
Preventing criminal risks linked to the sports betting market

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between public and private actors to identify sports betting risks”
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Introduction

Few activities or economic markets have had a trajectory similar to sports betting. When the Internet emerged in the mid-1990s, the sports betting industry could hardly imagine the metamorphosis it was about to face. The products, the bookmaking, the revenues changed completely, as the market could be reached by any individual with Internet connection, anywhere in the world. Even more importantly, by enabling street bookmakers to balance their financial accounts online, betting websites have connected the multiple physical betting networks of any world region. This transformation escaped serious public regulation, which in any case remained at national level. Except for horse racing, even the organisers of sporting competitions themselves did not have a say in the governance of the activity. Twenty years after the start of online betting, the situation is totally different. Today, betting constitutes an emerging subject of states' public policy. EU Member States (MS) led the way by progressively licensing betting operators, with Great Britain (GB) leading the movement with the 2005 GB Gambling Act.¹ Nowadays, some states are also progressively opening up online markets internationally.

Witnessing a rapid growth in illegal activity, governments are particularly interested in collecting tax revenues, consumer protection and responding to emerging threats to public order. Around 2005, the first major match-fixing scandals began to alarm unaware, unprepared sport organisations and public authorities. It soon became necessary for states to give due regard to this activity.

All EU Member States have now introduced some form of regulation or changed legislation with regard to betting activity. With certain exceptions, EU betting regulatory authorities have chosen to liberalise sports betting in order to control it, to dry illegal markets, to, address threats to public order and sports integrity and to create conditions for economic growth. When comparing all national situations, the regulatory model chosen by most EU MS is non-prescriptive, meaning that public regulators are in general letting operators assess risks and define appropriate security policies (Anti-Money Laundering (AML), Know-Your-Customer (KYC), monitoring and alert systems) when it comes to fighting criminal or integrity risks. In response, the major part of the European betting industry has gradually set in place internal risk-management mechanisms, notably to cover their own financial risks. This liberal regulatory model, or philosophy, is led by countries like the UK and Malta which argue that the gambling marketplace is rapidly evolving and constantly creating new products and technologies. Therefore, an excess of requirements and regulations would rapidly become outdated and cumbersome. The licensing objective is most likely to be met if operators are obliged to amend their procedures as new developments occur rather than wait for new regulations to be enacted by an external agency.² One illustration is the position of the GB Gambling Commission, which has no regulation with regard to virtual means of payment for operators: it clearly states that operators can, for example, allow Bitcoin transactions, if they can prove they are safe.

As a result, in many cases in the EU, regulators have licensed various betting operators without clear and direct control over their identity or activities. Sometimes, regulators must trust the

1. Sports betting had been permitted in betting shops since 1961 but the new Act liberalised provision, for example by allowing advertising and explicitly recognising online channels.

2. However some operators state that they would prefer specific details of what they — and their competitors — are expected to do. They argue that if different operators apply different policies, competition may be distorted. For example, if a betting company sets a threshold for bet size such that any larger bets require customers to prove the source of their funds, the customer may respond by moving to a rival firm that does not apply such a threshold.

information declared by operators (revenues and other betting information, details about monitoring and alerts, wider security procedures, etc.). In the meantime, many criminal cases internationally and at EU level involve betting markets (and the gaming sector in general): conflicts of interests, employees or managers of betting operators linked to organised crime, match-fixing, money laundering, illegal betting (street level or online), fraud and phishing, etc.

In the light of the current economic environment, with new, growing criminal risks (such as cyber-crime and match-fixing) and reduced public finances, this report proposes a pioneer evaluation of the criminal risks linked to the sports betting activity, a new (legal) economic sector at EU and international levels. Such a risk-assessment will lead to recommendations aimed directly at EU MS or European authorities, but it will analyse betting as a global activity especially given its transnational nature. Such an exercise is both necessary and difficult to conduct. There are several reasons for this:

- Sports betting, in its current form, is a new activity and is changing rapidly. Older styles of sports betting have existed for a long time and became popular through “pools betting”-types of gaming (each entry must predict the outcome of each of a list of matches, often 12–15). And while it was possible in the UK from 1961, single-event fixed odds betting — and all other modern types of betting that emerged in the 1990s — became widespread through Caribbean and Asian betting websites, followed by European websites in the 2000s. Among the latest developments, high-frequency betting and decentralised betting symbolise the innovations that drive change in this field. In the face of such change, it is vital for public and private stakeholders to keep pace and adapt their levels of understanding and knowledge of the market.
- Sports betting is still divided between retail (from legal betting shops to backstreet bookmakers) and online betting. The two activities are linked, since some betting operators offer opportunities to bet in their shops through Smartphone applications, and also since traditional bookmakers can access the online markets to cover their financial risk. A twinned market combines several features (especially the draining of a highly-liquid physical market and the transfer of these substantial cash assets into electronic bank money) which are, again, difficult to control.
- It is estimated that a vast majority of bets are still taken illegally; meaning in a jurisdiction that did not authorise an operator to take bets within its territory.¹ The EU has become an exception as almost all European States have legalised the activity, mostly by opting for a licence-regime. Despite legislation, a varying proportion of bets are placed through websites that are not licensed in the consumer’s jurisdiction. Some States are currently changing regimes or in discussion to do so (Canada, USA, etc.). However, outside Europe, many States still consider betting a sensitive activity either to be prohibited or else controlled by a state-owned monopoly (Brazil, Canada, China, India, etc.), even if many are debating a change in their betting regime. Meanwhile, a number of jurisdictions have become specialised in hosting betting operators and are deemed to be “offshore” jurisdictions (Gibraltar, Isle of Man, Curaçao, Malta, Cagayan). The fact that many

1. Around 82% of the betting market (turnover at world level) can be considered illegal. Sources: Precrimbet estimation (see part 2); ICSS/La Sorbonne, *Protecting the Integrity of Sport Competition*, 2014, p. 19. Available at: http://www.theicss.org/wp-content/themes/icss-corp/pdf/SIF14/Sorbonne-ICSS%20Report%20Executive%20Summary_WEB.pdf?lbisphreq=1

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betting operators operate without an authorisation in the consumer's jurisdiction, combined with the transnational nature of sports betting, raises public-order concerns that must be addressed. The rapid legalisation of an underlying and poorly understood activity poses serious questions in terms of criminal risks. The concern is all the more serious as organised crime has been traditionally present within the gaming sector. Recent developments in criminal behaviour could also pose a threat to the integrity of the sports betting market. Among them, the willingness of major criminal networks to invest in the legal economy raises particular concern, whether they do so for money laundering, concealment of illegal activities, gaining profit, or ensuring influence and domination. The broad legalisation of an activity, on which we do not have sufficient knowledge and analysis, might generate specific criminal risks that need to be investigated. A risk-assessment and analysis of sports betting is therefore vital to further reduce criminal risks and ensure that the activity's development does not lead to further opportunities for criminal groups.

To understand the criminal risks linked to the sports betting market it is necessary to analyse the interaction between criminality and the betting sector. On the one side this means looking at the evolution of criminal behaviour in order to assess the propensity, the extent and the nature of criminal involvement in sports betting:

- How do criminals generally adapt to their environment, and embrace technological, legal, economic and cultural change?
- To what extent can we predict, or understand, the evolution of criminal methods in general?
- What are the latest developments in money laundering techniques?
- What are the latest changes in the internal structures of criminal organisations, their activities and their mechanisms for international cooperation?
- Which criminal groups or individuals are typically involved in the betting sector (or by extension, the gaming sector)?
- Which types of organised crime (OC) groups currently invest in betting activities? To what specific ends? With which specific methods?
- What future developments can we anticipate in this field?

On the other side, the analysis needs to be centred on the betting market itself, to assess its vulnerability to criminal activity. This poses a number of questions, including:

- What are the latest technological and legal developments that have modified sports betting in recent years?
- What figures are available to estimate the size of the betting market and its growth?
- What are the features of the betting market that attract criminal behaviour?
- What kinds of protection have been put into place by operators and regulators to safeguard betting integrity?
- What is the efficiency of such mechanisms?

The Report will highlight how criminals have reacted to developments in the sports betting

market (and how they may also have shaped them). Potential growth areas include the increase of online betting (compared to retail betting), the growing access to foreign websites (i.e., the internationalisation of the market), the acceptance of new payment methods or the development of new betting products. These changes could indeed lead to the assumption that sports betting is predisposed to criminal activity and, by consequence, become a target for illicit networks seeking opportunities to launder money or raise funds, or to gain upperhand positions in this growing economic sector and its infrastructure. The Report will assess the reality of such assumptions through information from existing research, past and current international law-enforcement cases and information from leading representatives of the betting industry.

The European betting market will also be assessed in order to evaluate its level of protection against illegal betting. Compliance from 19 betting operators will be evaluated to see whether they accept registrations, bets and withdrawals from consumers in jurisdictions where they do not have the required licence.

Finally, aspects of the current environment will be taken into account to understand how criminal activities are more likely to emerge in certain economic, cultural or technological conditions over others. We will assess risk by employing the three-steps methodology advocated in the EU Serious and Organised Crime Threat Assessments prepared by Europol.¹

The objective of the risk assessment is to provide a policy-oriented tool to help EU MS to prioritise their action with regard to sports betting. The hierarchy of risks is also country-dependent by certain criteria (level of organised crime, type of regulation).

The last part of the report is dedicated to concrete operational recommendations and examples of good practices for all main criminal risks identified. It should also be noted that research findings have been tested during 10 national seminars which were organised within the EU. These seminars gathered law-enforcement representatives (police, justice, AML, financial police), betting regulators and operators, and sports organisations. The reactions and results of discussions are also included in this Report.

1. Council of the European Union, *Serious and Organised Crime Threat Assessment 2017 - Revised methodology*, 11 December 2015. <http://www.statewatch.org/news/2015/dec/eu-council-socta-2017-methodology-14913-15.pdf>.

First part:

How the new features of organised crime create additional risks for betting markets

The first part of the report will analyse the situation and evolution of criminal behaviour in order to understand how criminal risks may emerge and develop with time and target the gaming sector.

From organised to disorganised crime

Although no universal definition of organised crime exists, most definitions include characteristics of its activities and groups. The EU Framework Decision on the Fight against Organised Crime, adopted in 2008, defines it as “A structured association, established over a period of time, of more than two persons acting in concert with a view to committing offences which are punishable by deprivation of liberty or a detention order of a maximum of at least four years or a more serious penalty, to obtain, directly or indirectly, a financial or other material benefit”. It is added that a structured association is “an association that is not randomly formed for the immediate commission of an offence, nor does it need to have formally defined roles for its members, continuity of its membership, or a developed structure” (Council of the European Union, 2008/841/JHA). The Europol 2017 Serious Organised Crime Threat Assessment (SOCTA) acknowledges that “this definition does not adequately describe the complex and flexible nature of modern organised crime networks”.¹ More and more criminal deeds are committed by smaller criminal cells, which, as part of their activities, may sell themselves as “criminal subcontractants” (or crime-as-a-service model). Likewise, individuals laundering money from the selling of drugs or cybercriminals stealing ID data for members of a mafia may not fall under a strict definition of organised crime, but their revenues and activities may still directly depend on it. When it comes to the provision of illegal betting services, the formal definition of organised crime will apply in certain cases dependent on the extent and structure of the network. Long-term organisations covering a large territory and collecting high revenues may fall under the strict definition of “organised crime”. However, as the 2017 SOCTA warns, the organisational structure of organised crime groups is itself changing towards a model of loose cooperation between “criminal entrepreneurs”, further rendering obsolete the classical image of hierarchical, long-time and pyramidal criminal groups. This report will therefore mention criminal activities by using a flexible definition of (dis)organised crime in order to also include individual criminals having only loose, temporary links with permanent crime structures.² The goal here is to understand what drives criminal behaviour, and what might push crime, in general, into the betting sector.

Criminal networks indeed tend to be flexible, ingenious, creative and rational. This natural propensity to adapt can resemble a survival mechanism, as they always need to keep ahead of law-enforcement services to avoid detection and prosecution, and find new opportunities once their traditional activities become overly scrutinised. This, by the way, also reflects the classical drivers of individual crime:

- motivation (e.g., need or lust for money, lifestyle or influence);
- opportunities (e.g., new technologies, legislation or other environmental conditions available);
- guardianship (e.g., level, or perceived level, of detection and likelihood of repression).

1. Europol, 2017 SOCTA, p. 13.

2. On the need to apply a flexible approach on the definition, see also Banks, *Gambling, crime and society*, Springer, 2017, p. 115.

The challenge of estimating and understanding criminal behaviour

Naturally, it is not possible to have a precise understanding of the underground world and its innermost workings and structures. Furthermore, the growing interaction between illegal and legal activities is particularly challenging for crime observers. Therefore, reports and analyses are scarce on the general description and measure of criminal activities and actors. Only a few of them can help us to quantify and describe modern crime. They serve to put the subject into perspective and to enable better understanding of the potential motives and interest behind criminal networks.

I. Criminal activities at world level

a) Rising profits?

Only a few international-level analyses exist. According to one, an OECD report, profits from international organised crime total \$870 billion dollars per year, or 1.5% of global GDP.¹ UNODC, the UN institution dedicated to the fight against drug trafficking and crime, publishes threat assessments on specific transnational crime networks and specific regions. Over the decades, drug trafficking has continued to be the leading activity in organised crime portfolios, with the persistent use of drugs.² It has been estimated that criminal organisations earn \$300 to \$500 billion annually from narcotics trafficking alone, which in some regions can rival national GDP. Police actions focus on cutting supply, which has not been successful as new production territories constantly emerge (Africa and South Asia especially), and the development of the Internet has facilitated the business. New types of drugs also emerge regularly and give the market buoyancy. It is because drug trafficking remains the key source of criminal revenue and influence that some governments have acknowledged that traditional, repression-based drug policies are failing.

At the world level, growth in criminal activities includes environmental crime (notably the trafficking of natural resources), counterfeiting (fraudulent medicines in particular), cybercrime and identity theft, and trafficking in cultural property. Below are the estimated revenues for the illicit trade by sector (source: Global Financial Integrity, 2011, in OECD, 2016, p.24):

Illicit activities	Figures (billions USD)
Drug trafficking	320
Counterfeits	461
Forced labour by private enterprise	150
Illicit oil trade	10.8
Illicit wildlife trade	10

1. OECD, *Illicit trade, converging criminal networks*, 2016, p. 13. Available here: http://www.keepeek.com/Digital-Asset-Management/oecd/governance/charting-illicit-trade_9789264251847-en#.V6rrifmLTIU#page1

2. UNODC, *World Drug Report*, 2015, p. 1. See: https://www.unodc.org/documents/wdr2015/World_Drug_Report_2015.pdf

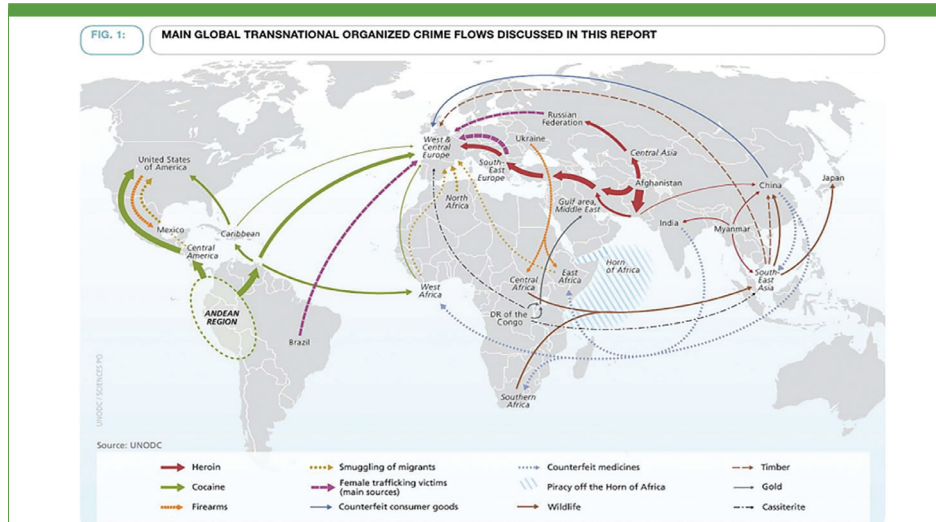
b) Criminal activities supersede criminal groups

Classical analysis tends to understand crime by focusing on mafia groups, dividing the international criminal world between Latin America cartels, Russian groups, Balkan groups, the Italian mafia, Chinese triads, the Yakusa and the other. However, as the 2009 UNODC report states, the activities tend to become more important than the criminals who run them, meaning that targeting the groups (and their structures) is no longer sufficient to break down illegal markets, which are pre-existing and self-sufficient. Local action will only divert the flow to other groups, other regions or other countries. Global strategy to counter crime is therefore needed. This is especially true for markets directly influenced by the Internet, such as sports betting. The prevalence of activities over groups is a sign that the classical analysis of structural organised crime may become obsolete. In the meantime, it is not sufficient to analyse activities only. Different illegal activities are conducted by the same networks and/or in the same regions. The combination of drug trafficking and human trafficking has been widely observed for example (OECD 2016). As a consequence, some analyses prefer to focus on specific criminal routes, such as the trafficking of cocaine from Latin to North America, or the trafficking of counterfeit goods from Asia to Europe.¹

Such figures are useful in order to compare criminal activities and understand the high-value of these underground economies. However, one should not forget that such analysis provides a snapshot only, whereas these economies are continually shifting because of globalisation trends, and new economic hubs and routes. Crime networks seem to feed on phases of global economic expansion. As the global map of transnational trade shows us, the ultimate points of consumption of the main illicit products are the most developed economies (North America, Europe, East Asia). More and more, the illegal activities are following legal activities and routes. In many ways, criminal organisations and activities are not the underground part of globalisation, but a central part of it. In essence, money laundering circuits are intrinsically connected with the legal economy. At the same time, the strength of crime networks also derives from less-developed areas, where drug production or transit can be facilitated (Latin America, Africa, South Asia) by the lack and/or corruption of state authority.

1. UNODC, *The globalization of crime. A transnational organized crime threat assessment*, 2010, p. 275. Available here: https://www.unodc.org/documents/data-and-analysis/tocta/TOCTA_Report_2010_low_res.pdf.

Global map of transnational criminal routes¹



II. Criminal markets and profiles in the EU

Europol assessment reports, along with a small number of academic research papers, make it possible to sketch a more precise view of the scope and extent of criminal activities in the EU, compared to available international-level information.

According to the final results of the EU project “OCP Organised Crime Portfolio” (2015), dedicated to the measurement and analysis of organised crime activities in the EU, drug trafficking, Missing Trader Intra-Community (MTIC) fraud (or VAT Carousel fraud) and counterfeiting are by far the most profitable activities, respectively earning €27.7, €29,3 and €427 billion each year.²

REVENUES FROM ILLICIT MARKETS PER YEAR – Billion euro

Illicit market	7 OCP countries	Whole EU
Illicit drugs	20.2	27.7
Heroin	5.7	8.0
Cocaine	5.3	6.8
Cannabis	5.4	6.7
Amphetamines	1.6	2.8
Ecstasy	2.2	3.5
Trafficking in human beings	Estimate available only in few EU MS	
Illicit trafficking in firearms	-	0.4
Illicit trade in tobacco products	5.2	9.4
Counterfeiting	21.6	42.7
Illegal gambling	Estimate available only in few EU MS	
Extortion racketeering	Estimate available only in few EU MS	
Usury	Estimate available only in few EU MS	
MTIC fraud	16.9	29.3
Cargo theft	0.36	0.42
TOTAL	64.2	109.9

Source : Transcrime-OCP estimates.

