



CUSTOMER RISK ASSESSMENT FOR PUBS AND CLUBS: THINGS TO CONSIDER



As a pub or club owner in Australia, it is important to assess the potential risk of money laundering or terrorism financing (**ML/TF**) through your venue.

We have prepared the below to help the industry think about this important risk factor, to tailor it to your own circumstances.

HOW TO APPROACH ASSESSING CUSTOMER RISK

1. Consider your customer base as a whole. What risk does your average customer look like? What risk does the average customer present to your business? Understanding this will help you apply a risk-based approach.
2. Update your AML framework and documents to make sure that you understand what or who might present a higher ML/TF risk to your business. Once you have done this, ensure you have controls and structures in place to:
 - bring issues to the attention of the right people in your business; and
 - ensure you mitigate/manage that risk.
3. Where a higher ML/TF risk is observed, action it quickly and make sure you properly understand the customer and the risk they present to your business.
4. **Be really clear, with guidance from your Board and Senior Management, what the appetite is for any person identified as high risk from an ML/TF perspective and at what point your club or pub will cease doing business with this customer.**

Remember: if a customer is identified as a higher ML/TF risk, this indicates you are very concerned about what that person might have done or be involved in. We are talking potentially serious, dangerous offences - murder, drug and human trafficking, potential money movement to fund terrorist acts onshore.

FACTORS TO CONSIDER WHEN ASSESSING YOUR BROADER CUSTOMER BASE

While each reporting entity must make its own risk determinations, many pubs and clubs may find that their typical customers present a **relatively low risk**. Most if not all customers are individuals (not complex businesses) visiting for a meal, a drink, and entertainment on the gaming machines.

When determining the overall risk level of your customer base (that is, what your typical or average customer might look like when looking at all your customers), consider:

- The type of customers you serve (individuals vs. companies or trusts)
- Whether customers are already identified under state laws (clubs)
- The limited and regulated nature of gaming services offered
- Built-in controls by others and load limits on machines (e.g. inbuilt measures on the machines)
- Restrictions on winning payment methods

The above considerations are examples – there are others.

Many venues find these factors contribute to a lower overall risk profile, but you should assess this based on your specific circumstances.

HOW TO SPOT RISKS PRESENTED BY YOUR CUSTOMERS AND ASSESSING THEIR INDIVIDUAL RISK RATING

While your overall customer risk assessment may indicate a lower risk profile, it is important to evaluate individual customers as well.

As licensed premises that allow entry to adults over 18, it is possible that individuals with concerning backgrounds might visit your venue and it is important that your pub / club is alive to this, and how to spot and discretely report issues internally for further consideration.

Your AML framework (that is, the policies, processes, systems and resources you have put in place to identify, mitigate and manage ML/TF risks) should include measures to make sure that you pick up and internally report where you see unusual behaviours (for further investigation), and your transaction monitoring program should be calibrated to detect abnormal transactional activity.

There are some red flag behaviours that you should keep an eye out for. Keep in mind that *‘water finds its lowest course’* and illegal money will naturally flow through the financial system via the paths of least resistance - specifically seeking out businesses, venues, or systems with the weakest anti-money laundering controls. So whilst these are examples, encourage your teams to look for oddities – things that *‘just don’t feel right’*.

Red Flags to Monitor (including learnings from major enforcement cases):

- **Inconsistent Behavior:** Significant changes in gambling patterns or transaction behavior

- **Source of Funds Concerns:** Customers using third-party funds or unable to demonstrate legitimate source of funds
- **Structuring Activities:** Breaking transactions to avoid threshold reporting
- **Bill Stuffing:** Inserting cash, collecting tickets, immediately cashing out with minimal play
- **Smurfing:** Breaking large amounts into smaller transactions using multiple people
- **TITO Walking:** Using gaming tickets as currency outside your venue
- **Colouring Up:** Exchanging small notes for larger ones (also known as **refining**)
- **Parking:** Temporarily storing funds in cashless accounts
- **Even Money Betting:** Making low-risk bets just to move money
- **Buying TITOs:** Purchasing winning tickets with cash at a premium
- **Third Party Transfers:** Attempts to shift value between different people
- **Adverse Media:** Information that a customer may be linked to criminal activity

When you spot red flags or unusual behaviour, your environment should be designed to respond quickly. This includes investigating the behaviour, and the customer(s) involved.

RESOURCES AVAILABLE

We have created a customisable template that may assist you when considering a specific customer's risk to your organisation, available on our website.

Remember, each venue should make its own risk-based decisions according to its specific circumstances and risk appetite. However, as AUSTRAC's recent enforcement actions demonstrate, claiming to have insufficient resources or considering AML/CTF compliance as a secondary priority is not an acceptable approach.

EVALUATING YOUR RISK MANAGEMENT APPROACH

We are seeing pubs and clubs take various approaches to enhance and uplift their ML/TF risk assessments, including:

- Developing formal methodologies for assessing customer risk
- Implementing monitoring systems appropriate to their risk level
- Regularly testing their controls to ensure effectiveness
- Conducting independent reviews of AML/CTF programs (a key lesson from AUSTRAC enforcement actions)
- Ensuring senior management oversight and accountability

Consider: A key part of risk management is determining whether your controls are appropriate and effective for your specific circumstances. AUSTRAC enforcement actions have shown that failures to regularly review and test controls can lead to significant compliance issues.

CONCLUSION

Remember, effective AML/CTF compliance isn't just about avoiding penalties— it is about protecting your business reputation and contributing to Australia's financial security. The cost of implementing proper controls now is far less than the potential penalties and reputational damage from compliance failures.

Don't wait for a regulatory investigation to review your AML/CTF procedures. The time to act is now. **Contact us for a no-obligation chat.**



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