

GAMBLING SECTOR: MONEY LAUNDERING RISKS

1.Introduction

The purpose of this paper is to explain the Commission’s decision to broaden the scope of the Directive to cover the gambling sector and to provide evidence of money laundering risks. It complements the information already included in the Commission’s Impact Assessment accompanying the Commission’s proposal.

The Third AMLD includes "casinos" within its scope but without providing any definition. Activities of obliged entities "performed" on the Internet (recital 14) are also covered. However, as indicated in the Commission’s Application Report on Directive 2005/60/EC¹, the absence of a clear definition of “casino” leads to different approaches at national level, and leaves important areas of the gambling business which may be particularly vulnerable to AML/CFT outside the scope of the preventative framework.

Obligations only upon casino operators	Obligations upon casino operators and other gambling operators
Austria	Bulgaria <i>(Casinos, bingo halls, lotteries, sport totalizators, etc.)</i>
Belgium	Estonia <i>("Organizers of games of chance")</i>
Czech Republic	Finland <i>("Any gaming operator and supplier of gaming activities")</i>
Germany	Greece <i>("Casino enterprises, casinos operating on Greek ships, companies, organizations and other entities engaged in gambling activities as well as betting shops (agencies)").</i>
Hungary	France <i>(Casinos, clubs, groups or companies in charge of games of chance, lotteries, betting, sport and horse race forecasts)</i>
Malta	Ireland <i>(Casinos and private members' clubs)</i>
Romania	Italy <i>(Land based and online casinos, sport betting/forecasts and other gambling activities)(Casinos, online sport betting/forecasts)</i>
The Netherlands	Latvia <i>(Lotteries and gambling)</i>
United-Kingdom	Lithuania <i>("Companies offering gaming")</i>
	Luxembourg <i>("Casinos and similar premises")</i>
	Portugal <i>(Casinos, betting and lottery operators)</i>
	Slovenia <i>(Casinos, gaming halls, sport wagers, online games of chance)</i>

¹ COM(2012) 168 final

	Spain <i>(Casinos, lotteries and other games of chance)</i>
	Sweden <i>(Casinos, lotteries and other games of chance)</i>

The above table (annex IX of the Impact Assessment²), compares the rules implementing AML rules to casinos and the gambling sector. 8 MS have imposed obligations only on casino operators while many others have broadened the scope to include number of different gambling service providers.

The Commission’s proposal for a 4th AML Directive has broadened the scope to cover “gambling services”, defined as:

“any service which involves wagering a stake with monetary value in games of chance including those with an element of skill such as lotteries, casino games, poker games and betting transactions that are provided at a physical location, or by any means at a distance, by electronic means or any other technology for facilitating communication, and at the individual request of a recipient of services”.

There were two reasons underpinning the Commission’s decision:

1. **Level playing field** concerns: there was strong support from the majority of gambling sector representatives³ to apply a broad approach.
2. **Money laundering risks** in the gambling sector are not restricted to casinos. Over the course of consultations with the private sector, the Commission was provided with information suggesting clear indications of risks in other areas.

The remainder of this note highlights evidence which points to money laundering risks related to various parts of the gambling sector not currently covered under the Third AMLD’s scope. Risks associated with casinos (including on-line casinos) are not analysed, as they are already caught by the existing provisions of the Third AML Directive (AMLD).

To-date, while typology reports have been carried out by FATF on money laundering and Casinos⁴, or by Moneyval on on-line gambling, the Commission is not aware of any such *official* studies on the specific topic of money laundering and gambling beyond the casino/on-line sectors. This should not however imply that no such evidence exists. Indeed, on the basis of the evidence presented, supported by the fact that a number of EU Member States have already taken steps to broaden the coverage of their legal framework, the Commission believes that it is appropriate to broaden the scope of the rules to the entire gambling sector.

² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SWD:2013:0021:FIN:EN:PDF>

³ The Commission was in consultation with/received contributions from the following organisations : European Casino Association, EGBA, BETFAIR, European Gaming and Amusement Federation, European Lotteries, Finnish Slot Machine Association, Association of British Bookmakers, Bundesverband Privaten Spielbanken, BWIN.Party, Diligent Gaming, La Française des Jeux, Fédération française des entreprises de jeux en ligne, Lottomatica Group, Remote Gambling Association. See: http://ec.europa.eu/internal_market/company/financial-crime/received_responses/index_en.htm

⁴ <http://www.fatf-gafi.org/media/fatf/documents/reports/RBA%20for%20Casinos.pdf>

However the Commission also fully accepts that the degree of money laundering risk will vary according to a number of different factors. The risk-based approach in the Commission's proposal will allow sufficient flexibility to recognise lower risks where they exist, and to allow for a tailored response at national level. Furthermore, the €2,000 threshold for customer due diligence should eliminate the need to identify a significant proportion of gambling customers. On the other hand the Commission believes that given this evidence, any approach which placed certain activities outside the defined scope of gambling services, without first carrying out an assessment of those risks, would be contrary to the risk-based approach.

2. Money laundering risks in the gambling sector

2.1) Bookmakers and betting shops

Money laundering risks associated with bookmakers have long been understood. In the 1996 FATF typologies exercise: "*Casinos and other businesses associated with gambling, **such as bookmaking**, continue to be associated with money laundering, since they provide a ready-made excuse for recently acquired wealth with no apparent legitimate source*".

In the UK, prior to the introduction of the Money Laundering Regulations 2007, a paper produced by the Centre for the Study of Financial Innovation in the UK⁵ claimed that "*...the main risk may lie with more traditional betting activities. The key point is that high street betting shops will still accept very large cash wagers without knowing the identity of the person placing the bet*". The study went on to suggest that "*cash-based betting is a potential loophole that ought to be examined. Bookmaking activities may need to be brought within the legislative framework to require proper identification and record-keeping in respect of customer identities and transactions*".

Beyond the EU, bookmakers are already covered by money laundering legislation in other parts of the world, most notably in Australia. Austrac has put together guidance and typologies: according to Austrac, bookmakers are particularly vulnerable to money laundering activities, due in part to the opportunities for cash transacting. Indicators of the use of illicitly attained funds in horse racing may include structuring bets below reporting thresholds, the use of large amounts of physical currency, and requests for winnings to be paid to third parties.

2.2) On-course betting

Similar risks of money laundering are also present with respect to on-course betting. This sector is also specifically covered in Australia, where AML/CTF rules provide that customers of on-course bookmakers do not need to be identified unless they are paid out winnings of \$10,000 or more or if they open an account with the bookmaker.

However AML/CFT risks are not limited to any specific geographic area and are clearly also present in the EU. By way of example, in 2005 Irish authorities issued warnings to bookmakers at Cheltenham races to be on the lookout for persons trying to launder the proceeds of Belfast's £26.5 million Northern Bank robbery.

⁵ Betting on the Future, On-line gambling goes mainstream financial, Centre for the Study of Financial Innovation: <http://www.zyen.com/PDF/CSFI%20Gambling%20Publication.pdf>

2.3) Sports betting

There are a number of ways in which sports activities may be targeted for money laundering, including betting activities (due to the lack of gambling regulation between countries and lack of transparency).

According to the FATF report on money laundering through the football sector⁶: *“Sports that could be vulnerable to money laundering problems are either big sports (worldwide like football or on a national basis like cricket, basketball or ice hockey), sports like boxing, kick boxing and wrestling (sports that have traditionally links with the criminal milieu because of the relationship between crime and violence), high value sports (such as horse and car racing where there are ample opportunities to launder big sums of money), sports using (high value) transfer of players, sports where there is much cash around, which give criminals opportunities to turn cash into non-cash assets or to convert small into large bills. This fact means that virtually all sports could be targeted by criminals, although for different reasons.*

The FATF report explicitly does not cover sports betting, but concedes that *“Money laundering through legal and illegal betting, especially on the internet, is considered as a huge and increasing problem that should be explored separately in more detail.”*