1. UNODC, 2010, *op. cit.*, p. 2.

2. Final Report of Project OCP, *From illegal markets to legitimate businesses: the portfolio of organised crime in Europe*, HOME/2011/ISEC/AG/FINEC/4000002220, 2015, p. 9. Available at: http://www.ocportfolio.eu/_File%20originali/OCP%20Full%20Report.pdf.

According to this research programme, which may have been the most advanced, scientific attempt to measure serious criminal activities in the EU, illicit markets in the EU produce about €110 billion each year.³ National assessments also exist. According to France's GRASCO journal, turnover from organised criminal activities in the country in 2013 was estimated at around €5 billion, with profits of €2.5 billion.⁴ These numbers on internal EU activities do not account for the profits, activities and groups that are being sustained for the production and transportation of some of these goods towards the EU. It is difficult to ascertain whether the revenues and spread of OCGs in the EU are currently growing. However, the Transcrime project identified five major crime enablers currently driving OCGs: the economic crisis, corruption, Internet, ID theft and document fraud, and legal business structures.

Centrality of the drug market

Europol's 2017 *Serious and Organised Crime Threat Assessment* (SOCTA) analyses a number of major crimes, with drug trafficking assessed as "the largest criminal market in the EU". The drug market is seen as the key financial enabler for other criminal activities. Of all identified OC groups (OCGs), 35% are involved in drug trafficking in some way. It connects transnational criminal groups with local distribution networks, involving a high number of individuals. The total market represents around 24 billion euros per year in profits (2017 SOCTA, p. 34). In France, it is estimated that 70% of criminal revenues come from drug trafficking.⁵

The drug market is poly-criminal, with increasing cooperation between groups in search of better adaptation strategies. New supply routes are being sought, through the Baltic States (for heroin), West Africa (cocaine) or the Balkans (cannabis). Products have also become more diverse with, for example, synthetic drugs and new psychoactive substances,⁶ genetically modified coca plants or alternative varieties of cannabis,⁷ which are increasingly being distributed via the Internet. As the 2016 Europol report states, globalisation and technology have accelerated the rate of change in the drug market and contributed to the strong resilience against, and capacity to adapt to, any changes in policies or law-enforcement tools intended to counter trafficking. The use of Darknet websites for product sales and for cooperation between criminal groups helps the illegal drug business to remain one step ahead of law enforcement agencies.⁸

Drug trafficking empowers criminal activities in general, by flushing illegal networks with cash, pushing groups into international networks and additional criminal activities. It also underlines the burden that criminal activities pose on societies.

What are the main criminal groups operating in the EU? According to the findings of the OCP Research Project, Italian mafia (particularly 'Ndrangheta, Cosa Nostra and Camorra), Chinese OCGs, Russian/Georgian OCGs, and also British and Dutch criminal groups (of various ethnic origins) are the groups for which the largest amount of evidence of investment has been found. It should be noted that all of them have had illegal activities in the betting and sports sector (infiltration of the legal sector, match-fixing, money laundering or extortion). (See Annex II for a breakdown of their activities).

3. The study focuses on ten illicit markets: trafficking of illicit drugs (heroin, cocaine, cannabis, amphetamine, ecstasy), human trafficking, firearms trafficking, illicit trade in tobacco products, counterfeiting, illegal gambling and match-fixing, extortion, racketeering, usury, fraud and organised property crime.

4. T. Ourgaud, *L'argent de la criminalité organisée en 2013 : approche empirique de sept marchés criminels*, La revue du Grasco, n° 14, janvier 2016, p. 43. Available at: http://larevedugrasco.eu/FR/PAGE_redirection_doc.php?P1=18&P2=pdf.

5. T. Ourgaud, *op. cit.*, p. 46.

6. Europol has noted a steep rise in methamphetamine production and trafficking in the EU. In 2012 alone, 73 new psychoactive substances have been detected by Europol (Europol, *EU drug markets report, a strategic analysis*, 2016, p. 106).

7. M. Roudaut, *Marchés criminels, un acteur global*, 2010, PUF, Paris, p. 201.

8. Europol, 2016, *op. cit.*, p. 7.

III. Lessons from growing criminal activities

a) Counterfeiting, symbol of the criminal grey area within the EU

Fuelled by the fallout of the recent economic crisis, counterfeiting is now considered a major criminal threat, as identified in the two most recent SOCTA reports. A recent OECD report states that counterfeiting has enjoyed “considerable growth”.¹ Informal commercial routes have flourished in parallel with legitimate economic networks built by transnational companies. Contemporary counterfeiting moved from old-school sweatshops to incorporate an international industrial dimension. Counterfeiting is no longer solely concerned with luxury products, but now includes everyday consumption items, such as electronics, medicine² and food. Most of the counterfeited products seized in the EU come from China.³ The UNODC 2010 report calculated the value of the China–Europe route alone at \$8.2 billion (calculated at destination). The route has risen dramatically over the 2000s, fed by the Chinese economic boom. It also serves to explain the strategic importance southeastern European and the Black Sea have taken. Goods are funnelled through these areas, which are accompanied by other illicit activities (drugs, prostitution, illegal immigration). The 2013 SOCTA report states, however, that counterfeit products are increasingly being produced within the EU, and that seizures of counterfeit health and safety products are on the rise. In 2011, the domestic retail value of articles infringing intellectual property rights (IPR) seized at EU borders was over €1.2 billion compared to €1.1 billion in 2010. The 2017 Europol assessment cites the example of Italian mafia which combined the selling of fake champagne (12,000 bottles were seized by the investigators) and cocaine within several EU Member-States (2017 SOCTA, p.46). This type of crime is likely to continue to expand as it involves relatively low risk and it can easily be incorporated into legitimate business activities — the mixture of legal and illegal activities being a hallmark of modern crime. Moreover, ongoing economic difficulties facilitate the acceptance of, and demand for, such products by the population.

b) Adapting to heterogeneous national policies: human smuggling and illegal immigration

Other criminal activities on the rise include illegal immigration and human trafficking, fuelled by development inequality between the EU and other parts of the world. These activities are highly profitable for OCGs, which tend to use the same routes as those used for drugs and counterfeiting, with southeastern Europe and the Black Sea serving as hubs. Other frequently used routes go through North Africa. One recent development has been the flow of migrants passing through Libyan territory, as smugglers took advantage of the security and political vacuum created by the fall of Gaddafi in 2011. There is no clear understanding of the revenues and the profiles of the groups involved in this activity, which is less established than the drug market. The flow of people varies almost on a daily basis, and is dependent on the local security situation and economic crises (Syrian Civil War, civil tension in Afghanistan, the economic situation of Northeast Africa

1. OECD, *op. cit.*, p. 25.

2. According to the World Health Organization, 7–10 % of medicines are counterfeited, with peaks of 30–40 % in some African countries (F. Maccaglia and M-A. Matard Bonucci, *Atlas des mafias*, Autrement, 2014, p. 69).

3. *ibid.* p. 68.

and the Sahel region, etc.). Moreover, differences between economic migration, political refugees and smuggling can be hazy and may not involve the same criminal groups. Finally, human flows reaching the EU change rapidly, adapting to the immigration measures and policies of individual EU Member States. New national obstacles create detours. Signs of flexibility trigger potential avenues. As a matter of fact, the lack of homogeneity and cohesion between EU Member States on immigration issues is highly detrimental in the fight against criminal groups who are profiting from this movement of people.¹

c) Sophistication of criminal activities: economic crimes

Economic crimes, including MTIC fraud, are also being increasingly treated as a major threat by law-enforcement agencies, even though they are different and less visible than traditional illicit activities. They contribute to the “greying” of the illegal economy (or the infiltration of the legal economy). More importantly, they are indicative of the ability of modern criminal groups to engage in very sophisticated, high-tech activities and to infiltrate high-level transnational companies. The 2013 SOCTA report underlines that many economic crimes are organised from Dubai. The United Arab Emirates are also increasingly mentioned as a platform for human trafficking and counterfeiting. Recent examples of major economic crimes involve Italian OCG investment in renewable energies, or fraud in carbon taxes.²

d) Structural changes: towards multi-ethnicity and network-style criminal co-operation

An overview of major criminal groups should not overlook the presence and activity of numerous smaller criminal groups with varied and more flexible profiles. As the 2017 SOCTA report underlines, there are an estimated 5,000 OCGs active in the EU (the 2013 assessment counted 3,600). Among these “secondary” networks, notable are the Balkan groups (Albanian, Serbian, Macedonian) and other Southeastern European OCGs (Bulgarian, Romanian), Turkish OCGs and North African OCGs. Smaller networks therefore drive these markets.

Even though nationality and ethnicity remain essential for understanding the nature of these networks, it is important to note that about 70 % of them have members of diverse nationalities. According to 2017 SOCTA, “30 to 40% of OCGs operating to an international level feature loose network structures”, and 20% only work on short term ventures. This looseness is also felt in the composition of the networks: 24% of these structures count only up to five members (p. 14).

The report insists on this new volatility of international criminal links, which are not exclusive to cybercrime anymore. Polycriminal trends are also on the rise. 45% of the OCGs reported for the 2017 SOCTA are involved in more than one criminal activity : “Many OCGs are highly flexible and able to shift from one criminal activity to another or to add new criminal activities to their crime portfolio. In many cases, OCGs operate on an on-demand basis and only become active once new profit opportunities emerge” (p. 15).

1. Europol, *EU Serious and Organised Crime Threat Assessment (SOCTA)*, 2013, p. 24.

2. For more information on the example of fraud in carbon tax credit, or how to exploit weak regulations to commit financial crimes, see: Interpol, *Guide to Carbon Trading Crime*, 2013, p. 17.

Focus: Multi-ethnicity and poly-criminality: Prostitution, drugs and counterfeiting networks in Southern Europe (Research from Alain Tarrius, *La Mondialisation criminelle*, 2015)

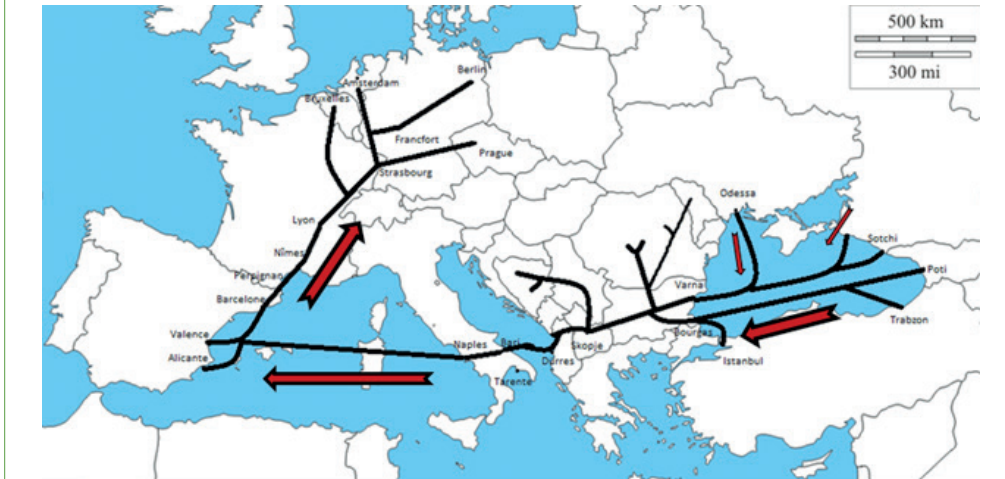
The increasingly multi-ethnic nature of contemporary crime in the EU is precisely described by Alain Tarrius in his studies of prostitution networks of southern Europe. His research showed that networks involve many different communities which cooperate intensively.

Counterfeiting products from Asia to the EU: In one part, Iranian, Turkish, Kurdish and Pakistani (Baloch) groups provide electronic products from East Asia to the Black Sea region (via Gulf monarchies such as the United Arab Emirates, Oman or Kuwait). A second part involves mostly networks originating in Syria and Bulgaria which facilitate the transfer of products in the EU with the help of Balkan criminals. Counterfeited products actually follow the same routes as legitimate products, reinforcing the mix between legal and illegal economies.

Prostitution and drug networks from the Black Sea to the EU: Prostitutes are recruited from the wider Black Sea region: the Balkan Peninsula (Albania, Bosnia, Macedonia), Romania, Bulgaria, Ukraine, Moldova, Georgia. Then, OCGs composed largely of Georgian, Ukrainian and Albania individuals carry out the trafficking of the prostitutes towards the Western Balkans, Italy, Spain and onwards, along with quantities of heroin and cocaine.

Prostitution and drug networks investigated by A. Tarrius (Tarrius, 2015, p. 41)

Underground connections go beyond the model of cooperation between separate groups. Merging criminal groups have created utterly cosmopolitan networks. To facilitate communication, new languages are even devised and used. The Internet is used to send coded messages for the traffickers (among others, fake sea weather images are used to communicate). It is therefore safe to say that not only has crime benefited from globalisation, but it is one of its most salient (although understudied) manifestations.



The analysis of the Black Sea underground economy could potentially apply to other cosmopolitan routes towards the EU, such as North Africa (drugs, immigration). In geographical terms, the 2011 SOCTA report identified five major hubs (or hotspots) for transnational criminal activities in the EU:¹ The Baltic States, Benelux, Southern Spain, Southern Italy and the Black Sea. All these regions are major gateways to the European economy.

1. Europol, *EU Organised Crime Threat Assessment (OCTA)* 2011, p. 50.

Mobility along these routes and around these hubs is extreme, and is not confined to underground activities. To the contrary, they mix legal and illegal activities to the point that it is very difficult to separate them. Ports and other business-connecting areas are also major criminal hubs. Undeclared products use the same transportation as legitimate products and can be covered by the same front companies. The business is financed through high-level investments from major offshore centres. Local logistics and administrative issues are resolved through political support at local and national levels. It can therefore be concluded that the illicit economy is not independent of the legal one. It is consubstantial to it. This can be applied to all major types of trafficking.

It is to facilitate these connections that criminal groups are increasingly operating on a network-style basis (instead of traditional familial or ethnic relationships) and are becoming more heterogeneous. Nevertheless, such flexibility should not be seen as a mark of loose or uncontrolled organisation. What is increasingly apparent in the governance of flows through Southeastern European is a global partnership between Italian and Russian mafia, who reinforce their position of dominance and set the framework for these activities, which are then run by these heterogeneous networks.¹ This style of networking is not necessarily new; early signs of structural cooperation were already being noticed in the 1990s.² The internationalisation of crime has not automatically lead to a dissolution of major mafia groups, such as the Italian or the Russian mafia, which remained mostly territorial in nature. However, the framework of transnational cooperation hides growing crime-as-a-service ties, where criminal groups cooperate on one-off, flexible bases. In 2015, Europol published *Exploring Tomorrow's Organised Crime*, which supports this view. "The group structures that dominate fictional representations of organised crime are disintegrating and will increasingly give way to an organised crime landscape dominated by loose networks made up of individual criminal entrepreneurs who interact and conduct their business in a shared, and often digital, criminal underworld".³

e) Cybercrime, the pioneering facilitator and vector of criminal risks

The "crime-as-a-service" model for criminal relations was originally developed via cybercrime, as identified in the Europol 2014 Internet Organised Crime Threat Assessment (iOCTA) report. Europol defines cybercrime as a highly specialised activity of a small number of criminal groups to facilitate or conduct criminal acts through the Internet. The report states that instead of seeing the flattening, or merging of criminal cooperation around the world, cybercrime is considerably fragmented according to the skills and IT tools of each criminal group.⁴ Outsourcing can be done to save money, to dilute any hierarchical relations and to avoid detection (or to preserve a measure of plausible deniability). Specific skills can be used, for example, to design and develop malware, a major tool for cybercrime today. IT engineers can now develop ready-to-use malware kits that are available for purchase. Ready-to-use distributed denial of service (DDoS) attacks are also sold through the Internet, with IT groups proposing the rental of their botnet to launch attacks. Options such as translation services, pay-per-install services and infrastructure security tools are also

1. A. Tarrius, *op. cit.*, p. 6.

2. A. Jamieson, *Cooperation between organized crime groups around the world*, Jahrbuch für internationale Sicherheitspolitik, 1999.

3. Europol, 2015, p. 11.

4. Europol, iOCTA, 2014, p. 19.

available to facilitate the distribution of malware, hacking services or DDoS. Beyond traditional cybercrime activities, “money laundering-as-a-service” is also available from cyber-criminals who will shuffle money through websites (possibly gaming and betting websites), and use various payment methods and accounting strategies to hide and/or legitimise the origin of the funds. Such exchange or acquisition of services is greatly enhanced by underground, dark web forums that provide secure, anonymous channels for communication and exchange. When analysing the online gambling industry, Dr Ingo Fiedler also reported on the professionalisation of money laundering: “It is essential that criminals need professional launderers to transfer the bulk of their illegal proceedings to the legal system”.¹

Separate services have always existed in the underworld — hired hit-men contracts for example. But the cooperation model identified in cybercrime shows how much the Internet can impact the whole spectrum of inter-OCGs relations. Most importantly, at the international level, the crime-as-a-service model poses serious challenges to law-enforcement agencies, as they are more used to and more experienced with fighting structured hierarchical groups than loose networks. The fragmentation of criminal activities makes it necessary to conduct several investigations in order to reach the whole criminal route or sector. Also, the growing use of underground anonymous communication devices and payment channels hinders progress in these investigations.²

f) Money laundering: the criminal need for money legitimisation

The FBI estimates that international organised crime reaps illegal profits of around \$1 trillion per year.³ Estimates for the EU place profits at around €110 billion each year,⁴ which constitutes approximately 1 % of the 28 Member States’ GDP. The process of money laundering is strategic for criminals so they can enjoy these profits. The scale of this process is naturally difficult to assess but is substantial. The United Nations Office on Drugs and Crime (UNODC) estimates that the sum of money laundered globally each year amounts to 2–5 % of global GDP, that is to say between €615 billion and €1.54 trillion each year.

Interpol defines money laundering as: “any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources”.⁵ Concealing, disguising or legitimising money can include various techniques, which generally fall into three main steps: placement, layering and integration. The diagram shows how these three steps might work where betting is used as the vehicle for laundering illicitly acquired funds.

Money laundering is a stand-alone offence, independent of predicate offences in legal and practical terms, but also closely related to other forms of crime (SOCTA 2013). In addition to criminal groups, there are also professional money launderers that perform money-laundering services on behalf of others as their core business.

