

# Macau Remains a Money Laundering Hotbed

Macau is not only the world's biggest gambling centre, but also has the largest exposure to money laundering compared to other thriving gaming markets. Although the former Portuguese colony has improved its regulatory climate significantly in the past decade, with several new laws in the pipeline, it is still considered an immature market without the resources required to properly and rigorously examine suspicious transactions. FTI Consulting has conducted many investigations in Macau, often focused on the potential exposure of certain entities and individuals to money laundering activities. In this article, I will identify the particular issues that underpin Macau's risk profile, referring to some recent assignments, before looking at the outlook for its gaming sector, and concluding with practical measures for companies seeking to mitigate the risks.

## Money Laundering Risk Factors

### High Rolling Gaming Clientele

Macau is China's only legal casino hub, with the vast majority of its soaring income derived from mainland visitors. Business tycoons and wealthy government officials generate much of this revenue, with high-ranking figures, such as a former vice president of the Agricultural Bank of China, reportedly owing significant gambling debts. The Special Administrative Region is not simply a rich man's playground, but also provides a means for these high rollers to take any graft payments out of the People's Republic of China. We have been involved in several investigations to identify the methods used by corrupt officials to launder money through the casino system. In each situation, the chips were churned and redeemed as cash disguised as legitimate winnings, transferred to an offshore bank account using a grey market network, with small transfers made under Macau's monitoring threshold.

### People's Republic of China (PRC) Currency Restrictions

China's foreign exchange control regulations place stringent limits on the transfer of cash from the mainland to Macau. But a review of casino activity shows bets that far exceed permitted exchange limits. Various 'grey market' financing is available to high rollers, with certain alternative remittance mechanisms widely acknowledged. One of the most common methods we found of obtaining funds locally in Macau is

through a well-established debit card system, in which punters obtain cash in return for cancelled credit purchases. Pawn shops have also long been associated with casinos, with expensive personal items sold in Macau for gambling funds. This means of cash transfer can obviously work the other way; we have noticed a range of high-end jewellery and watch stores alongside casino floors.

### Operation of Junkets

The existence of junkets is another major money laundering risk. But these 'gaming promoters' are a vital part of the Macau casino system; they bring gamblers to casinos and provide credit facilities in the PRC, while also collecting debts. They are 'legitimate', acting as intermediaries between the premium players and the casino marketing departments, and an official list of registered junkets is maintained. However, registered directors of junkets are often not the people actually running the organization. Due to the Chinese government's restrictions on currency and the lack of enforceability of gaming debts in China, junkets have a powerful role which includes control over activities in the VIP rooms. But their activities are lacking in transparency. Many of our assignments have involved looking at the extent to which certain unethical practices, such as prostitution and loan-sharking, were promoted by these groups.

### Involvement of Organized Crime

The last major risk factor is the prevalence of triad and organized crime activity in Macau's gaming business. In particular, these groups are involved in running private gambling rooms and acting as 'behind the scenes' junket operators. Although casinos all claim to assess the connections and interests of junkets, these vetting procedures are often a 'fig leaf'. More in-depth due diligence we conducted often reveals that junket directors are front men acting for others. Though reported triad-related crime is in decline, organized crime in Macau is greatly underestimated.

## Outlook for Casino Industry and AML

There are several potential constraints on Macau's soaring casino revenue. Firstly, the PRC authorities are in the midst of an anti-corruption campaign, which could affect the number of Chinese government officials visiting Macau's VIP rooms. There is also pressure from the central government for the Macanese economy to diversify into other types of tourism and rely less on gambling. In addition, there are reports of the Special Administrative Region running out of hotel rooms, with no new resorts likely to open until end of 2014. Considering that new casinos are being developed in Southeast Asia, including in Singapore and the Philippines, the region's wealthy gamblers have an increasing number of alternatives.

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However, any slippage in growth rates is expected to be short-lived. New rail links from Macau will shorten travel times to China's northern cities, as will the planned expansion of ferry terminals and the airport. A bridge joining Macau to the mainland, scheduled to open by 2016, will provide further ease of access to Chinese players. Any squeeze on supply will soon be remedied by the eight casinos in development, adding to the 35 casinos already in operation.

Macau's position as the region's gambling hub therefore seems secure ahead, while money laundering risks remain considerable. The local authorities have tried to address the concerns with new regulations. Since 2012, casinos have been required to report suspicious transactions and player lists each month, making it harder for punters to remain anonymous. And next year, a new specific money laundering law will enable authorities to freeze and seize assets.

But the growing gaming supply and sustained high roller demand suggest continued huge revenue potential from gaming tax (set at almost 40% of gambling revenue), thereby reducing the incentive for the Macanese authorities to crackdown too hard. Despite the significant exposure of Macau to money laundering, with billions of dollars reportedly smuggled across the PRC-Macau boundary annually, a comprehensive crackdown is therefore very unlikely.

## Need for Proactive Measures

The onus therefore remains on companies/investors to take appropriate preventative measures should they consider involvement in Macau or its casino market. Below are some of the recommended guidelines on measures that should be in place to mitigate potential operational and reputational risks:

- **Due diligence:** Thorough background checks are essential on all local partners in Macau, to ascertain their track record, identify potential crime connections and to assess general exposure to money laundering risk. An initial screening or vetting process may be helpful to whittle down number of targets for in-depth due diligence. But mere online research is often fruitless; there is no substitute to on ground discreet inquiries with wide ranging knowledgeable sources when seeking intelligence on a subject.
- **Database Compilation:** For companies having substantial involvement in Macau, including dealings with multiple third party agents, development and maintenance of comprehensive proprietary databases is extremely helpful. Databases should be updated through regular monitoring of relevant resources, enabling clients to check all existing and potential third parties, details of high risk companies and individuals, alongside a 'red flag' check list charting suspicious activity in an efficient and proactive manner.
- **Internal Controls:** Given the significant money laundering risks in Macau, any entity affiliated to the gaming sector must establish relevant internal control procedures, and ensure compliance. This may include implementation of suitable codes of conduct and ethics and whistle-blower programmes, as well as ad hoc compliance audits to ensure controls are in line with international standards and regulations. In addition, it's important to train staff in recognising suspect transactions/activity, and to enable appropriate levels of awareness of high risk factors relevant to business operations.



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