:** Members of the group individually approach the cash desk of the casino, introduce themselves as customers and ask to exchange low denomination bills for higher denomination ones.
- 2) **Refining through "note acceptors" or gaming machines that accept cash:** Most casinos with gaming machines have "note acceptors" used by customers to add credits on their individual accounts. Money launderers would feed low denomination banknotes into the machine to accumulate credit on the individual account with little or no play before redeeming the credits for high denomination banknotes. The same scheme may be realized by means of gaming machines.
- 3) **Use of individual casino accounts for refining:** In realizing this scheme, members of the organized group of money launderers pay low denomination cash into their individual accounts, supposedly for purchasing chips or credits. Thereafter, the amount accumulated on the individual account (sometimes after being transferred to another account) is used for cashing out higher denomination notes.

### C.2) Indicators of Money Laundering Suspicions Related to the Refining of Banknotes

11. The following indicators may point out to the possible existence of money laundering schemes through the refining of banknotes:

- Customer in possession of large amounts of bills or coinage;

- Attempt to exchange low denomination notes for high denomination ones for various reasoning;
- Insert low denomination banknotes in “note acceptors” or gaming devices with little or no gaming activity before redeeming the credits for high denomination banknotes;
- Deposit amounts in low denomination banknotes on individual account with little or no play before redeeming the balance of account for high denomination banknotes.

#### D.1) Methods of Money Laundering through the Use of Individual Accounts and Safe Deposit Boxes

12. Many casinos offer deposit accounts and lines of credit with less scrutiny for customer due diligence requirements in comparison with that conducted by financial institutions. The movement of funds between financial institutions and casinos, or between casino accounts held in a casino or in a chain of casinos may be quite vulnerable for money laundering.

13. A number of casinos also offer private safe deposit boxes, particularly to their VIP or “high roller” customers, again, with minimized application of customer due diligence requirements. The following money laundering methods may be realized through the use of individual accounts and safe deposit boxes in casinos:

- 1) **Deposits into casino account by various means of payment:** Some casinos allow customers to deposit on their casino account not only cash, but also various types of cheques (such as traveler cheques, bearer negotiable instruments etc) or other highly liquid securities (such as promissory notes, bonds etc), with subsequent access to use the balance of the account.
- 2) **Deposits into casino accounts by wire transfer:** In this scheme, funds are deposited into the customer’s individual account by a wire transfer from a local or foreign financial institution, enabling the customer to freely make use of those funds, including that with minimal or no gambling activity, and to cash out the balance of the account shortly thereafter.
- 3) **Use of foreign individual holding accounts:** Chains of casinos offer accounts that, for example, are held in jurisdiction “A” by the casino, but the funds can be used to purchase casino value instruments, as well as to be cashed out in jurisdiction “B” at a casino within the same chain. At that, in this case the money held in the account does not leave the country physically or through electronic wire transfer, which means that the transaction is not subject to cash or wire transfer reporting requirements.



- 4) **Use of safety deposit boxes:** Services of safety deposit boxes offered by casinos to their VIP or “high roller” customers present a money laundering risk due to the factual lack of transparency with the use of such boxes, as well as the possibility for third parties to be given access to safety deposit boxes via a password or key.

## D.2) Indicators of Money Laundering Suspicions Related to the Use of Individual Accounts and Safe Deposit Boxes

14. The following indicators may point out to the possible existence of money laundering schemes through the use of individual accounts and safe deposit boxes:

- Deposits of cash, cheques, and wire transfers into individual account inconsistent with customer profile;
- Funds withdrawn from individual account shortly after being deposited;
- Significant movement of funds through the individual account with little or no gambling activity;
- Funds credited into an individual account from banks or other individual accounts in high-risk countries, from unknown sources;
- Funds debited from an individual account to banks or other individual accounts in high-risk countries, to unknown beneficiaries;
- Use of intermediaries (authorized representatives) to undertake transactions;
- Funds transferred to customer’s individual account from a corporate accounts;
- U-turn transactions occurring with funds being transferred (out of country) and then the same or similar amounts being returned;
- Third parties regularly make use of the customer’s individual safe deposit box.