While some major criminal activities, such as drug trafficking, are largely cash-based, incorporating money into the banking system is a key component of money laundering strategies. In addition, as crime shifts to accommodate more aspects of financial strategy, sophisticated, high-volume money

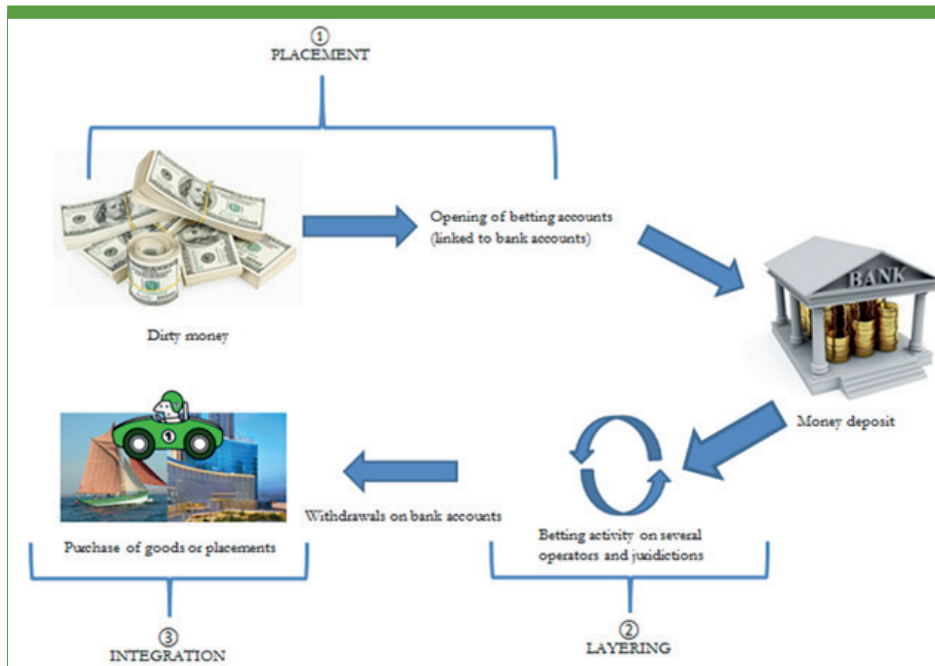
1. I. Fiedler, “Online Gambling as a Game Changer to Money Laundering?”, in *The Political Economy of Offshore Jurisdictions*, Walter Otto Ötsch, Gerd Grötzinger, Karl Michael Beyer und Lars Bräutigam (Hrsg.), Metropolis, Marburg, 2014, pp. 79–95.

2. On this webpage the notorious Tor network explains how it functions and how it assures anonymity: <https://www.torproject.org/docs/hidden-services.html.en>. For further analysis on the dimensions of cybercrime, see Cybercrime exposed: Cybercrime as a service, McAfee Report, 2013.

3. See FBI website: <https://www.fbi.gov/investigate/organized-crime>.

4. OCP Project, *op. cit.*, p. 286.

5. See Interpol website: <https://www.interpol.int/Crime-areas/Financial-crime/Money-laundering>.



concealment and transfer mechanisms become necessary (OCTA 2011). A recent money laundering case involving British bank HSBC, and the settlement the bank reached with the Swiss authorities, illustrates the multinational connections of some money-laundering systems.¹ HSBC Switzerland was found to be laundering money from Parisian drug traffickers, triads with counterfeiting activities in Spain and assets linked to a Mexican cartel.

One money laundering method that is becoming more common is trade-based money laundering (TBML), which was the subject of a special Financial Action Task Force (FATF) report in 2012² and a recent research paper from the United States Congressional Research Service (CRS).³ International trade dynamics and the use of potentially complex trade financing schemes (or, at the other end of the spectrum, cash payments) are two main drivers for TBML. They also act as major obstacles for investigators. In addition, there is little information or literature available about case studies of TBML techniques, which vary widely. In essence, TBML is "the process of disguising the proceeds of crime and moving value through the use of trade transactions in an attempt to legitimise their illicit origins".⁴ Much like money laundering through financial systems, TBML may occur in three stages. At the placement stage, the offender transforms illicit proceeds into a transferable asset (e.g., by purchasing goods); at the layering stage, the offender attempts to obscure the link between the illicit proceeds and their criminal source (e.g., by trading the goods across borders); and at the integration stage, the offender re-introduces the illicit proceeds into the legitimate economy (e.g., through resale of the goods). There are four basic TBML methods: (1) over- and under-invoicing; (2) over- and under-shipments; (3) falsely describing goods or services; and (4) multiple invoicing of goods or services.

1. "HSBC pays out £28m over money-laundering claims", *The Guardian*, 4 June 2015 <https://www.theguardian.com/business/2015/jun/04/hsbc-fined-278m-over-money-laundering-claims>.

2. Asia/Pacific Group on Money Laundering, *APG typology report on trade based money laundering*, 20 July 2012 http://www.fatf-gafi.org/media/fatf/documents/reports/Trade_Based_ML_APGReport.pdf.

3. Congressional research Service, *Trade-based money laundering: overview and policy issues*, 22 June 2016. <http://www.fas.org/sgp/crs/misc/R44541.pdf>.

4. *Ibid.* p. 9.

TBML is at the interstice of major changes in criminal activity, with increasingly complex financial instruments and the fusion of legal and illegal activities, which is in itself a money laundering mechanism. The CRS report describes TBML as “among the most challenging and pernicious forms of money laundering to investigate” (p. 1), as illicit transactions can easily be hidden in the mass and liquidity of legitimate world trade — given that world trade has grown fourfold over the past 25 years, reaching \$16.4 trillion in 2015. The report states that this method is on the rise within the criminal world.

g) The interpenetration of legal and illegal activities

More flexible and cosmopolitan, embracing globalisation and looking for ways to expand their reach and influence, criminal networks have deepened their infiltration of the legitimate economy. This trend, visible the world over, but increasingly in the EU,¹ poses an additional challenge for law enforcement. In increasingly “grey” economies, criminals can launder money more easily and better conceal their activities, for example through import/export businesses. Forays into industries such as waste management in Italy have enabled criminals to maximise profits. Money laundering and making profits go hand in hand, as does territorial control. Because of the Cosa Nostra’s deep integration into Palermo’s economy, the group gained political control over the city, its population and the elite. Influence over politicians and administrative officials is a key enabler for criminal activities.

The grey economy is also growing because the definition of “legal” and “illegal” is not always clear. Differences in legislation can mean that an activity is legal in one jurisdiction yet illegal in another. In the case of diverted products or undeclared activity, the activity is only partly legal, partly illegal.

Financial, or “white-collar”, crimes, are even more difficult to detect and to combat by law-enforcement agencies. They epitomise the mixture of legal and illegal activities and the challenges this mix poses.

The “legalisation strategy” of crime, whether formally intended or not, renders criminal networks more diffuse and less visible, if not more acceptable. The greying of the economy reduces the chances of detection and hinders investigations without diminishing the profits and influence of criminal networks.

IV. Gambling as a traditional criminal activity: History and main reasons

a) Gambling and crime: historic links

According to Banks (2017, p. 132), “Gambling is often associated with crime”. The relationship is easy to understand. As Banks (2017, p. 116) underlines: “The most significant link between gambling and crime is also the most obvious; in many regions of the world, specific forms of gambling remain illegal”. Hence, by definition, criminals were the only operators of games. When

1. On this subject, see the OCP Project results (op. cit.) and the ARIEL Project results: *Final Report of Project ARIEL - Assessing the Risk of the Infiltration of Organized Crime in EU MSs Legitimate Economies: a Pilot Project in 5 EU Countries*, 2012, HOME/2012/ISEC/FP/C1/4000003801.

gambling restrictions were relaxed, criminals were the first to open legal gambling establishments. A lax regulatory framework in Nevada failed to prevent members of organised crime from openly owning and operating casinos. To some degree, Nevada needed the criminals to make gambling viable because no one else had their expertise or experience.¹ Until the 1960s, Nevada had a difficult time keeping mobsters out of the casinos. Nevada was plagued by teamster financing, hidden ownership, employment of individuals of questionable character and background, and had clear links to organised crime. In this context, organised crime doesn't refer to the mafia alone, but to a whole raft of economic services and actors. Nevada improved its regulation only under the threat of federal intervention. The federal government believed, with good reason, that Nevada casinos were fuelling organised crime throughout the country.

There are a number of clear reasons why gambling is attractive for criminals:

- First, gambling is a natural target for criminals because of the large amounts of cash involved. Handling large amounts of cash is a good opportunity for skimming² and for money laundering.
 - Skimming has been a significant problem. For example, there were indictments against certain American casino owners in the early 1960s for tax evasion.
 - Bettors can come with a large amount of cash and gamble. As soon as the money is labelled as “winnings”, it is deemed legal and is then laundered.
- Illegal gambling is a major source of revenue for criminal organisations.

The control of a legal gambling operator can also provide many opportunities for money laundering.

- Casino dealers are not required to continually inventory their chips and money while they are working, which creates opportunities for fraud. In many countries, casinos allow employees to gamble while off work, a situation that can lead to collusion.
- Other risks include — particularly in Asia — credit abuse, currency transaction violations and loan sharking.
- More recently, sport has become a target for criminal organisation. By manipulating sports competitions and “modern” betting, criminals have managed to secure significant profits since 2005. In Italy, for a single fixed Serie A football match, criminals earned several million euros.³ Campbell and Marshall presented a taxonomy of how organised crime and gambling may be linked.⁴ They mention six major connections:
 - (1) illegal gambling;
 - (2) “criminogenic” problem gambling (such as forgery, embezzlement and fraud, typically committed by problem gamblers to support a gambling addiction);
 - (3) increases in crime specific to the expansion of a casino;
 - (4) crime committed in the venue, such as money laundering;
 - (5) crime committed against the operator or other players, such as cheating;
 - (6) corruption.

1. R. Dunstan, *Gambling in California*, California Research Bureau, California State Library, January 1997.

2. Skimming means stealing somebody else's credit card information. See below.

3. Support notes, Calciocommesse case, Roberto Di Martino, Prosecutor of Cremona (Italy), 2011-2013.

4. Campbell, C.S. & Marshall, D. (2007). “Gambling and crime”. In G.Smith, D.Hodgins, & R.J.Williams (Eds.), *Research and measurement issues in gambling studies* (pp. 541–564). Burlington, MA: Academic Press.

Peter Ferentzy and Nigel Turner wrote an informative and exhaustive paper reviewing literature on the historical relationship between gambling and organised crime in the nineteenth, twentieth and twenty-first centuries in the USA and Canada. They demonstrated the extensive links between organised crime and gambling.¹ Such links, also described at length by Banks,² evolve constantly in parallel with changes in legislation and technology. For example, in the 1920s, Prohibition gave OC a major opportunity to grow. During the period, underground casinos and other gambling venues were one of the avenues for distributing alcohol. Once Prohibition was repealed, organised criminals returned to gambling as a main revenue stream,³ while also including the distribution of illegal drugs and the infiltration of labour unions.⁴ Later, two offshore locations played a key role in the expansion of gambling in the mid-twentieth century: Cuba and the Bahamas. In the 1950s, Cuba was a haven for North American gangsters and their gambling rackets.⁵ After the Castro coup, many interests relocated to the Bahamas and, eventually, Atlantic City. Another such mid-century “migration” involved Montreal. Many OC gambling operators fled the United States for Montreal during and after the Kefauver inquiries into OC.⁶

b) Sports betting and criminal activity

According to Albanese, illegal online and offshore betting represented the most common type of illegal gambling enterprise.⁷ The major reason driving the potential for criminal activity in sports betting is the vast sum of money involved in it. Although overall estimates vary (see estimation below), whatever the total amount staked legally and illegally around the world, it is huge.

Hypothesis	Worldwide wagers (2017)
Low hypothesis	€300 billion
Median hypothesis	€500 billion
High hypothesis	€1.5 billion

According to B. Sandywell, “gambling site operators, employees, customers and unwanted ‘third parties’ anonymously intermingle, create the opportunity for multifarious forms of criminal activity and constructing rhizomatic relations between perpetrators and victims”.⁸

McMullan and Rege’s research (2010) tries to identify different typologies of individuals or organisations involved in criminal activities associated with online gambling in particular. They distinguish two major groups:⁹

• Individuals:

- “Cybernomads”, described as solo criminal actors who purchase or manufacture “toolkits” that enable individuals to cheat and steal from online gambling sites and their clientele;
- More advanced cybernomads, often akin to professional criminals, engage in the production

1. For further analyses, see C. Kalb & P. Verschuuren, *Money Laundering: The Latest Threat to Sports betting?*, 2013, IRIS Editions, pp. 34–36.

2. *Op. Cit.*

3. Anderson, 1979; California Attorney General, 1971; de Champlain, 2004; Monkkonen, 1992; Thompson, 1997; Zendzian, 1993

4. P. De Champlain, *Mobsters, gangsters and men of honour*, Harper Perennial, 2004.

5. Cirules, 2004; Block & Scarpitti, 1986; Demaris, 1986; Mahon, 1980; Zendzian, 1993.

6. U.S. Senate Special Committee, 1951.

7. Cited in Banks, 2017, p. 119.

8. B. Sandywell, “On the globalisation of crime: The internet and new criminality”, In Y. Jewkes and M. Yar (eds) *Handbook of Internet Crime*, 2010, Cullumpton: Willan, p. 38–66.

9. J. L. McMullan, and A. Rege, “Online crime and internet gambling”, *Journal of Gambling Issues*, 24, 5, 2010, pp. 54–85.

of malware, technical intelligence and personal information that can be sold on to others through the underground economy;

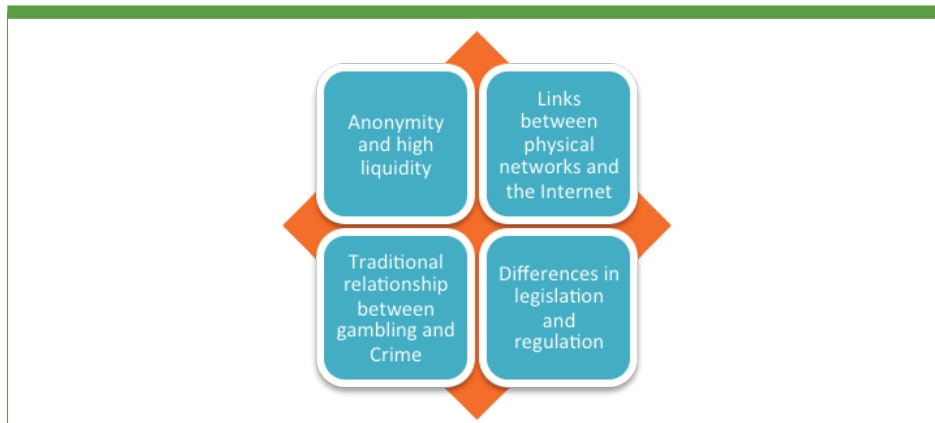
- Hackers, who may carry out their own attacks on gambling sites or subcontract their services to other criminal groups.

• **Organisations:**

- Small scale organised crime groups, players, consultants or web and gambling site owners, managers and employees who unite to commit acts of fraud, theft or money laundering. These “criminal assemblages” consist of dynamic and complex criminal networks that engage in ongoing extortion, phishing, identity fraud and money laundering enterprises.

By way of summary, James Banks (2012)¹ claims that Internet gambling sites can operate as source of criminal activity, as a vehicle for crime or as a support for other criminal enterprises. For a criminal who has sufficient resources, setting up a gambling or a betting company is relatively easy, and offers the criminal the possibility to funnel money through bookkeeping by creating false accounts filled with money coming from their other activities.²

The theoretical vulnerabilities can be represented schematically as follows:



V. When the evolution of criminal behavior meets sports betting

From this overview of contemporary organised crime in the EU and the theoretical vulnerabilities of the gambling and betting markets, some specific risks can be underlined:

1. The adaptability and flexibility of the modern criminal networks, which manage to profit from economic conditions and advances in logistics created by globalisation, as well as from developments in communications (Internet) and financial tools. The transformation of the betting (and gaming) industries by the Internet in the last 20 years is an example of the new opportunities

1. J. Banks, “Online gambling and crime: a sure bet?”, *The ETHICOMP Journal*, 2012.

2. I. Fiedler, *op. cit.*, p. 90.

that exist for OCGs. In addition to its now transnational nature, the sports betting market has strong similarities with financial markets. This can be seen in the emergence of high-frequency betting, the formation of professional betting syndicates with speculative techniques that use algorithms and statistical data, the search for “arbitrage” situations, the use of offshore platforms, the irrationality of odds evolutions and so on. The high fluidity and liquidity of sports betting poses theoretical risks given that OCGs are increasingly inclined to invest in financial-style activities.

2. The growing mix between legal and illegal activities, symbolic of the willingness of OCGs to infiltrate the legal economy in order to gain more influence and territory, to conceal or facilitate illegal activity, or to collect additional revenue. The sports betting market can easily be invested for these purposes, for two reasons. First, it is a dual market, with physical and online activities, which offer not only features that are potential attractive to criminals (anonymity and cash-based transactions for offline betting, electronic money and high liquidity for online betting), but also include pathways between both networks. Some operators offer both online and retail betting, and some retail outlets are used to offer Internet products and services (through the use of computers, or “totem” Internet services, within the retail outlets). Second, given the difficult states experience in controlling betting operators and their real ownership beneficiaries, it is possible for a criminal group to create a company and legally enter a market by applying for a licence. The blurring of legal and illegal betting activities in some jurisdictions might therefore be of interest to criminal groups.

3. Organisational and structural changes in favour of more functional cooperation in certain key activities, although this is not at the expense of traditional, territorial mafia. Quite the opposite, established groups, such as the Italian and Russian mafia, maintain control over their traditional territories¹, but gain influence in wholly transnational activities, which they sub-contract to other groups. This practice of subcontracting can be employed in the betting market, where some groups could propose services to more important groups. These services could include money laundering or running a legal (or illegal) betting business. This model of cooperation may already be in use for match-fixing, where fixers coming to Europe may be taking orders from major foreign OCGs. Some major EU match-fixing investigations, such as the Bochum case in Germany and the Calciocommesse case in Italy, have dismantled networks of fixers that were linked to major Asian criminal financiers. Some Asian or European groups have specialised in match-fixing and may in fact be laundering money and making profits on behalf of larger criminal organisations.

4. The need for money laundering, felt by OCGs, may be met by a sports betting market which has a number of theoretical advantages for money launderers. It is highly liquid, transnational, exists virtually online and is governed by widely disparate legislation. Offline betting also deals with vast cash sums and remains partially anonymous. In some cases, physical betting retailers are even connected to online websites, creating direct money laundering possibilities.

1. See F. Varese, Mafia movements: a framework for understanding the mobility of mafia groups, *Global Crime*, 2011, 12:3, 218-231, and F. Varese, *Mafias on the move*, Princeton University Press, 2011.

5. The difficulties in understanding and fighting organised crime. The fight against organised crime is made ever more difficult by the constant evolution of OC, changes in its activities, the use of sophisticated technology and financial tools, the increase in network-style collaboration and by the increased greying of the economy. Globally, the challenges in understanding the nature of and developments in OC have not been met by a rise in material and human capacities within law-enforcement agencies at EU and national levels. Despite the growing capacities at EUROPOL over recent years, national police services remain largely under-staffed and under-prepared to respond to criminal threats.