Another study on *“Sports betting and corruption - How to preserve the integrity of sport”*⁷ describes several major examples of corruption in sport linked to sports betting (e.g. the Hansie Cronje Affair (2000) and the Bochum trial (ongoing)). Although such examples focus primarily on the *corruption* element, there are inevitable overlaps with money laundering and attempts to conceal illicit proceeds. The study also describes the role that professional gamblers and money launders play, and the extent to which they are able to manage the risks when betting on sports matches:

*“One section of the betting public consists of **professional gamblers**, who act on the betting market as they would on a financial market, who perform statistical calculations to understand the ways in which odds change and take advantage of these variations to place “sure bets”.*

A gambler who spreads his risk in this way is assured of winning, irrespective of the issue of the match. Professional gamblers (and money-launderers) spot these opportunities and can place extremely large sums and obtain maximum profit without taking the slightest risk. As in the less well-regulated financial markets, these players scrutinise the movements of the odds, and by substantial and repeated bets, can in fact themselves swing the odds accordingly. This group of gamblers also pays great attention to information about sports matches. If for example a person learns that two key players in a team will not take to the pitch, they might then decide to bet heavily against the team, even before the operators receive the information and adjust their odds against this team. That being the case, a more or less irrational variation in the odds may make other professional bidders think that the score of that match has been determined in advance and that the drop in odds is the result of corruptors who are

⁶ <http://www.fatf-gafi.org/media/fatf/documents/reports/ML%20through%20the%20Football%20Sector.pdf>

⁷ By IRIS, University of Salford, Cabinet PRAXES-Avocats, and CCLS (Université de Pékin): <http://www.sportaccord.com/multimedia/docs/2012/02/2012 - IRIS - Etude Paris sportifs et corruption - ENG.pdf>

betting massively on one side in the match. They will then also leap into the breach and bid massively, before the odds drop too low, which will push the operator - alarmed in the face of so many bets on one team – to continue to increase the odds against the team.”

2.4) Slot machines and gambling halls

There are diverging views on the level of risk regarding this gaming sector. Some operators in the gaming industry argue that this is a low area of risk, and not a viable means for ML. They also argue that gambling halls involve lower amounts and are not in the same league as casinos. According to Euromat⁸, “*Gaming arcades are simply not in the same league as casinos in terms of monies wagered and monies paid out The machines available in gaming arcades, unlike those available in casinos, entail only low stakes and low payouts and thereby represent only very minimum or no AML/CTF risks*”.

There is on the other hand anecdotal evidence of money laundering using slot machines⁹, especially machines which accept bank notes or credit cards and which take high initial stakes. Technological solutions which replace coins with vouchers make laundering of higher amounts easier¹⁰. There have been instances where money launderers feed the machine with credit, play for small amount and then claim back the remaining credit as legitimate winnings.

Given the absence of European legislation in this field, Member States have adopted different approaches in respect of controls on gambling activities outside regulated casinos – the types of machines, the gambling limits, and hence the potential associated ML risk are understood to differ significantly, making it difficult to make generalized assessments about the level of risk.

2.5) Lottery games

The level of risk in lottery games has been largely assessed as low by the industry and supervisory authorities because it is very difficult to launder money through lotteries. Nevertheless, according to the European lotteries submission to the Commission’s public consultation, it is important to monitor the identity of winning ticket holders. There are indeed concerns that money laundering risks arise with respect to the purchase of winning tickets by criminals who are willing to pay a surcharge on the winning ticket amount.

⁸ Euromat’s submission to the Commission’s public consultation http://ec.europa.eu/internal_market/company/financial-crime/received_responses/responses-to-the-consultation/euromat_en.pdf

⁹ See for example the following news report: <http://www.casino.org/news/chinese-laundry-through-the-slots-money-laundering-alleged-for-med-tech-firm>

¹⁰ See FINTRAC report on “Money Laundering and Terrorist Financing Typologies and Trends in Canadian Casinos”: <http://www.fintrac-canafe.gc.ca/publications/typologies/2009-11-01-eng.asp>