## E.1) Methods of Money Laundering through the Use of False Documents and Means of Payment

15. As with other persons involved in criminal activities, money launderers need to conceal their true identity to possibly complicate their disclosure in future. Moreover, in certain cases the offense of money laundering immediately follows the predicate crime of embezzlement of funds by means of forged means of payment (e.g. banknotes, cheques, debit or credit cards). The following money laundering methods may be realized through the use of false documents and means of payment:

- 1) **Use of false identification data:** In this scheme, money launderers present false identification documents and (or) submit erroneous personal data (e.g. address, phone number, occupation etc) under the procedures conducted by casinos for customer due diligence, particularly for identification and verification of identity of the customers.

- 2) **Use of forged means of payment:** In order to purchase casino value instruments and (or) make deposits into their individual accounts, money launderers may use counterfeit banknotes and cheques, as well as non-cash means of payment such as debit, credit or gift cards forged by means of identity theft (e.g. bank account details, passwords).

## E.2) Indicators of Money Laundering Suspicions Related to the Use of False Documents and Means of Payment

16. The following indicators may point out to the possible existence of money laundering schemes through the use of false documents and means of payment:

- Customers introducing themselves under a fictitious name or different names;
- Use of identification document with altered or missing entries;
- Inconsistent and contradictory identity information presented;
- Refusal to present any identification document and (or) personal data;
- Counterfeit banknotes or cheques used for purchasing value instruments or replenishing individual account;
- Forged non-cash means of payment (e.g. debit, credit or gift cards) used for purchasing value instruments or replenishing individual account.

## F.1) Methods of Money Laundering through Conspiracy for Fixed Game

17. Fixed game is used by money launderers to attain a desirable outcome of the game, thus enabling them to present their illegal income as “clean” proceeds of game. The following money laundering methods may be realized through conspiracy for fixed game:

- 1) **Fixed game with another customer:** In this scheme, the organized group of money launderers gets involved in relatively low odds, low risk games such as roulette. Particularly, this would involve two or more pairs of players placing opposite equivalent bets on even money wagers in the same game. As an example, Person A places AMD 100.000 on black, while Person B places AMD 100.000 on red in a game of roulette. Naturally, every loss for A is a win for B, and vice versa. This is also called the “intentional losses” method, when the loss of a player is factually reimbursed by the win of the associate player.
- 2) **Fixed game with a casino employee:** Individual employees or organized groups comprising of staff from relevant departments of the casino may conspire with money launderers to enable laundering of criminal proceeds without being detected. Casino staff involved in such schemes would facilitate money laundering by means of failing to file reports on over-threshold or suspicious transactions; destroying documents related to customer due diligence or records on conducted transactions; falsifying gambling records on a customer; arranging the game in a

manner favorable for a customer, and being “oblivious” to the customer’s fixed game with another player.

## F.2) Indicators of Money Laundering Suspicions Related to Conspiracy for Fixed Game

18. The following indicators may point out to the possible existence of money laundering schemes through conspiracy for fixed game:

- Even-money wagering when conducted by a pair of betters covering both sides of an even bet (e.g., in roulette, baccarat/mini-baccarat);
- Two or more pairs of customers frequently playing at the same table;
- Two or more pairs of players frequently wagering against one another (the win of one player is “accompanied” by the loss of the other);
- Customer attempting to befriend casino employees;
- Customer prefers to play at the table serviced by a certain dealer;
- Contacts or connections between customers and casino staff outside of the casino.

## G.1) Other

19. In addition to the indicators of suspiciousness attributable to various methods of money laundering through casinos, there are general indicators of suspicious activity, which might point out to the possible existence of one or several money laundering schemes other than those described above. Such indicators include the following:

- Transactions inconsistent with customer profile;
- High volume of transactions within a short period;
- Abrupt increase in the volume of transactions;
- Customers pertaining to high-risk groups (e.g. PEPs);
- Negative information on customer (e.g. criminal records).

## Chapter 4: Conclusions

20. Transactions, which are carried out through the above-illustrated schemes and sequence of actions, are aimed at concealing the origin, movement, or true ownership (final beneficiaries) of illegal proceeds.

21. In order to arrive at a conclusion on the existence of potential money laundering schemes, persons and casinos organizing prize games and lotteries, banks, and other stakeholders should pay attention to the criteria and circumstances, as described in this typology or stemming from their own experience, which are essential in terms of uncovering such schemes, and take relevant measures established under the Republic of Armenia Law on Combating Money Laundering and Terrorist Financing.