Betting and criminal activity

I. The mutation of gambling and betting through the Internet

a) Gambling operators before 1995 and gambling operators today

Before any discussion of criminal activity, it is important to understand the “Internet Revolution” as regards the sports betting market. People speak about technological changes caused by the Internet across a range of industries, but there are certainly many different levels of transformation:

Level	Nature of change	Example of products
Level 1	<p>Communication change: New media</p> <ul style="list-style-type: none"> • Possibility to advertise and to compare products through the Internet. Consumers can now find information, comparisons, comments on products online, but still buy them from traditional retailers. • For certain industries, this was a huge change. Some hotels, for example, shut down after negative user reviews appeared on the Internet. The web has improved quality and transparency. • Positive impact on society: Very strong (information) • Negative impact on society: Low • Main impact on the sports betting market: odds comparison (previously, consumers had to go to different betting shops to compare “prices”) 	<p>Cars</p> <p>Houses</p> <p>Jewellery</p> <p>Restaurants</p>
Level 2	<p>Distribution change: New networks</p> <ul style="list-style-type: none"> • Possibility to buy online. Consumers can now buy most products from anywhere: home, work, public transport, etc. (through a personal computer, a smartphone or a tablet). N.B.: In many industries, it was already possible to buy products remotely prior the Internet, by phone, but the combination of Levels 1 and 2 has led to important market changes. • Some industries had to adapt to new competitors and to develop online services. • Positive impact on society: Strong (much more practical for consumers, better prices due to greater competition) • Negative impact on society: Strong (development of illegal supply (healthcare products for instance), uncontrolled markets (due to difficulties in enforcing laws online)) • Main impact on the sports betting market: More attractive for consumers ; Development of an illegal and uncontrolled online betting market (new betting operators set up in countries with weaker levels of control and, at times, offering bets illegally – without authorisation in the consumer’s jurisdiction) 	<p>Books</p> <p>Travel agencies</p> <p>Hotels</p> <p>Car hire</p> <p>Refridgerator</p> <p>Health</p>
Level 3	<p>Product change: revolution</p> <ul style="list-style-type: none"> • Development of new products wholly or partially replacing “old” products within an industry • Some industries had to adapt to new competitors and to develop online services • Positive impact on society: Strong (much more choice for consumers, better prices and services due to greater competition) • Negative impact on society: Industry-dependent (regulatory framework requiring updating at the very least), from low to very strong • Main impact on the sports betting market: Development of live (in-play) betting and betting exchanges, with (almost) unlimited betting possibilities 	<p>Taxi (Uber)</p> <p>Peer-to-peer services (eBay, Airbnb, betting exchanges, etc.)</p> <p>Betting</p>

Sports betting has clearly been affected by these developments. We can observe at least eight primary changes in the betting industry:

1. GGR: Gross Gaming Revenue = Stakes – Winnings = Consumers' spending.

2. GGR: Gross Gaming Revenue = Stakes – Winnings = Consumers' spending.

CHANGE	Before the Internet (1990)	After the Internet (2017)
Territory	It was not possible to place bets outside the jurisdiction of the consumer <i>N.B.: There were a rare number of exceptions to this rule (operators licensed in a given country and accepting bets from foreign citizens)</i>	It is possible to place bets worldwide with illegal operators <ul style="list-style-type: none"> • In countries restricting illegal betting: Using a fake ID and opening offshore banking accounts, ID theft, etc. • In countries not fighting against illegal betting: simply by opening a betting account abroad
Number of operators	In most countries, sports betting was offered by zero (prohibition) or only one (monopoly) operator. There were around 300 licensed sports betting operators (horses and greyhounds excluded) worldwide. In some countries, illegal networks were strong. A majority of the licensed operators were based in the UK, which gave licenses to individual bookmakers. <i>N.B.: There were only a few exceptions (UK, Ireland, South Africa and Nevada, for example)</i>	Today, more than 60 jurisdictions in the world (source: Sorbonne University, 2014) award some form of licence to bookmakers or betting operators (retail and online). According to research, the number of licensed betting operators varies from 3,000 to 10,000. Additionally, there is a huge number of wholly 100 % illegal street bookmakers or online companies, not even registered (Asia, Costa Rica, Italy, USA, etc.).
Main betting product	<ul style="list-style-type: none"> • Pool betting (totalisator, or parimutuel) <i>N.B.: With pools games, the consumer (bettor) does not know in advance how much they can win. All the stakes are placed in a pool and the part of the pool dedicated to winnings is equally shared among winners. If there are many winners, winnings are reduced.</i> • Pool betting is without risk for the betting operator • In 1990, pool betting represented more than 90 % of the worldwide legal sports betting GGR¹, today less than 10% of the sports betting GGR • In Italy, turnover from the most famous betting pool (Totocalcio) fell from €3 billion in the 1990s to €150 million today. 	<ul style="list-style-type: none"> • Fixed-odds betting <i>N.B.: With fixed odds betting, the consumer (bettor) can calculate his winnings in advance.</i> Winnings = Stake × Odds Example: If a bettor stakes €10 on a Real Madrid victory with odds at 1.9, the bettor collects €19 (€10 x 1.9) should Real Madrid win, for a gain of €9. • With fixed-odds betting, the operator has to accept a financial risk. In the previous example, should everyone bet on Real Madrid and they win, the operator's pay out is 190%, which means that the operator loses a considerable amount of money. • In 1990, fixed-odds betting represented less than 10 % of the worldwide legal sports betting GGR², today more than 90 % of sports betting GGR is fixed-odds betting.
Betting types	In 1990, there was a "star betting type": 1X2 1 = Victory of Team 1 X = Draw 2 = Victory of Team 2 In some countries, it was possible to bet with other betting types (especially in the few countries offering fixed-odds, or on illegal markets) but their "market share" remained very low: handicap betting, exact score, spread, etc.	Today, 1X2 still remains the leading betting type in most countries. Nevertheless, two factors have completely changed the structure of the betting market: Some types of bets now make up an important shares of the market for betting operators, particularly online: handicap (Europe and Asia), total number of goals (or points/sets/games) scored, etc. Many new types of betting have appeared, thanks to possibilities offered by the online market, but also because some companies sell statistics on many aspects of a competition (number of yellow cards or corners, individual data on players, etc.)
Timing of bets (Pre-match / In-Play Betting)	Before 2000, bets had to be placed before the start of the competition: <ul style="list-style-type: none"> • Betting operators stopped bets just before kick-off; • for this reason, the variety of betting types offered was much less significant. 	Around 2000, some operators began to offer in-play (or live) betting. It became possible to bet after the competitions had started. Odds change depending on the progress of the game. For example, if a football team scores one minute after kick-off, odds on the team winning should go down (because the team has a greater chance to win).

3. Sources: Annual reports of betting operators (2015) - European Lotteries Survey (2014). <https://www.european-lotteries.org/list/elise>.

Sports	<p>In 1990, more than 98% of the bets were placed on football (soccer)</p> <p>N.B.: There were some exceptions, for instance in illegal markets in USA (American football, baseball, basketball) and in India (cricket).</p> <p>In 2000, some betting operators declared that they would never offer bets on tennis, because the risk of match-fixing is too high.</p>	<p>Today, many betting operators offer bets on more than 50 different sports.</p> <p>Thanks to in-play betting, sports like tennis (where it is often possible to bet on every point of a game), basketball or ice hockey have now gained market share. Football now represents less than 65% of the betting market.</p>
Odds	<p>Odds are directly correlated to the pay-out rate offered by a betting operator on a given bet.</p> <p>Before the Internet, fixed-odds betting operators generally offered average pay-out rates under 70 % (in UK, for example, bookmakers generally allowed only bets on three or more matches, not on single games (except for some rare televised matches where a single bet would be accepted).</p> <p>Pools games generally offered limited pay-out rates, to finance sport or charitable causes (on average 45–55 %, and sometimes even less).</p>	<p>In 2015, average pay-out rates reached much higher values for fixed-odds betting³:</p> <ul style="list-style-type: none"> • Between 92 to 95.8 % for major European online private betting operators. Bet365 was the most generous; • More than 98 % for Asian bookmakers offering a VIP treatment for their best clients; • Between 82 and 89 % for major European offline private betting operators; • Between 50 % and 93 % for lotteries offering fixed-odds betting. <p>Even some operators of betting pools now offer pay-out rates as high as 70%.</p>
New services offered to bettors		<ul style="list-style-type: none"> • In June 2000, Betfair launched a peer-to-peer platform, where two individuals (or businesses) bet with each other. This was the birth of the "betting exchange" market. One party plays the role of the bookmaker (they "lay" a bet). The other plays the role of the bettor (they "back" the bet). Betfair takes a commission on the winnings (quite low, generally less than 5%, which leads to high pay-out rates, over 95 %) on the winnings. • Cash out possibilities. A few years ago, innovative betting operators, like Betfair or Paddy Power for example, offered the possibility to secure some winnings prior to game end. As an example, if a bettor has bet on a win for Real Madrid and if they lead 1-0 ten minutes before the end of the game, the bettor may have the possibility to "cash out" their winnings, if they accept a slightly lower pay-out than expected.

According to a survey published by Sheffield Hallam University¹, two developments have facilitated online gambling:

- the first gambling software, by Microgaming, in 1994;
- encrypted communication protocols that enable financial transactions online, by Cryptologic, in 1995.

1. Banks, James, "Online gambling and crime: a sure bet?", *The ETHICOMP Journal*, 2012.

The Antigua-based company “InterCasino” is said to have been the first Internet gambling site to accept an online wager, in January 1996 (Williams and Wood 2007). By the end of that year, approximately 15 sites were accepting wagers, rising to 200 by the end of 1997.

b) The sports betting market in 2017

• How to measure the market?

Difference between wagers (or turnover, sales or amounts staked) and gross gaming revenue (GGR):

Gross gaming revenue (GGR) is the total of amounts retained by operators once winnings have been paid (GGR = wagers – winnings). GGR represents the sum of player net expenditures, that is, their losses. GGR is therefore the most important indicator of the size of the betting industry since it is the amount that customers leave behind with the operator. GGR allows for comparison with other industries — for example, box office revenues are used as a measure in the film industry because that is what consumers have left behind when they leave the cinema at the end of the film. The link between wagers and the GGR is given in the following formula:

$$\text{Winnings} = \text{Wagers} \times \text{Pay-out rate}$$

Where the pay-out rate is the average percentage of wagers given back to the winners.

The chart below calculates the GGR for a given pay-out rate:

4. $\text{€ } 45 = \text{€ } 100 - \text{€ } 100 \times 55\%$
5. $\text{€ } 25 = \text{€ } 100 - \text{€ } 100 \times 75\%$
6. $\text{€ } 7.80 = \text{€ } 100 - \text{€ } 100 \times 92.2\%$
7. $\text{€ } 2 = \text{€ } 100 - \text{€ } 100 \times 98\%$

Wager	Pay out rate (2015)	GGR
€100	55 % (La Quiniella (betting pool) – Spain - 2015)	€45 ⁴
€100	75% (Offline % (Land-based fixed odds – FDJ – France - 2015)	€25 ⁵
€100	92.2 % (Online fixed odds – Unibet - 2015)	€7.8 ⁶
€100	98 % (Online fixed odds – certain Asian operators - 2015)	€2 ⁷

What does this mean? If a bettor bets €100 on various football matches with Unibet, on average he will win €92.20. He will therefore lose an average of €7.80, which is retained by Unibet.

It is also possible to make the opposite calculation, starting with the GGR:

8. $\text{€ } 222.22 = \text{€ } 100 \div (1 - 55\%)$
9. $\text{€ } 400 = \text{€ } 100 \div (1 - 75\%)$
10. $\text{€ } 1,388.89 = \text{€ } 100 \div (1 - 92.2\%)$
11. $\text{€ } 5,000 = \text{€ } 100 \div (1 - 98\%)$

GGR	Pay out rate (2015)	Wagers
€100	55 % (La Quiniella (Pools Game) – Spain)	€222.22 ⁸
€100	75% (Offline % (Land-based fixed odds – FDJ – France)	€400 ⁹
€100	92.2 % (Online fixed odds – Unibet)	€1,388.89 ¹⁰
€100	98 % (Online fixed odds – certain Asian operators)	€5,000 ¹¹

What does this mean? If a bettor deposits €100 in an betting account opened with Unibet online, they can bet €1,389 on average until losing their €100. In fact, winnings would amount to €1,289, with Unibet retaining €100.

• From a leisure to a professional market

Research by Dr Ingo Fiedler showed that the betting market is highly concentrated among a very small group of bettors. According to his research, which analysed live betting data from betting operator Bwin, around 5% of the bettors account for 80% of the market.¹ This testifies to the extent to which the betting market can not be considered only as a leisure activity any more. It attracts betting syndicates, very high spenders (including professional traders), problem gamblers and, potentially, money launderers.

Nowadays, sports betting operators' margins are generally quite low. That means that pay-out rates are very high and, in some circumstances, can lead to opportunities for arbitrage (see below). Through arbitrage, professional traders profit by betting at the same time with different market operators. Arbitrage is not a risk as such, but is symptomatic of the new nature of the sports betting market, highly liquid and volatile. A general risk arises when the betting market starts to resemble a true financial market, without being regulated as such.

A recent "sure bet" in a regulated market (France): Manchester City – PSG (12 April 2016)

On the French market, there are 11 licensed online betting operators. An "arbitrageur" who wanted to optimise their pay-out on a Manchester City–Paris Saint-Germain (PSG) game has to bet with two different operators:

- Manchester win (1): The best odds on the French online market were offered by Zebet (2.97);
- Draw (X): The best odds were also offered by Zebet (3.75);
- Paris Saint-Germain win (2): The best odds were offered by Betclik (2.55).

To optimise winnings, the arbitrageur could thus for example bet:

- €100 on a Manchester City win (with Zebet);
- €79.20 ($€100 \times 2.97 \div 3.75$) on a draw, still with Zebet;
- €116.47 ($€100 \times 2.97 \div 2.55$) on a PSG win, with Betclik.

For the arbitrageur, whatever happens during the game, the financial outcome is the same:

- Spending: €295.67 ($€100 + €79.20 + €116.47$)
- Winnings: €297 ($€100 \times 2.97$, or $€79.20 \times 3.75$, or $€116.47 \times 2.55$)

In this way, the arbitrageur stands to receive a pay-out whatever the game's result, and this opportunity sometimes appears for a short period of time. This profit amounted to €1.33 for a €295.67 bet (0.45 %).

An arbitrageur betting €100,000 Euros would have won €450.

As in a financial market, betting employees can also be part of this professionalisation. In some countries or in some companies, betting employees — "odds traders" in particular — are not authorised to bet on their own products. The prohibition may be stated in their work contract. In some cases, a breach of this rule could even lead to termination of the work contract. Nevertheless,

¹ Ingo Fiedler, *Glücksspiele. Eine verhaltens- und gesundheitsökonomische Analyse mit rechtspolitischen Empfehlungen*, Peter Lang Verlag, 2016.

betting employees may use inside information and bet with other betting companies, and through their high bets can provoke an evolution of the odds which could then attract other bettors. That can explain why the market can witness snow-ball movements, which can be deemed “irrational” from an external eye.

The professionalisation of the betting market is symptomatic of sensitivities surrounding the betting market. This sensitivity also arises because the betting financial market is based on sports competitions, which can then create further vulnerabilities and conflicts of interests:

- **Sports actors:** Some sports organisations prohibit sports actors (sports licence-holders) to bet on their own competitions, or even sometimes on their own sport. A breach of this rule can lead to disciplinary action by the organisation. As an example, the Tennis Integrity Unit has sanctioned several players for having placed bets on their competition; English and Scottish football are examples of federations which prohibit players from betting on their own sport (anywhere in the world). UK licence holders are obliged to report such cases to the governing body and several players have had lengthy suspensions as a result.¹
- **Sponsoring of sport by betting actors:** For example in 2007, Unibet was the main sponsor of a professional cycling team and, at the same time, offered bets on two riders in its team (“which rider would arrive before the other one?”). Given the close relationship between the cycling team and its main sponsor—which may have influence over the team’s strategy—offering this kind of bet created a hypothetical but still high-risk situation with regard to match-fixing opportunities. Today, some betting regulators (ARJEL in France for example) prohibit this kind of situation. To receive authorisation from the regulator, betting operators must not offer bets on a competition where they manage one of the participants. Another example: today, Peter Coates is both the Chairman of Stoke City Football Club, a Premier League team, and a main shareholder in Bet365. Even though Bet365 offers bets on Stoke City, it is hard to see that this creates a risk of match fixing. Nevertheless, the situation could give Bet365 employees possible access to “insider information”. Article 10 of the Convention on the Manipulation of Sports Competitions, drafted by the Council of Europe and adopted in 2014, seeks to reduce this kind of risk.²

• **Gambling or betting regulation: between prohibition and liberalisation**

In the history of gambling (or betting), public authorities have typically alternated periods of prohibition and periods of authorisation. The three traditional phases for a regulator are as following:

- Phase 1: Gambling is considered as a danger for civil society and is generally prohibited for moral and sometimes religious reasons (for example, in the European past and in some Muslim societies).
- Phase 2: During a period of economic crisis, legalised gambling is often perceived as a way to

1. For example: “Joey Barton: Burnley midfielder banned for 18 months over betting”, *BBC*, 26 April, 2017
<http://www.bbc.co.uk/sport/football/39720232>

2. Article 10-1 of the CoE Convention: Each Party shall adopt such legislative or other measures as may be necessary to prevent conflicts of interest and misuse of inside information by natural or legal persons involved in providing sports betting products, in particular through restrictions on:

- a) natural or legal persons involved in providing sports betting products betting on their own products;
- b) the abuse of a position as sponsor or part-owner of a sports organisation to facilitate the manipulation of a sports competition or to misuse inside information;
- c) competition stakeholders being involved in compiling betting odds for the competition in which they are involved;
- d) any sports betting operator who controls a competition organiser or stakeholder, as well as any sports betting operator who is controlled by such a competition organiser or stakeholder, offering bets on the competition in which this competition organiser or stakeholder is involved.

stimulate the economy of a geographic area or to help charities to raise funds. For example, in 1978, New Jersey¹ became the second American state, after Nevada, to legalise casino gambling in an attempt to revitalise the rundown resort of Atlantic City. Legalisation was restricted to Atlantic City only, where the tourism industry was suffering from the competition created from by new airline routes. Casino gaming was expected to be a way for Atlantic City to once again become a popular tourist destination. More recently, many jurisdictions have used the possibilities created by online gambling to generate revenue for the government (Antigua and Barbuda, Cagayan in the Philippines, Gibraltar, Kahnawake in Canada, the Isle of Man, Malta, etc.). This offshore strategy is based on the internalisation of benefits (gambling revenues) while outsourcing the costs to gamblers from outside the jurisdiction. As Bill Eadington explains, the main reason for a positive impact on the economy is the “exportation” of gambling services to outsiders (Eadington, 1995, p. 52).

- Phase 3: Following a resurgence in public concerns of scandals and the morality of gaming, authorities usually consider prohibition again, or at least (more commonly) severe restrictions.

The alternation between eras of acceptance and prohibition is, for instance, visible in the history of betting in the UK — traditionally seen as the cradle of betting activity. Many forms of gambling were prohibited from the early nineteenth century to 1951. Though on-track betting remained legal, street betting was disallowed from 1906. There were four reasons for this: well publicised incidents of betting fraud; the publication of anti-gambling literature and fiction that portrayed lower-class gambling as immoral; resentment over corrupt lotteries held since 1793; and the massive losses incurred in the South Sea Bubble affair.² Betting on football was therefore prohibited in the UK between 1906 and 1961.

Outside the EU, governments may hesitate moving between Phase 1 and Phase 2 (USA for betting, except Nevada, Japan for fixed-odds betting, Australia for in-play betting, etc.), while gambling remains wholly prohibited in other areas, such as in some Muslim countries for example.

European countries, currently in Phase 2, are taking different approaches in regulating gambling. Two broad strategies can be seen:

- Liberal gambling to increase employment, to attract foreign companies, or to reduce illegal betting (by accepting many consumers and operators on the market);
- Restricted gambling (limited number of licensees or monopoly) to increase public funds or to mitigate gambling risks.

A new cycle of prohibitive regulation (Phase 3) cannot be ruled out for the EU, particularly if scandals or threats to public and social order multiply. However, this does not seem plausible in the near future.

1. R. Dunstan, *Gambling in California*, op. cit.

2. Unchecked speculation on the stock market had led to the disaster of the South Sea Bubble of 1720 and although there had been attempts to outlaw the types of “stock-jobbing” which had caused it, many felt that many types of financial speculation were still very akin to gambling.

• Heterogeneity of the level of betting taxes by EU jurisdiction (fixed odds):

Country	Betting taxes (in % of GGR)
EU	Operators with GGR = €100m
Austria (AUT)	20 % (if pay-out = 90%) 13.3 % (if pay-out = 85%)
Belgium (BEL)	11 or 15 %
Bulgaria (BUL)	75 % (if pay-out = 80%) 60 % (if pay-out = 75%)
Croatia (CRO)	5 %
Cyprus (CYP)	Profits to State and to sport
Czech Republic (CZE)	20 %
Denmark (DEN)	20 %
Estonia (EST)	5 %
Finland (FIN)	Profits to State and to sport
France (FRA)	62 % (if pay-out = 85 %) 46.5 % (if pay-out = 80 %)
Germany (GER)	Still pending 50 % (if pay-out = 90 %) 33.3 % (if pay-out = 85 %)
Greece (GRE)	35% (From 2017)
Hungary (HUN)	Profits to State and to sport
Ireland (IRL)	10 % (if pay out = 90 %) 6.7 % (if pay out = 85 %)
Italy (ITA)	18 % (retail) – 22% (online)
Latvia (LAT)	15 %
Lithuania (LIT)	15 %
Luxemburg (LUX)	Only Oddset Germany
Malta ¹² (MAL)	0.47 % (1 % of sales with betting taxes capped to €466,000)
Poland (POL)	66.7 % (if pay-out = 85 %) 50 % (if pay-out = 80 %)
Portugal (POR)	80 % (if pay-out= 80 %)
Romania (ROM)	16 %
Slovakia (SLK)	5 %
Slovenia (SLO)	15 %
Sweden (SUE)	100 % profits to State
UK	15 %
Spain (ESP)	25 % (fixed odds)
The Netherlands (NL)	29 % (projection)

12. See the website of the Maltese Gaming Authority, <http://www.mga.org.mt/gaming-sectors/remote-gaming/licensed-operators/>

Outside Europe, fixed-odds sports betting mainly remains prohibited or organised by a state-controlled monopoly, with many restrictions (on fixed- odds betting, in-play betting, single bets, approved competitions, etc.). There is therefore an important difference between EU countries and the rest of the world. Some examples regarding taxation of betting services:

Country	Betting taxes (in % of GGR)
NON-EU	Operators with GGR = €100m
Antigua (ANT)	0%
Argentina (ARG)	Profits to State and to sport
Australia (AUS)	6 to 20 %
Canada (CAN)	Profits to State and to sport
Chile (CHL)	Profits to State and to sport
China (CHI)	Profits to State and to sport
Colombia (COL)	15 %
Iceland (ICE)	Profits to State and to sport
Israel (ISR)	Profits to State and to sport
Hong-Kong	Profits to State and to sport
Mexico (MEX)	30%
Mexico (MEX)	Profits to State and to sport
New Zealand (NZ)	2.5% to State and Sport
Panama (PAN)	2.5 to 5 % (if pay out = 90 %) 1.7 to 3.4 % (if pay out = 85 %)
South Africa (RSA)	Profits to State and to sport
Serbia (SER)	15%
South Korea (KOR)	Profits to State and to sport
Switzerland (SUI)	Profits to State and to sport
Turkey (TUR)	Profits to State and to sport
Uruguay (URU)	Profits to State and Sport
Nevada	6.75 %
Zimbabwe (ZIM)	Profits to State and to sport

• “Illegal betting”: a controversial definition

Today, “illegal betting” remains controversial, firstly because there is no universally agreed definition of the term. A key question, which is still not clearly settled, is to know whether illegal betting should be defined according to the jurisdiction of the licensing of the operator, or according to the jurisdiction of the consumer.

Outside the EU, this definition is generally accepted even if some betting operators disagree. In the European Union, Article 25 of the Directive 2006/123/EC of the European Parliament and of the Council on Services in the Internal Market states that gambling activities, including lottery and betting transactions, should be excluded from the scope of this Directive in view of the specific nature of these activities, which entail implementation by Member States of policies relating to public policy and consumer protection. In the absence of harmonisation in the field of gambling, the Court of Justice of the EU has laid down a series of guidelines by which individual states may justify restrictions on the freedom to provide services provisions that are outlined in the Treaty. More precisely, in the European Union, EU law, which respects the subsidiarity principle, states that Member States can enforce national restrictions on online gambling if these restrictions are justified by overriding reasons in the public interest, are proportionate, consistent and systematic, and are consistent with EU secondary legislation.

Regarding illegal betting, the Court of Justice states (C-42/07 - Liga Portuguesa de Futebol) that Member States are free to prohibit internet suppliers of on line gaming, gambling and betting services which are established in other Member States, in which they lawfully provide similar services, from offering games of chance via the internet within the territory of that member State". The private part of the European betting industry (ESSA,¹ RGA), backed by states like Malta, interpret European case law differently and argue for the freedom to provide services:

Private industry view on the definition of illegal betting (as sent by the Remote Gambling Association to Precrimbet on 04/05/2017)

"Whilst EU Member States retain the right to impose restrictions deemed necessary to address unlicensed online gambling and exclude unlicensed providers from their jurisdiction, such restrictions still need to observe basic TFEU principles, and the legislation must be proportionate, consistent, transparent and non-discriminatory.

The subordination of national laws to EU law is neatly summarised in a recent opinion² of CJEU Advocate General Szpunar (commenting on the compatibility of Hungary's national legislation):

"Article 56 TFEU precludes national legislation...that provides that an operator of online games of chance, legally established in another Member State, has the theoretical possibility of obtaining a licence when that

operator is, in fact, impeded from obtaining a licence due to the system being either discriminatory or lacking the requirements of proportionality or transparency. An infringement of such a system by an economic operator cannot give rise to penalties."

Case law of the CJEU also supports the supremacy of EU-law over restrictive national regimes. In February 2016 a decision of the CJEU (Sebat Ince) confirmed that Germany's gambling framework was incompatible with EU law, meaning that EU-licensed operators are on a sound legal footing when continuing to supply into Germany. The CJEU determined that any enforcement actions against offshore gambling operators would be unlawful in a situation where a de facto monopoly exists and licences (for betting) could not in practice be acquired and deemed the sports betting licence tender to be a "fictitious authorisation procedure".

As seen for example in the case of Germany, the controversy arises when national situations are not clarified, if they are in transition regime or if a CJEU case is pending.

1. A large majority of ESSA and RGA Members have their head office in Gibraltar, Isle of Man, Malta and United Kingdom.

2. Case C-49/16, Opinion of Advocate General Szpunar, delivered on 5 April 2017

In September 2014, the Council of Europe Convention on the Manipulation of Sports Competitions, adopted a clearer definition of illegal betting, after long discussions and negotiations. The definition is based on the fact that betting is a sensitive subject matter and that every jurisdiction has the authority to organise its sports betting operations as it sees fit and according to its own risk assessment, even within the European Union. For the Convention, “illegal sports betting” means “any sports betting activity whose type or operator is not allowed under the applicable law of the jurisdiction where the consumer is located”. This definition is the one used in the present Report, for several reasons:

- It provides more clarity in a context where many EU MS are changing legislation
- It takes into account the sensitivity of the betting market and endorses the precautionary principle
- It was negotiated and agreed upon by a large number of countries and participating organisations. As of today, 31 countries have signed the Treaty (3 ratifications)

This definition is contrary to the view of the private betting industry and some jurisdictions, especially Malta. According to them, obtaining a licence (or agreement) from an EU betting regulatory authority should be sufficient to demonstrate that the operator fulfils the requirements to offer bets in other jurisdictions. For these jurisdictions, a betting operator with a licence in Malta, for example, should therefore be authorised to offer bets in Finland, even if Finland claims that a sports betting monopoly represents the best regulatory option to limit risks to social and public order associated with betting. The same situation occurs in Central America and the Caribbean where some jurisdictions, such as Antigua and Barbuda, fail to recognise that their licenced gambling operators (classified as financial institutions) are not authorised to target US citizens. In fact, in the United States, the Unlawful Internet Gambling Enforcement Act (UIGEA) prevents banking establishments from paying into the accounts of online gambling companies located in foreign jurisdictions.

This creates a situation with two main positions on the regulation of sports betting and the question of illegality:

- Jurisdictions advocating restrictions to betting, as a way to limit certain risks (criminal risks, addiction, etc.) and to control betting operators with an adapted regulatory system. To be effective, these jurisdictions have to deal with illegal betting (retail and online), which is a difficult task. Some jurisdictions want to limit risks but, at the same time, would like to raise money (and employment) for the State, especially during periods of economic difficulty. They then must find the balance between two opposite objectives.
- Jurisdictions advocating an opening of the market, as betting is considered an opportunity to create wealth, and to fight against illegal betting by attracting all consumers to the legal market. Some of them, such as Malta or UK for example, have an intense betting market. Their objective

is to attract betting operators thanks to attractive regulatory conditions, including a low level of betting or business taxes. As an example, these jurisdictions promote their regulatory systems during international gambling events (most importantly the annual International Casino Expo (ICE) trade show held in London) and target both betting operators and technical suppliers.

List of jurisdictions promoting their regulatory systems at ICE (London, 2017):

Alderney E-Gambling
First Cagayan Leisure and Resort Corporation (Philippines)
Gambling Commission (UK)
Isle of Man e-Gaming
Jersey eGaming
Kahnawake Gaming Commission (Canada)
Malta Gaming Authority

Attempting estimation of the size of the legal and illegal betting market at world level (see the full results in Annex)

1. Methodology

The Precrimbet estimation focuses on 56 countries (worldwide), representing 86% of the world population (source: UN - 2017). The figures for the other countries have been calculated by extrapolation.

a) Three key indicators have been used in the survey:

- Sales (or turnover), i.e. amounts staked (Only on sports betting. Horse and dog racing are excluded)
- GGY (Gross Gaming Yield), i.e. amounts staked less winnings
- Payback, i.e. total winnings divided by amounts staked

b) Legal market (betting operations conducted with an authorisation in the jurisdiction of the consumer):

- For each country, the estimation used the existing official sources to evaluate precisely the legal betting market (betting regulatory authorities, annual operators' reports, WLA and EL figures for state monopolies, etc.)
- For four countries (Australia, Mexico, Russia and South Africa), it was not possible to have a precise overview of the betting market. Therefore, Precrimbet used existing reports issued by reputable organisations (Gambling Compliance, H2 Gambling) and adapted them.

c) Illegal market (betting operations conducted without any authorisation in the jurisdiction of the consumer):

- Level of relevance n°1: For some countries, Precrimbet used available reports provided by betting regulatory authorities. For example, in Poland, the consulting firm Roland Berger has conducted a very precise survey with an improved methodology.¹

1. Źródło: Raport Roland Berger Strategy Consultants, Ocena rynku internetowych gier losowych w Polsce – omówienie raportu Roland Berger, luty 2014.

b. Level of relevance n°2: Precrimbet conducted some interviews with local betting experts and relied on their experience. For example, in Sweden, an expert from Svenska Spel, basing his view on concrete facts, evaluates the market share of illegal operators around 50%. In Italy, Precrimbet used the figures issued by the financial police (Guardia di Finanza). For all these countries, Precrimbet applied a modulation index varying from 10% to 100%. That means that the figures can be considered by some observers as conservative (and sometimes even as very conservative). Precrimbet prefers to minimise the illegal betting market rather than exaggerate some figures (which is often the case on the subject of the manipulation of sports competitions and money laundering).

c. Level of relevance n°3: In some countries, it was not possible to use experts' advice. Therefore, Precrimbet extrapolated the figures regarding the following indicators:

- I. Number of inhabitants
- II. GDP per inhabitant (the lower this index, the lower the potential for sports betting)
- III. Moral and religious behaviour (for example in Muslim countries the stream for sports betting is generally lower than in other parts of the world)
- IV. Technical issues (for example, in some places in Africa betting is less developed for practical reasons: electrical disabilities in rural areas, no operational online systems, etc.)
- V. Financial issues (for example, in Morocco there is strict exchange control which limits the possibility of betting with foreign online operators)
- VI. Geographic area (in some areas such as China or Malaysia for instance, the appetite for betting is much more developed than in others)

For important countries like China, India and USA, Precrimbet conducted additional extensive research using various sources.

Example of China (believed to be the biggest market in the world):

The multi-stranded methodologies used by the HKJC (Hong Kong Jockey Club) and Singapore Pools appeared as the most relevant. These companies:

- Look at estimates from sources amongst agents
- Conduct university think tank led research, which surveys the population in a meaningful way to establish levels
- Analyse media reports and police data
- Analyse time spent on illegal websites
- Look at gambling share of GDP
- Where possible match with their own betting data and known illegal market betting limits

For example, the HKJC has a quite precise methodology to evaluate the betting market in Hong-Kong and Guangdong Province. It is therefore possible to make some extrapolations.

Evaluation - HKJC	Amounts stakes (in € m)	GGY (in € m)
Hong Kong	51,700	1,410
Guangdong Province	94,000	2,810
China	940,000	28,100

Nevertheless, Precrimbet took some much more conservative numbers and considered that, regarding the pyramidal system existing in Asia, some figures might be counted several times, as illustrated in the example below:

Customer	Bookmaker	Customer Average Spending	Margin / Payback	Turnover
Street customer	Agent	€ 10	5% / 95%	€ 200
Agent	Master Agent	€ 6	3% / 97%	€ 200
Master Agent	Super Master Agent	€ 4	2% / 98%	€ 200
Super Master Agent	Online bookie (Cagayan)	€ 2	1% / 99%	€ 200
TOTAL		€ 22	2.75% / 97.25%	€ 800

The “real” turnover related to this bet amounts to € 200 but it could appear as a € 800 bet. That’s why Precrimbet selected a much more conservative turnover for China in the framework of the survey (€ 200 bn. instead of € 940 bn.).

The same extrapolation has been used for other countries where illegal pyramid structures are found, including the USA and South East Asia.

2. Summary of the survey (see Excel sheet by country in Annex):

Worldwide	Legal market	Illegal market	Total betting
Amounts staked (Sales) - €m	85,000 (18%)	390,000 (82%)	475,000 (100%)
Payback - %	82.4%	96.2%	93.7%
GGY - €m	15,000 (50%)	15,000 (50%)	30,000 (50%)

Regarding sales, the illegal betting market represents 82% of the global market, which means that the amount of money circulating (without any control) all over the world is very large indeed. The average payback on the illegal betting market is very high (96.2% in average), which increases money laundering risks.

3. The ten leading countries for sports betting (estimation)

GGY - €m (estimation)	Legal market	Illegal market	Total betting
China	2,400	6,000	8,400
USA	200	2,000	2,200
South Korea	1,170	780	1,950
UK	1,810	40	1,850

Turkey	1,550	150	1,700
Hong-Kong	1,300	200	1,500
France	935	95	1,030
Japan	460	500	960
Italy	700	210	910
India	0	750	750
Greece	390	250 ¹³	640
Russia	200	300	500
Germany	70	320 ¹⁴	390
Australia	350	35	385
Mexico	300	20	320

13. Precrimbet considers the temporary licences awarded by the HGC as illegal which could be challenged.

14. -German Gambling Market Report, Gambling Data, December 2011; The German Internet Industry 2016-2019, Arthur D. Little, 2016.

It is interesting to mention that only two countries from this list have a “fully” open sports betting market (UK and Italy). All the other ones have set up strong restrictions:

- Prohibition regime (India, USA excluding Nevada)
- Partial prohibition system (Mexico, Russia)
- Full monopolistic system (China, South Korea, Turkey, Hong-Kong, Japan, Germany¹);
- Partial monopolistic system (France, Greece, Australia²)

4. Sports betting (in % of GDP)

Country	GGY (Legal + illegal) (in % of GDP)
Hong-Kong	0.52%
Greece	0.28%
Turkey	0.21%
South Korea	0.16%
Israel	0.1%
Czech Republic	0.1%
China	0.09%
Denmark	0.08%
UK	0.08%
Malaysia	0.07%
Hungary	0.06%
Italy	0.05%
Morocco	0.05%

Sports betting tends not to represent a relatively important activity (except for countries with small populations where gambling services are exported). Regarding legal betting, sports betting represents a more substantial proportion of GDP only in Hong Kong, Greece and Turkey. Of course, this assumption is not valid for smaller jurisdictions (in number of inhabitants), not studied in the survey: Alderney, Antigua & Barbuda, Cagayan, Curaçao, Gibraltar, Malta, etc.

1. In Germany, the situation will change in 2018 with a system of licences.

2. In Australia, the situation differs from state to state.

5. Sports betting per capita

Country	GGY (Legal + illegal) per capita (€)
Hong-Kong	187.50 €
Greece	58.30 €
Denmark	45.70 €
South Korea	38.30 €
Israel	33.30 €
UK	28.40 €
Sweden	22 €
Turkey	21.80 €
Czech Republic	18 €
Belgium	16 €
France	15.60 €
Australia	15.40 €
Italy	15 €
Canada	7.90 €
NL	7.70 €

The average level of spending per capita has increased strongly in recent years. For Hong Kong and Greece, it would be interesting to evaluate more precisely the high level of GGY per capita to be able to find a reasonable explanation.

6. Breakdown by continent

	Legal sales	Illegal sales	Legal GGY	Illegal GGY
Africa	35%	65%	55%	45%
Asia	9%	91%	44%	56%
America	8%	92%	23%	77%
Europe	67%	33%	75%	25%
Oceania	89%	11%	91%	9%
Monde	18%	82%	50%	50%

II. Description of illegal activities and criminal risks associated with sports betting

a) Match-fixing

- A new activity for criminal groups

The manipulation of sports competitions is a major risk for sporting organisations. While this may not be a new phenomenon, modern betting has increased the risk that it may occur. Before 2000, betting mainly focused on football and the results of major, usually televised, matches. Today, it is possible to bet on a vast number of sports, competitions (even involving minors or low-level leagues such as the fifth English division, called the National League) and types of bets. The massive expansion of the illegal market (both offline and online) hugely increases the potential for profit through match fixing due to a lack of oversight and the ability to spread stakes among many different bookmakers. According to the Prosecutor of Cremona, Roberto di Martino, in charge of the *Calcioscommesse* case, fixing a single football game, or even a part of it, may generate profits of over €1 million. Criminal organisations are therefore using sports corruption to diversify their activities (the 2017 Europol SOCTA identifies sports corruption as one of the 12 main organised crime activities within the EU). With regards to the objectives of contemporary criminal behaviours (see Part 1), the sports sector represents a relatively easy legitimate economic sector to invest on:

- Few regulations are in place to control investors in clubs.
- The high liquidity and transnational characteristics of the player transfer system can provide opportunities for money laundering strategies.
- The high popularity of some sports provides owners with increased local political influence.
- The sports “omerta” (code of silence) lowers the chances of detection of illegal activities such as match-fixing.

As a result, new cases of sport manipulation appear very often in Europe. If the most popular sports disciplines attract most attention, minor sports also appear to be targeted by fixers (table-tennis, badminton, esports, etc.). Lower-tier competition can also be targeted. Despite the large number of investigations and alerts, which affect every EU Member State, at present only a few sport manipulation cases have been tried in Europe. There are four main reasons for this: difficulties in gathering evidence, the international network involved in the fix, loopholes in existing legislation and the possible conspiracy of silence in sport. Two landmark cases have allowed many insights to be gained into the methods used by criminals, the extent of transnational cooperation among them, and the links with the betting market:

- The Bochum case (2009-2014), where a group of Croatian criminals conducted match fixing and money laundering in parallel with traditional criminal activities (prostitution rings and drug trafficking). More than 300 European football games had been fixed, and 31 million euros of profits were made by the group.
- The *Calcioscommesse* cases (2011-2015), involving the same type of transnational criminal connections between Italian, Balkan and Asian criminals, and targeting dozens of games in the top four Italian football divisions:

Case study No. 1: Match-fixing scandals appear frequently in Italian football. A series of recent cases, known collectively as *Calcio Scommesse*, involved more than 100 people and 20 clubs. The probe was led by Roberto Di Martino, a public

prosecutor in Cremona. Investigations uncovered a particularly complex system involving a Singapore-based financial ringleader — Dan Tan, alleged to be an active member of a Chinese triads — ten intermediaries in charge of various part of the world, European criminal organisations, including Roma and Hungarian mafia organisations, and hired Italian match-fixers to pay off football players, etc. The system was supported by sophisticated financial systems that incorporated money payment companies in Asia, front companies in Panama and bank accounts in Switzerland. To fix a match in Italy's first-tier Serie A football league, the Singaporean organisation had generally to front between €250,000 and €400,000. For a match between Lazio Rome and Lecce on 22 May 2011, Dan Tan paid as much as €600,000. Tan is alleged to have profited handsomely from this large outlay. Odds for more than four goals scored in the match were around 4 (to 1)... and, perhaps unsurprisingly, the final score was 2–4. Tan is said to have placed €2 million in bets through a huge number of runners to spread the bet. His winnings were estimated at €8 million, with a healthy profit margin after disbursement of bribes and salaries.

• A variety of techniques

For the match-fixers, it is therefore important to remain undetected by the monitoring and alert systems. According to latest match-fixing cases, a common strategy is to use a large number of people acting as “mules” or “runners”, who bet reasonable amounts among many different bookmakers. As an example, if a criminal organisation fixes a football match and if it wants to bet €200,000 on the team appointed to win, they would hire at least 50 runners to place bets of around €4,000 each.

The people who fix sport competitions fall into three categories:

- Players, managers, officials and other people directly involved in a sporting event who fix all or part of a match and place bets on a said match. Professional athletes are known to have high risk factors, such as youth and compulsion for thrill-seeking, associated with addictive behaviours. A recent survey, based on a voluntary questionnaire completed by athletes, shows that rates of problem gambling are higher among athletes than the general population — 8.1 % for professional athletes versus 0.15–6.6% for the general public¹. It should be noted that instances where a player, manager or official fixes a game in which they are taking part for their own financial gain are, unfortunately, not uncommon.

Case study No. 2: French handball players, including champion player Nikola Karabatić, were found guilty at the appeal stage in a probe into a betting scandal during a French championship handball match in May 2012. A total of 16 people, including seven players from the Montpellier handball team, were fined between €1,500 and €30,000. The Court found that the players involved in the scandal bet, or asked friends to bet, on the half-time result between Montpellier and Cesson in May 2012, during which they were deemed to have deliberately lost². Montpellier, having already secured the French title, lost 31–28 to Cesson. *Française des Jeux* (FDJ), the country's national betting operator, had been alerted of irregularities through its internal fraud detection system. FDJ, which usually would collect around €2,000 for this type of game, received stakes of approximately €105,000 for the Cesson–Montpellier match, which included around €103,000 for a Cesson half-time victory. Of total bets, 99% were placed in the Montpellier region, at 15 different FDJ points of sales, against Montpellier, which was additionally unusual, given that bettors tend to bet on teams that are predicted to win, particularly when a team is from the bettors' local area.

1. “Gambling among European professional athletes. Prevalence and associated factors”. *Journal of Addictive Diseases*, 2016 Oct-Dec;35(4):278-290.

2. “French handball star Karabatic found guilty of match-fixing”, *RFI*, 11 July 2015.

- Betting syndicates, where a number of bettors pool their bets, have been involved in numerous cases of match fixing, particularly in cricket and tennis. To optimise winnings, these groups use part of the money pooled to fix the match and buy off athletes. In some cases, these groups can be well structured and make use of both legal and illegal betting operators.
- Traditional organised crime now targets sport, football and tennis primarily — the two most important sports for betting after horseracing. Sport is used by organised crime as a part of an overall strategy to diversify its activity. High profits and low levels of risk are key factors driving criminal involvement in fixing sport matches. Most of the time, it is difficult to prove a fix, since athletes will not confess their involvement. Moreover, Courts are reluctant to impose heavy sentences in such cases due to their high media profile and the esteem in which players and the game are held by fans. In addition, national legislation has only recently started to criminalise match fixing and sanctions remain very weak, compared to other felonies. The strategy of organised crime to infiltrate the sports economy is generally not restricted to the willingness to fix games. The transnational nature of the transfer market, the opportunity to buy indebted clubs cheaply, the lack of supervision from regulatory authorities, the use of offshore companies and bank accounts, all offer easy money laundering possibilities. This was the case of a recent series of arrests in Portugal, where several football clubs had been acquired by Russian mafia to launder proceeds of crime.¹ During the Precrimbet national seminars, many law-enforcement representatives stated they were alerted by the suspicious profiles of club owners. Besides money laundering motives, the control of clubs or players provides leverage to fix games. The owner can appoint acolytes to management positions in the club, who then have direct authority over the players. The growing involvement of organised crime explains why match-fixing not only affects sports integrity in itself, but compromises state authority and the rule of law, as it contributes to the expansion of organised crime within the legal economy and within our societies.

Case study n°3: An investigation conducted in 2016 into tennis, carried out by the Spanish National Police (Guardia Civil) targeted a national criminal organisation, which fixed many tennis matches in “Challenger” and “Futures” tournaments. Two types of tennis player were concerned: young players with low earnings (who needed money to train) and older players who knew that they would not succeed at the top level. The amount of money offered to the players for a fix was quite low (up to €1,000, or 3,000 for several matches – typically the criminals asked a player to lose the first or second set). Generally, the corrupter (an intermediary, who was a familiar figure within the Spanish tennis sector) paid the bribes to the players 2 or 3 days after the competition. Social media (and especially Twitter) were widely used in such cases. Sometimes threats were used by criminals towards athletes. The information on match-fixing was also sold on the Internet. Buyers had to use Paypal (and the payment were processed only after the games, to guarantee the fix). This contributed to the dissemination of the bets within European and Asian betting operators. 34 people have been arrested (including players) for 17 different corrupt events.

1. Europol, Police dismantle Russian money laundering ring operating in the football sector, 4 May 2016.

• Mobilisation of the authorities across the EU

At Precrimbet national seminars, the topic of match-fixing was the main concern for public and sports authorities. Many match-fixing cases were heavily publicised, and/or implied the participation of sophisticated transnational criminal groups. For example in Greece, where the match-fixing risk was considered as high by Precrimbet seminar participants, a major on-going trial opened in October 2016 and concerns 41 allegedly fixed games and 84 individuals (club officials, players, referees, national football federation officials). Such cases have contributed to awareness-raising among the authorities. Also, they have forced law-enforcement to develop capacities to understand, investigate and prosecute match-fixing crimes (surveillance of matches and sports clubs, understanding of the betting market, adaptation to definitions in the national penal code, international cooperation etc.). Today, all EU countries have police and justice units or officers dedicated to the investigation and prosecution of crimes related to match-fixing. These teams are eager to learn more about sports manipulation and aspects of betting.

The rise in interest from sports and public authorities matches the emergence of an abundant literature on the issue of the manipulation of sports competitions. The ICSS/La Sorbonne 2014 Report “Fighting against the manipulation of the sport competition” contains more than 1400 pages of analysis from various experts on many dimensions of the problem. Numerous scientific articles and books have also been written. Many of them focus on the vulnerabilities intrinsic to the sports sector:¹ The precarious financial situation of many sports structures (clubs or athletes), the lack of strong disciplinary regulation in some contexts, the obstacles to reporting match-fixing (“sports omerta”), and the hindrances that law-enforcement faces when conducting investigation within the sports sector. While specificities of sport certainly play a role in the surge of match-fixing, the increasing level of betting activity constitutes the other factor.

• Mobilisation of the betting industry

The betting operators run the risk of losing money if they have to pay winnings on fixed matches. Naturally, betting operators manage their financial risks in real time and generally do not suffer overly from fixed sporting competitions. Experts interviewed in preparation of this report stated that winnings related to fixed sports competitions are around 1% of the total — equivalent to a huge cash sum.² Over the last 10 years, most of the betting industry has adapted to this financial risk and accumulated experience and expertise in the fight against match-fixing. Betting operators use internal or cooperative betting monitoring systems to detect irregular³ or suspicious⁴ betting patterns. For instance ESSA⁵ and GLMS⁶ are monitoring systems developed by private and state-controlled betting operators.

The Betmonitalert research programme analysed the efficiency of such monitoring systems and

1. See Matt Andrews and Peter Harrington, *Off Pitch: Football's Financial Integrity, Weaknesses, and How to Strengthen Them*, Harvard Kennedy School, January 2016. See also: FIFpro, *FIFpro Black Book Eastern Europe*, 2012.

2. If the worldwide sports betting market amounts to around €500 bn. with an average margin of 10 %, 1 % of winnings would represent €4.5 bn. (equivalent to the GDP of Surinam or Liechtenstein)

3. According to the Convention adopted by the Council of Europe on Manipulation of Sports Competitions, (2014), “irregular sports betting” shall mean any sports betting activity inconsistent with usual or anticipated patterns of the market in question or related to betting on a sports competition whose course has unusual characteristics.

4. According to the Convention adopted by the Council of Europe on Manipulation of Sports Competitions, “suspicious sports betting” shall mean any sports betting activity which, according to reliable and consistent evidence, appears to be linked to a manipulation of the sports competition on which it is offered.

5. European sports Security Association. See: <http://www.eu-ssa.org>.

6. Global Lottery Monitoring System. See: <https://www.european-lotteries.org/announcement/global-lottery-monitoring-system-sports-betting-holds-its-first-general-assembly>.

the participation of betting operators in national alert systems. An example of how Betmonitalert evaluated one operator's approach is given here (for more information on betting operators' responsibilities regarding match-fixing, see the Betmonitalert report):

Good practice according to Betmonitalert experts: Betfair Paddy Power

Operator offering bets legally	Partially
Level of transparency on commercial data	EXCELLENT (betting exchange activity)
Level of cooperation with betting regulatory authorities	GOOD
Level of cooperation with sports organisations	GOOD
Human and financial resources monitoring	VERY GOOD

Betfair is a commercial company, founded in 2000. It is the worldwide leader of betting exchanges.¹

Since its early beginnings, competitors have accused Betfair of encouraging manipulation of horse racing, as it was possible to "lay" (that is, bet against – for instance - one horse winning a race) on the betting exchange, while bookmakers did not offer such a possibility (they offered only 'backing' that is, bet on one horse winning). As Betfair was subject to criticism from competitors, it had to prove it was also providing the stakeholders with information so far unavailable, such as trading volumes and market odds, more accurately reflecting supply and demand. It also had to prove that this information was useful to detect manipulation. By having a specific integrity team which uses effective reporting, technology and processes, Betfair has been able to show that, far from creating betting integrity issues, exchanges can shine a light on potential corruption and assist relevant bodies in the policing of sports.

Betfair's monitoring system works as follows: Every day, a report is issued about all possible anomalies involving customers, markets, events, accounts, etc. Automated red flags are computed through in-house indicators. Irregular / suspicious betting patterns are investigated by a team of 6 integrity officers and an Integrity Manager. If the irregular betting pattern cannot be rationalised, then the integrity officer in charge of reviewing can take the appropriate action, from setting limits on an individual account, to freezing it or advising the relevant sport body. In case the problem is related to a single player, where communication to the relevant sport body would raise data protection issues, the manager of the integrity team is required to determine the best way to inform the relevant sport body in full compliance with the law.

Over the last 2 years, there have been 7 cases where Betfair has provided information (used as evidence) to Sports Governing Bodies, and this information has assisted a successful *disciplinary* case. In addition, in a significant number of other cases, investigation is either still ongoing or was concluded without a formal disciplinary process.

Strengths:

Both a monitoring and alert system, using direct and worldwide (online individual betting accounts) information ;
Team dedicated to sport integrity;
Transparency on volumes (Betfair volumes of transactions are public);
Cooperation with many sports organisations.

Weaknesses:

No standardised procedures regarding automatic alerts."

1. A betting exchange is a marketplace for customers to bet on the outcome of discrete events. Betting exchanges offer the same opportunities to bet as a bookmaker with a few differences. A customer can buy (back) and sell (lay) the outcome. He can trade in real-time throughout the event and trade out to cut losses or lock in profit. Betting exchanges normally generate revenue by charging a transaction fee.

• Links between the betting market organisation and match-fixing

Even if this is a minor portion of the contemporary threat of match-fixing, there have been a few cases where betting operators have been, or are alleged to have been involved in match-fixing operations, especially in Asia: According to sources interviewed in the Precrimbet programme, links exist between some Asian offshore betting operators, their agents in Asia and match-fixing organisations. This is connected to the illegal betting pyramid structure which can be found in Asia (see below). The two biggest betting operators¹ in Asia are SBOBet and MaxBet (formerly IBCBet), both licensed in Cagayan.² As the margins are very low (1% to 2% on average at the level of the online operators) and the competition high, several agents who operate on the street level stated that they on occasion receive “tips” from the online operators to earn money. The big online betting operators from the Philippines might thus work with match-fixing syndicates, including that of Raj Perumal, a notorious match-fixer. When an online betting operator is aware of a fix, they pass the information on to master agents they want to reward. These master agents can therefore place bets with their competitors (rival organisations or betting houses). To do so, they will hire at least 10 to 20 people to set up accounts in other betting houses from different locations. In fact, should a rival organisation feel unusual activity is coming from one IP address, they can call of the fix, which happens from time to time. When a master agent wants to curry favour with one of his agents, he tell the agent that he is aware of a fix and asks the agent how much he would like to invest. The master agent could even place bets for his agents. The probability that the fix goes through seems to be close to 100 %, once money has been involved. According to the interviewees, for a Chinese team, the bribes usually exceed €200,000 (or, for example, over €100,000 for the first penalty kick). For an agent, profits from fixing a competition generally total around a few thousand euro. For a super mega agent, they are usually in excess of hundreds of thousands of euro.³

This proximity between illegal betting operators and match-fixing is also apparent on the Darknet, where betting websites and websites selling match-fixing tips co-exist. . The Betmonitalert report states that the match-fixing tips may be accurate because some websites offer to cash in only when the match has been played and if the final score matches the prediction.⁴

The supposed links between illegal betting operators and match-fixing may also concern the EU. In Italy, in 2016, various investigations demonstrated substantiated links between criminal organisations illegally offering sports betting and match fixing. In May 2015, the police conducted 19 operations and interviewed more than 100 people.⁵ Investigations uncovered connections between Sicilian organisations (including the Catania Calcio football club) and the sports betting industry. Law-enforcement officers took around 30 people into custody, including players and staff from Italy's second-division football league, Serie B, sports betting managers (including Domino Lagreotteria, CEO of Betsolution4U) and members of the Cosa Nostra Sicilian mafia. Prosecutors in charge of the investigation believe that most illegal Italian betting companies have strong connections with organised crime. According to the Italian police, many illegal operators in Italy

1. There are other betting operators operating in Asia: Singbet, Tao Tao, Pinnacle (licensed in Curaçao), Bet365, Bet ISN, Matchbook, Betfair, Betdaq, Foobet, Wining FT, 855, Citibet, AAstar, Fortune, ED 3688, Galaxy Bet, GClub, AG Gaming, etc.

2. Cagayan is a province of the Philippines in the Cagayan Valley region, in the northeast of Luzon Island.

3. Interview of a street agent based in Singapore (Agent working illegally for one of the two biggest betting companies – SBOBet / IBCBet), April 2016. Source protected.

4. “Betting in the Darknet” report, see the results of the Betmonitalert programme, part 2.

5. “Italian Police Widen Net After Operation Master Bet”, *Gambling Compliance*, 19 May 2016.

are connected to websites registered in Malta, which demonstrates the lack of control of and preparedness for online gambling by local authorities, particularly with regard to the shareholders of gambling companies.¹ While some licences (Fenplay, Soft Bet, Betsolution4U and Betuniq) have been suspended by the Maltese Gambling Authority (MGA), an investigation has been called for by the Auditor General into the operations of MGA to establish whether it was too lax in applying due diligence procedures, which as a result led organised crime to allegedly establish a foothold in the country's remote gaming industry.² According to the Italian financial police, mafias use straw men to avoid detection and especially the Italian anti-mafi incorporation rules.³

However, it should be noted that the vast majority of match-fixing cases do not involve betting operators, but outside criminals who take profit from the betting market (betting manipulation) after having manipulated the course of a sports competition (sports manipulation). They will need to place bets to earn money, and bet with one or, most often, several betting operators.

b) Illegal betting

As noted above, illegal betting is a controversial issue, as it can take many different forms, from clandestine street bookmaking to websites licensed offshore and targeting customers in jurisdictions where they are not licensed. For many states visited within the Precrimbet programme, the fight against illegal betting is a critical issue. Illegal betting is of course a crime in itself but it also creates unfair competition for legal operators, exposes consumers and society to specific criminal risks (fraud, money laundering, match-fixing),⁴ As an easy entry point, it is a starting business for many criminal organisations. Illegal betting is therefore to be regarded as a serious criminal risk.

• Heterogeneity of national situations

The case of Poland

The illegal betting market in Poland has been evaluated as very large (91%, of the total market, according to a Roland Berger survey from 2014). In 2015, Polish sports betting turnover was around 1.2 billion euros. 91% of this market was described as illegal: Bet365 (35%), Bet-at-Home (23%), bwin (5%), William Hill (3%), Betclix (3%), Unibet (3%), Expekt (3%), Sportingbet (3%), etc. The implementation of the newly-amended Gambling Law (starting April 1st, 2017), including measures against illegal betting, should be able to change this situation significantly. Many illegal online operators have announced that they will stop their activity in Poland following the Amendment.

The case of Denmark

Denmark uses a very specific definition of illegal betting. In Denmark, a gambling activity is provided illegally if:

- The gambling activity is provided without the required licence from the Danish Gambling Authority and;

1. One of the protagonist of this investigation, Francesco Airo, had already been charged by the Italian police regarding his illegal activities in betting and his links with the Camorra (criminal organisation from the region of Naples).

2. "One swallow does not a summer make", *Malta Today*, 6 August 2015.

3. Interview with Maggiore Filippo D'Albore, Guardia di Finanza, Rome, 31 March 2016.

4. In the EU only two countries, Italy and Belgium, criminalise the consumer for betting with illegal operators. But for most countries in the world, it is a criminal offence to propose illegal bets.

- The gambling provider is targeting his provision of gambling activities towards the Danish gambling market.

A gambling activity which is provided through the Internet, is therefore seen to be provided in Denmark if:

- the homepage is in Danish,
- a Danish currency can be chosen,
- the homepage has a Danish customer service,
- payment methods can be used which would normally only work in Denmark, like e.g. Dankort, or
- the operator of the homepage directs his marketing towards Denmark.

Gambling activities can also be seen as being provided in Denmark if the games on the homepage in question are directed towards Denmark in other ways. This relies on a very specific assessment which will be done on the basis of whether the licence holder through his combination of gambling activities wants to make it more attractive for Danish players to play there.

From 2012 until 31st of December 2016, the DGA sent Notices of Contravention to 142 illegal operators to stop targeting Danish customers. In 25 cases, it has been necessary for the DGA to block these illegal websites. At the moment, 13 blockings are still ongoing. A survey conducted for DOGA in May 2015 assessed the "unlicensed" (not automatically illegal) online betting market to be around 10%.¹

The case of Greece:

The size of the illegal betting market in Greece seems to be difficult to assess. A blacklist of illegal betting operators is published by the Hellenic Gaming Commission and is frequently updated. Today, many problems come from "Internet Cafés", with a connection to websites based abroad. On this illegal market, Bitcoins and the Darknet are two new threats which are being addressed by the Cyber Crime Unit of the Greek police.

• Criminal connections of illegal betting

In recent years, illegal betting has been shown to be connected to organised crime in a series of cases.

Case study No. 4: Strong links between the 'Ndrangheta, a criminal organisation from Calabria, in southeastern Italy, and the Maltese betting industry

- Italy was one of the first countries in the EU to implement betting legislation, to establish a betting regulatory authority, AAMS,² and to fight against illegal betting. Nevertheless, Italian mafias continue to remain closely connected to the betting industry, which raises questions as to the effectiveness of the Italian betting model.
- In 2015, the Italian police announced that an entire online betting network of companies, part of which is headquartered in Malta, has direct connections to the 'Ndrangheta. Italian law enforcement authorities described Mario Gennaro (former CEO of the illegal website Betuniq) as the mastermind behind the web of illegal online betting and gambling sites in Italy

1. This figure can be interpreted as higher than the current reality: H2 Gambling Capital figures indicate that the share of the legal activity has been steadily growing since 2010. Also, taking the GGR into account might lead to even lower figures.

2. AAMS: *Amministrazione Autonoma dei Monopoli di Stato* [(Autonomous Administration of the State Monopolies)]

on behalf of the 'Ndrangheta, setting up host of companies in Malta. Six Italian nationals connected to the Betuniq,¹ including Gennaro, who were living in Malta, were arrested under a European Arrest Warrant. One year later, *Gambling Compliance*² reported that statements by Gennaro confirmed that 'Ndrangheta uses illegal betting as a core business. 'Ndrangheta's infiltration in gambling allowed acquisition of betting licences not only in Malta, but also in Austria, Curaçao and Romania. Gennaro stated that it was necessary to have an agreement with organised crime organisations in order to enter the gambling business (for Betuniq, but also Betsolution4U). He also explained the complexity of the system, involving for instance a web design company based in Parma called I-Solutions, used as a front to escape law-enforcement authorities. The police confirmed the existence of a sophisticated network involving front companies in Malta, Curaçao, Panama and the Canary Islands.

Of course, Italy and Malta are not the only places in the world where illegal betting and organised crime have clear links. In Asia, most of the illegal activities mentioned below appear to be connected to betting operators licensed in the Philippines, SBOBet and Maxbet (IBCBet) in particular. Recent cases include:

- Nepal: During the 2016 UEFA European Championship, a special team of the Metropolitan Police Circle (Nepal) raided a supermarket and arrested two persons on the charge of running an online betting syndicate.³ Officials said they were running the illegal business online by luring prospective gamblers into betting on the Euro 2016 football tournament via smartphones and laptops, stating that many people, teen gamblers and football fans in particular, are increasingly being enticed by such activities. Betting on any sports event is illegal in Nepal.
- Malaysia: Authorities in Malaysia have found a new solution to stop the growth of unauthorised online gambling centres in the country: cutting off their power supply.⁴ A few days later, Malaysian authorities released a plan to detain suspected illegal gambling operators for up to two years without trial. Since January 2016, 12,500 telephone lines and 400 websites have been blocked.
- China: Authorities in China have disrupted the local operations of a Philippines-based illegal online gambling network.⁵ The arrests follow a three-month investigation by police in Loudi City, southwest of the provincial capital of Changsha, following a tip-off from two Loudi residents who claimed to have lost money interacting with an illegal lottery website.
- Vietnam:⁶ The People's Court in Ho Chi Minh City handed down strong sentences in a case involving a massive illegal online gambling ring in Vietnam. More than 60 persons sentenced to prison, with terms ranging from nine months to eight years, with ringleader, Vuong Chan Thanh, sentenced to eight years. Investigators said Thanh, who was then the director of Vien Tin International Telecommunication Ltd. Co., had his relatives and employees open a total of 55 bank accounts that would receive and transfer earnings from gambling operations via 188Bet, an operator licensed in the Philippines. Between 2011 and Thanh's arrest in 2013, the ring allegedly handled more than VND 400 billion (€16 million) in wagers. The ring began to operate in 2010 through

1. "Six to be extradited over 'Ndrangheta betting network set up in Malta", *Malta Today*, 22 July 2015.

2. "Super Snitch Gennaro Exposes Italy's Grey Betting Market", *Gambling Compliance*, 20 June 2016.

3. "Police step up vigil against illegal betting", *The Himalayan Times*, 14 June 2016.

4. "Malaysia to detain illegal gambling operators for two years without trial", *Calvin Ayre*, 6 May 2016.

5. "China disrupts online gambling operation that handled wagers worth \$46m", *Calvin Ayre*, 3 May 2016.

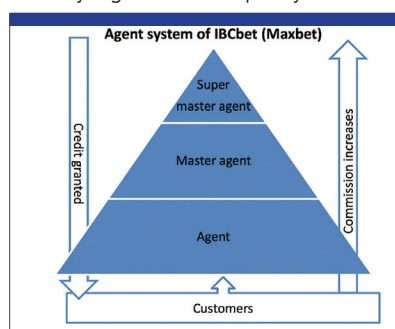
6. "Vietnam's online gambling ring leader, 55 others get jail time", *Calvin Ayre*, 4 September 2015.

the online website 188Bet, licenced in Cagayan Province in the Philippines. Members posed as employees of telecom equipment companies, and most of the money was transferred via Internet banking with local banks.

• How pyramidal illegal betting works

The pattern of operations is often the same: A local, often involved in various criminal activities, decides to create an illegal ring. They start a “partnership” with an online betting company based in Cagayan Province in the Philippines.¹ They become the company’s “super master agent” (as was the case, for instance, for 188Bet in Vietnam) and receive VIP access with many privileges on the online platform. They can then develop a pyramid scheme with master agents and agents, and may incorporate various other kinds of criminal activities such as drug trafficking. Stakeholders in the pyramid either work via an intermediary, through bets placed and winnings paid in cash on the street, or directly, via bets placed on illegal technical platforms. The relationship between a customer and their bookmaker is based on trust and credit. Credit is key feature of the system in the sense that customers do not have to stake when they are interested in betting; their bookmaker gives them a “credit line”. They then only have to pay losses or cash out profits. If they cannot pay losses to their bookmaker, they must either flee threats of physical violence or work for the bookmaker’s syndicate as a runner (for instance carrying drugs or money, or placing bets for super master agents). At agent level, margins are around 5% (pay out = 95 %); at the level of SBOBet or IBCBet/Maxbet, the average margin is around 1 % (pay out = 99%). For an online betting company like SBOBet² or Maxbet (IBCBet), this situation represents a unique opportunity to drain high liquidities, with a low level of risk (risk is borne by the local leader of the illegal ring), in countries where it is not possible to obtain a betting licence. In some cases, online gambling operators may be the instigator of an illegal ring, but in instances where they are not, the leader of an illegal gambling ring benefits from all the services provided by the online platform, including hedging possibilities to limit betting-related financial risks. Criminal activities are not limited to gambling but also include extortion, blackmail, physical violence, racketeering, usury and even illegal detention.³ In Macau, for example, illegal detention is traditionally associated with individuals who are unable to repay gambling loans, which leads lenders to forcibly detain debtors until they can contact a friend or relative to honour the debt.

For online operators which offer bets illegally in Asia, the pyramid system enables them to drain very high levels of liquidity.



These pyramidal betting systems gather substantial sums of money, thanks to their large territorial basis on the bottom, and access to major online websites, which in turn provide high liquidity and possibilities to cover financial risks.

Therefore it is difficult to assess the volume of these types of illegal market. The same amounts might be taken into account several times (see evaluation of the illegal market above)

1. In 2016, there is only one jurisdiction in Asia which issues online betting licences (Cagayan). In other jurisdictions, online betting is prohibited or restricted to a monopoly (example: Singapore Pools in Singapore)

2. A member of the Remote Gambling Association

3. “Macau’s gaming-related crime on the rise”, *Calvin Ayre*, 31 May 2016.

There are growing suspicions that such betting systems, designed to reach a high number of consumers while bypassing local prohibition laws, are also being sustained in the United States. Little information is available on how the American betting market, mostly illegal, operates. But journalist investigations like the one conducted by the New York Times on Pinnacle Sports, a prominent betting operator based in Curaçao in the Caribbean, in 2015, hint that structured systems similar to the ones prevalent in Asia may be in place in the US.¹

Proficient street bookmakers can easily virtualise their activity thanks to the Pay per head or price per head (PPH) system: an onshore bookmaker supplies its clientele with the services of an off-shore online sports book completely anonymously by using an Internet-based automated sports betting software system.

When bookmakers join an online price per head company, they are able to compete with major offshore sports books, providing 24-hour betting every single day. The job of a bookmaker using a PPH company is to use the company's online system to assign clients with a password and PIN, and to pay a modest weekly fee to the company for providing the service. Thus, for only a small fee, the bookmaker is able to compete with the world's largest sports books and even stop providing his own call center, because the pay per head company can provide these services at a much lower cost than the bookmaker could have done himself. Once involved with a PPH service, a bookmaker may begin to manage his day-to-day operations differently. Instead of taking bets directly, the bookmaker will now send his or her customers to a website to place their bets online or instruct them to call the PPH company's call centre. The customers will find betting very easy as they now have round-the-clock access to a large and varied betting supply, client services, technical support and the call centre. The level of commitment of a PPH service towards its call centre is very important. Some of the larger PPH companies employ a staff of hundreds who work out of sophisticated office complexes complete with banks of computers and television screens that continually update the lines of future events and monitor live lines for daily sporting events currently in progress. They also use state-of-the-art VoIP phone systems to ensure that any unforeseen downtime with the customer base will be kept to an absolute minimum. Some companies like Real Bookie even advertise these services.²

Case study No. 5: American individual sentenced for running illegal wagering operation and money laundering³

In 2015, Frank Frabbiele (Louisiana), was sentenced, after previously pleading guilty to the transmission of wagering information and money laundering, to eight months in jail, forfeiture in the amount of US \$209,203.87 and a US \$200 special assessment.

According to court documents, beginning in January 2008 and continuing until April 2014, Frabbiele operated a gambling operation in which he took bets and wagers on football, basketball and baseball games. In the course of conducting his gambling operation, Frabbiele used a "pay-per-head" betting website based in Costa Rica to track, record and register bets and clients, to which Frabbiele paid a per-client fee. Frabbiele's relationship with the website caused information to be transmitted by wire from Abita Springs to Costa Rica for the purposes of assisting in placing bets on sporting events. Frabbiele also committed money laundering by depositing US \$20,000 cash, which was proceeds of the gambling operation, into a bank account on 15 November 2012.

1. New York Times, The offshore game of online sports betting, 25 October 2015; New York Times, Cash drops and keystrokes: the dark reality of sports betting and daily fantasy games, 15 October 2015.

2. See their website: <http://www.realbookies.com/sportsbook>

3. The Costa Rica Star, *US Cracks Down on Internet Sportsbooks in Costa Rica*, 12 February 2015, and FBI, *Abita Springs Man Sentenced for Running Illegal Wagering Operation and Money Laundering*, 14 February 2015.

In November 2015, a federal jury in Oklahoma City convicted two individuals for their participation in a scheme involving illegal gambling and the company Legendz Sports, an international criminal enterprise that ran Internet and telephone gambling services from Panama City, Panama. Legendz Sports took more than US \$1 billion (€900 million) in illegal wagers, almost exclusively from gamblers in the United States betting on American sporting events.

More globally, a report by Dr Jay S. Albanese of the Virginia Commonwealth University outlines the strong ties between illegal gambling operations and organised crime organisations in the United States.¹ The prevalence of illegal gambling has been so significant that, in 2014 alone, 80 operators in 23 states were convicted of running illegal gambling businesses. The research also notes that:

- there have been more than 80 persons charged and convicted of participation in illegal gambling businesses in 2014. These cases include federal prosecutions and convictions in 23 states;
- the size and operation of these enterprises show that many are large, involving an average of 8 to 33 participants; and
- virtually all the convictions analysed were the result of joint investigations by state, local and federal law-enforcement agencies.

Some EU countries also face a dense illegal physical betting network.

Focus: organised crime and illegal betting in Italy

According to interviews with law-enforcement in Italy, conducted in March 2016, recent investigations show that the three traditional Italian mafias have three interests in the control of gaming/betting :

- 1) Imposition of machine and technology supply (controlled by organised crime) to betting shops that are also linked to the crime networks. These crime groups take over gambling or betting companies and shops that already have received legal authorisation from the State.
- 2) Investment in online sports betting. In this specific sector mafia has the ability through foreign intermediaries (for instance based in Malta) to open websites (as seen in the 2015 N'drangheta/Malta affair), and a front company in Italy which (through internet centres) will ask for a licence to propose bets. The same criminal network will do both (open the foreign website and the physical shop in Italy). This is difficult to fight because there is very little cooperation with foreign police. One recent operation called « operation gambling » targeted the Calabrese mafia : 28 arrests mandates were issued and 13 arrests were made, 45 companies, 1500 transmission centers and 82 websites have been closed.
- 3) Online casinos opened through cooperation with technicians linked to the crime groups. These casinos are opened without the required « remote gambling » licence. The Italian regulator AAMS forbid access to illegal websites but often the consumers do not know they are using illegal platforms.

Concerning the size of the illegal betting market, a few years ago AAMS estimated that around 7000 illegal betting shops were active in Italy. Subsequently, the State proposed two successive regularisation plans in 2015 and 2016. 2000 data transmission centers had been regularised by 2015. In terms of repression, 643 investigations were conducted in 2015 (with more than 5765 judicial police interventions and transmitted to justice). 576 slots machines and 1224 betting terminals were seized.

1. American Gaming Association, *New report shows strong ties between illegal gambling and organized crime*, 30 September 2015.

So the illegal betting/gaming in Italy operated by mafias can take four forms:

- illegal terminals (they have to be connected in real time to the digital network of AAMS).
- Copy of data transmission (the wrong data is sent, non-declaration of all betting data to avoid gambling taxes).
- Use of « totem » (machines that can access the internet) to facilitate access to unauthorised gaming/betting websites.

These totems have been prohibited only since the 2016 financial law was enacted (now they would need a « remote gambling licence »).

- Use of data transmission centres (physical points of sales) to offer sports betting without authorisation and link consumers with foreign websites. They are created like cybercafés but then get associated with foreign illegal websites and then they collect the stakes in Italy. Money is then sent abroad. The difference with totems is that they collect the money physically in Italy.¹

Other forms of illegal gambling networks, less structured and less permanent can develop elsewhere. Individuals can try to establish illegal gambling operations through, for example in France, illegal machines set up in bars and fitted with Austrian sports betting software (June 2016). Another example: in April 2016 in the Netherlands, two Dutch nationals were arrested by the police in connection with an international illegal gambling investigation.² The arrests were made during raids on 15 locations in the Netherlands, Germany and Austria.

To conclude, it is important to note that “illegal betting” can take very different forms. It is difficult to compare a licensed online betting operator offering bets in neighbouring countries where it does not have a licence with transnational clandestine bookmaking organisations, as are found in Asia for example. Regardless of its shape, and beyond its own criminal nature, illegal betting can create further risks of criminal activity where it occurs:

- Large sums of money can be drawn from clandestine betting networks through internationally scaled operations. As past and present cases demonstrate in the United States and Asia — where betting is strictly prohibited — illegal betting can combine vast street-level networks of agents collecting cash with online operators hosted offshore. These networks are structured and specialise in carrying out this criminal activity on a long-term basis and pose specific money laundering threats as they enable vast cash liquidity to be transformed into electronic money (conversion phase of money laundering).
- While not all illegal betting networks are run by traditional criminal networks, it is certain that all major mafia organisations have, at some point, invested in (illegal) betting activities. For such high-profile criminal groups, illegal betting can offer ways to launder money, and expand territorial control and influence. In Italy, mafia groups have also been investing in the production and distribution of illegal gambling machines,³ and would thus profit from the illegal activity even if they are not directly involved in it. Like the gaming market, the betting market, because of the sensitive and sometimes unclear distinction between legality and illegality, satisfies the appetite of organised crime for such grey economic areas.

1. Interview with the Guardia di Finanzia, Roma, 31 March 2016.

2. “Two Dutchmen arrested in illegal football betting probe”, *Dutch News*, 4 April 2016.

3. Interview with the Guardia di Finanzia, Roma, 31 March 2016.

c) Cybercrime

In the context of the betting market, and in contrast to types of fraud mentioned above, cybercrime relates to specialised individuals targeting online betting. According to Interpol, cybercrime is the fastest-growing criminal activity.¹ Increasingly, criminals are exploiting the speed, convenience and anonymity of the Internet to commit a wide range of criminal activities that know no borders, whether physical or virtual, cause serious harm and pose very real threats to potential victims worldwide. Although there is no single, universally recognised definition of cybercrime, law enforcement agencies generally make a distinction between two major types of Internet-based crime:

- advanced cybercrime (or high-tech crime), namely sophisticated attacks against computer hardware and software; and
- cyber-enabled crime, where many traditional crimes have developed in new ways with the advent of the Internet, such as crimes against children, financial crimes and even terrorism.

Betting operators and gambling operators in general are an attractive target for cybercriminals. There are a number of reasons for this, including the vast amounts of money involved around the world, largely illegally, the high number of web transactions involved and the large databases storing detailed identity information and private banking details.

A report from Europol,² published in January 2016, demonstrates that the gambling industry is the number one target for distributed denial of service (DDoS) attacks for extortion purposes after blocking a website. DDoS attacks remain a significant threat. DDoS attacks for extortion purposes have become a well-established criminal activity affecting thousands of victims around the world, with the number of unreported incidents believed to be much higher. The absence of reporting by private companies and individuals poses particular difficulties in law-enforcement efforts to prosecute the people behind the cyberattacks. One example comes from the Distributed Denial of Service for Bitcoin (DD4BC) cybercriminal group that exploited the increasing popularity of anonymous payment mechanisms and has been responsible for several Bitcoin extortion campaigns since mid-2014. DD4BC primarily targeted the online gambling industry, but has recently broadened its activity to include financial services, the entertainment industry and high-profile companies. Businesses paying in to blackmailer demands risk appearing vulnerable and being targeted again at a later date for a larger amount. In December 2015, law enforcement agencies from Austria, Bosnia and Herzegovina, Germany and the United Kingdom joined forces with Europol in an operation against DD4BC. The leader of DD4BC has been arrested.

The Italian financial police also mentioned that traditional Italian mafias conduct cybercrime operations. One recent police operation in Italy, « Immitation game », concerned a criminal group linked to the N'drhangeta which opened online poker websites (these websites imitated the names and games of legal websites). Investigations were made to identify the owners and led to the arrest of 13 individuals and seizure of 10 million euros. The websites were used both for profit-making and money laundering.³

1. Europol, *International action against DD4BC cybercriminal group*, 12 January 2016.

2. *Ibid.*

3. Guardia di Finanza, Philippe d'Albore, responsible for the fight against illegal gaming/betting, Roma, 31 March 2016

Akamai Technologies, Inc., the global leader in content delivery network (CDN) services, stated that “the online gaming sector was hit particularly hard by DDoS attacks in Q3 2015, accounting for 50 % of the recorded DDoS attacks. Gaming was followed by software and technology, which suffered 25 % of all attacks. Online gaming has been the most targeted industry for more than a year”.¹ Banks also confirms the vulnerability of the online gambling industry to cyberattacks.²

Naturally, the smallest betting companies, particularly those operating illegally and on the Darknet, are ideal targets for cyberattacks. However, internationally famous bookmakers are not immune and have reported some instances of cyberattacks against them. For example, Irish betting company Paddy Power PLC admitted in July 2014 that it had been hacked. The personal information of nearly 650,000 customers had been stolen, including email addresses, dates of birth and answers to security questions. In another instance, in April 2015, Betfair fell victim to a DDoS attack that took down its betting exchange and fixed-odds sports books. Betting operators must therefore develop sophisticated fraud detection systems to fight cybercrime.

In 2016, not only gambling websites, but also companies offering online roleplaying games or free entertainment were targeted by cyberattacks. While no documented case has been reported, it would certainly be possible for cybercriminals to incorporate malware into a betting website or app, as was the case in the following case study from the gaming industry.

Case study No. 6: In 2015, a phishing malware was enclosed in a popular gaming app known as “Cowboy Adventure”.³ The malware was used to compromise a user’s Facebook credentials.⁴ It is a simple but relatively popular game that make use of a 2D game engine called “Platformer 2D”. Consumers may have found their personal information compromised because of the malware contained within the app. Antivirus service ESET explained how an app available on Google Play, the app store for Android devices, was able to obtain private user information. “Cowboy Adventure” — which has since been removed from Google Play — produced a fake Facebook login screen that prompted users to enter their email or phone number along with their Facebook password. In doing so, their information was allegedly sent to a server belonging to those involved in the attack. ESET states that the between 500,000 and 1 million people who downloaded “Cowboy Adventure” should immediately change their password, not only on Facebook, but on any service that uses the same password as the user’s Facebook.

d) Fraud from betting operators

One or several employees of a betting company set up activities prohibited by national legislation, but which shareholders are not aware of. The betting company is therefore a “victim”. In the sports betting industry, “traders” are more likely to use this kind of swindle than other employees in the sense that they directly affect the profits of a betting operator. The most well-known fraud consists in manipulating the odds or the information related to a bet (for instance the time when betting is closed). Those involved can therefore be prosecuted both by a criminal court and by their employer.

1. “Akamai releases Q3 2015 state of the Internet - security report”, *Akamai*, 8 December 2015.

2. Banks, 2017, pp. 195-9.

3. This game has no link with sports betting but illustrates the cybercrime possibilities mobile gaming offers.

4. “Cowboy adventure’ game infects up to 1 million android users with malware”, *The Huffington Post*, 10 July 2015.

Case study No. 7: A former Betsson employee sentenced in Malta for multiple counts of fraud.¹

A betting company employee has been charged with defrauding his employer of €53,000 through commissions from artificially generated traffic on the company's online gaming websites.

The employee, who holds a Dutch passport but resides in Malta used to work as a field manager for Betsson Service Group and was responsible for creating gaming websites and used to receive a commission varying between 25 and 50% of customer bets. He artificially inflated the number of customers by using the details of account holders to generate fictitious new accounts, and concealed part of his proceeds from this illegal activity by transferring them to his Filipino wife's local bank account and to his Neteller account (a kind of electronic wallet). Investigators noted that during this period the man had acquired various properties in the Philippines. He has been sentenced to six years in prison.²

There are a variety ways for a sports betting trader to defraud their company and to profit personally (or to facilitate winnings for friends or family). These include:

- Deliberately changing the odds in order to favour "sure bets". For example, if the betting market fixes the price on Arsenal's victory between 1.6 and 1.7, a trader could offer 1.8 and therefore create some sure-bet possibilities. Since many bettors would bet on Arsenal with this trader's operator, the internal control system of the operator would naturally trigger an alert because of a high financial risk for the operator. Nevertheless, in the meantime, the trader's friends, family, or the trader himself could make use of the possibility of a sure bet;
- Odds inversion: Operators sometimes involuntarily make mistakes on the offered prices. For instance, instead of offering prices like 1 (first team to win) = 2.25, X (draw) = 3, and 2 (second team to win) = 4, it happens that a bookmaker offers 1 = 4, X = 3, 2 = 2.25. Of course, a trader in charge of the prices can deliberately make this kind of mistake and create a sure bet, before the internal control system sends an alert (generally quite fast). Once again, in that time, the trader or his friends and family could stake huge amounts on the first team at very attractive odds;
- Manipulation of the closing time of a bet: In many cases, a trader is free to offer a bet even when the result of the bet is known. Modern betting possibilities (especially in in-play betting) and low levels of internal control often give a high level of autonomy to individual employees, including the ability to start and to stop bets on a given event. This autonomy can be abused to allow the trader to make a guaranteed profit.

Two factors generally limit insider manipulation:

- A trader causing losses for their employer following such mistakes, are generally subject to internal review. It would be difficult for a trader to make the same mistake frequently;
- The terms and conditions of betting operators generally include a clause precluding the payment of winning in cases where an obvious mistake has occurred.

1. "Betting company employee accused of €153,000 fraud", *Times of Malta*, 24 November 2015.

2. « Former betsson affiliate gets six years in prison for €153k fraud », *CalvinAyre*, 30 March 2017.

Example: [Ladbrokes.com](https://www.ladbrokes.com/terms-and-conditions) website (30 June 2016), Terms and Conditions, Article 18: Errors in relation to Sportsbook markets

18.1 This clause relates to errors made in Sportsbook markets.

18.2. We make every effort to ensure that we do not make errors in accepting bets. However, if as a result of human error or system problems a bet is accepted at a price (which includes the odds, handicap provisions and other terms or details of the bet) that is either:

- Materially different from those available in the general market at the time the bet was made; or
- Clearly incorrect given the chance of the event occurring at the time the bet was made, then we will pay winnings at the correct price.

18.3. To establish the correct price, we will consider prices available in the general market at the time the bet was made, including the prices offered by William Hill and Coral. Examples of circumstances where this would apply are:

- 1 The price is recorded as 100–1 when the price on offer in the general market is 10–1; or
- 2 The margins for handicap betting have been reversed.

18.4. If a bet is accepted in error by us on an event or outcome for which no Ladbrokes prices are available, the bet will be void and your stake returned.

The shareholders of a betting company can use the betting business for criminal purposes (for example, not paying winnings to bettors). Of course, whatever the criminal activity, it requires complicity from one or several senior executives. This situation is not common when the betting operator is licensed in the consumer's jurisdiction (legal operator). In fact, the betting operator would in this case be incurring the risk of sanctions by the betting regulatory authority. It might receive a fine or have its authorisation (licence) suspended or even cancelled.

In certain cases, it has been reported that some legal betting operators did not pay winnings or breached the rules imposed by the regulatory authority.

Case study No. 8: Bettors complain about four online gambling companies based on the Isle of Man .

Four operators are under investigation after local police received a large number of complaints because the companies were allegedly voiding bets and closing customer accounts. The companies involved are 138.com, 12Bet, Fun88.co.uk and TLC Bet. They have been accused of sending emails to customers suggesting that the customer had abused promotion systems for deals offered on the sites. The island's Gambling Supervision Commission confirmed it is investigating. 12Bet, Fun88 and TLC Bet have pledged to review all complaints, promised to pay winnings where bets were incorrectly disallowed and have requested a thorough report from operator and licensee TGP Holdings. 138.com is licensed with Xela Holdings.

Most of the frauds and bettors' complaints concern betting operators which are based in offshore jurisdictions, where complaints by bettor are less likely to trigger thorough investigations. This is especially the case when the bettor is resident in a jurisdiction where the operator has no licence. He may be aware that his bets were illegal, so would not dare to file a formal complaint. Such types of fraud are more common among operators licensed in very poorly-regulated jurisdictions, or on the Darknet, where the law is not enforced at all. The same statement can be made for cybercrime.

e) Money laundering

To enjoy the gains of their activity, criminals have to incorporate illegal income into the legal economy. Gambling in general, and betting more particularly, can be an efficient way to launder money, as described in *Money Laundering: The Latest Threat to Sports betting*.¹

The major reasons for this situation are:

- the anonymity of bettors;²
- the existence of illegal online betting;³ and
- offshore sports betting regulations.⁴

• Money laundering as an external risk

In some cases, the betting operator and/or its agents (vendors, employees) are the source of the risk of money laundering. This may be the case when first establishing a sports betting website or when a vendor is involved in points of sales (see below). More frequently, betting is used by a third party to launder money without the complicity of the betting operator or its agents. When it comes to money laundering, a distinction should be made between online and retail betting typologies.

Online betting:

The Web has specific weaknesses with regard to money laundering, notably when it comes to illegal betting. Money can easily be laundered via illegal online websites, while dirty cash played offline will remain cash. Through online betting, dirty money can be sent to a bank account and be shown as proceeds coming from the legal economy. In addition, illegal gambling is a criminal offence for betting operators but almost never for the consumer. The general principle behind laundering money through online betting is easy to understand:



Online operators allow a wide range of payment methods, some of which clearly favour a bettor's anonymity.

1. C. Kalb and P. Verschuuren, *Money Laundering: the Latest Threat to Sports betting*, 2013, IRIS Editions.

2. *Ibid.* pp. 67--70;

3. *Ibid.* pp. 70--81;

4. *Ibid.* pp. 82--98;

Examples of payment methods (see also III, below):

Bet365¹ (see "Terms and conditions"): credit card, debit card, eWallet (Neteller, Skrill, PayPal, paysafecard), bank transfer, virtual prepaid card (entropay), cheque.

FDJ² (see "Verser sur mon compte FDJ"): credit card (limited number of countries: 28 EU countries and Norway)

Lottomatica³ (see "Metodi di pagamento"): 11 kinds of credit card and debit card (Mastercard, Visa, Maestro) and eWallet (Neteller, PayPal, paysafecard, Skrill, Postepay, My Bank, OK Shop)

PaddyPower⁴ (see "Terms and conditions"): debit and credit card, bank transfer, Neteller, PayPal, paysafecard, Skrill/Moneybookers, cash card, cheque.

Santa Casa⁵ (see "Posso utilizar o meu cartão de crédito para jogar no portal?"): Credit cards are not accepted. The player has to charge his betting account via one of two possible methods (Caixa multibanco or Homebanking)

William Hill⁶ (see "Terms and conditions"): credit card, debit card, eWallet (Neteller, Skrill, Paypal, paysafecard, Pingit, WebMoney, Yandex Money, Kiwi Wallet, Moneta Ru), online banking (Comgate, eKonto, eps, Euteller, Fast Bank Transfer, Giro Pay, I Deal, Instabebit, Poli, Przelewi 24, Safety Pay, Sofort, Sporo Pay, Trustly, Trust Pay, Usemyfunds), cash vouchers and prepaid cards (paysafecard, Abacoos, Todito Cash, Astro Pay), cash transfers (Western Union, bank transfer, bank cheque)

There are also a number of additional ways to use online betting to launder money:

- a criminal may open a betting account and make a deposit without betting. After a while, he closes the betting account and asks for his money to be returned via a transfer to a bank account (the transfer will state that the money comes from a betting operator). However, it should be noted here that the main betting operators in the EU do not allow the money to be transferred to a bank account which is different from the one from where the money came from. The situation may be different on poorly-regulated operators or on the Darknet.
- money paid into a betting account may come from a stolen credit card.

Retail betting:

Offline, retail betting is generally viewed as a major vector for money laundering because of the bettor's anonymity. In several national Precrimbet seminars (Denmark, France, Greece for example), AML authorities underlined that most of their investigations on money laundering concerned retail betting. However, many of them said that risks may be online, but they lack capacities and expertise to reach international betting companies.

1. <http://www.bet365.com/home/FlashGen4/WebConsoleApp.asp?&cb=10325421822>

2. <https://www.fdj.fr/infos/faq/sport>

3. <https://www.lottomatica.it/scommesse/avvenimenti/scommesse-sportive.html>

4. <http://www.paddypower.com/bet>

5. <https://www.jogossantacasa.pt/web/AjudaFAQ/>

6. <http://sports.williamhill.com/bet/en-gb>

The following steps are involved in laundering money through betting shops.

The launderer wagers dirty money in cash in a point of sale, usually anonymously

He seeks to obtain proofs of winnings (via cheque or bank transfer sent by the betting operator or via a winning betting slip)

This proof can be presented when necessary to law enforcement agencies in the event of suspicious transactions.

Case study No. 9: Using Danske Spil, the Danish Lottery, to launder dirty money¹

The Danish gambling market was regulated in January, 2012, making it possible for operators to apply for a licence and gain access to the lucrative Danish market. Prior to that, the partially government-owned Danske Spil had a monopoly on retail betting. In recent years, Danske Spil has faced accusations of not being proactive with regard to money laundering activity. It has become common for Danish police investigating big drugs cases involving large amounts of cash to also find betting tickets from Danske Spil, which was being used to launder money. "It's something that we often see. We have had many cases where we find big stacks of betting coupons, used to try and launder their dirty money," said Steffen Thaaning Steffensen from the Copenhagen Police Department to Politiken.dk. "It's a method that we are all familiar with. One of the most popular variations to do is to place a bet on all three outcomes of a match and receive around 90% of the money back," according to Vice State Attorney Per Fiig. With Danske Spil it is possible to place bets up to DKK 10,000 (€1,300) anonymously in a betting shop. This allows people to launder huge sums of money every single day with relative impunity at a very small cost compared to paying the regular taxes.

• **Money laundering in betting shops through wagering**

- A criminal creates a betting syndicate with honest (or less-than-honest) bettors. The criminal collects winnings for all members of the syndicate and pays members back with dirty money.
- A criminal steals a credit card, withdraws some cash and places a wager in a betting shop. He then withdraw his winnings in another betting shop.

• **Money laundering in betting shops without wagering**

- The launderer buys some winning betting slips, generally in exchange for a "bonus" paid to the real winner. He thus takes advantage of the anonymity of brick-and-mortar points of sale. In sports betting, it is easier to identify recurring winners, who are in practice "big gamblers", as they are often well known to the retailer.

1. "Betting shops fear drug barons are laundering cash in gambling machines", *iGaming.org*, 5 January 2015.

- Launderers can also collect losing betting slips, because not all betting operators ask their retailers to destroy losing betting slips. A launderer can either pick up the losing betting slips themselves or, in collusion with the retailer, collect them indirectly. In France, these techniques have been used in horseracing. The launderer use the losing betting slips to demonstrate that they have wagered large amounts and are thus frequent gamblers. The person does not directly launder dirty money in this way, but has documentation that will make the process more difficult if there is an investigation.

Case study No. 10: A skimming network laundered money through points of sales after having bought winning slips from players with a “bonus”¹

Eleven people suspected of skimming in southwestern France were arrested by Europol. In 2015, they are alleged to have hacked 500 cash points and more than 4,000 credit cards. The economic damage totals more than € million. During the police search, investigators found money in different currencies, credit card encoding technology, blank credit cards and handguns. Three skimming studios were also been dismantled in France and Italy. The group operated by placing skimmers in cash dispensers and encoding blank credit cards used abroad. To launder money, criminals bought winning slips off bettors or lottery players by giving them “bonus”.

What is Skimming?

Skimming is the crime of getting private information about someone’s credit card that is used in an otherwise normal transaction. The thief can obtain a victim’s card number using basic methods such as photocopying receipts or more advanced methods such as using a small electronic device (skimmer) to swipe and store hundreds of victims’ card numbers. Common scenarios for skimming are restaurants or bars where the skimmer is in possession of a victim’s card out of their immediate view. The thief may also use a small keypad to unobtrusively transcribe the 3- or 4-digit card security code, which is not present on the magnetic strip. Call centres are another area where skimming can easily occur. Skimming can also occur at merchants such as gas stations when a third-party card-reading device is installed either outside or inside a fuel dispenser or other card-swiping terminal. The device allows a thief to capture a customer’s card information, including their PIN, with each card swipe.

It should however be noted that, in many ways, a money launderer is in theory a betting operator’s ideal customer, as they are prepared to lose significant amounts of money on a regular basis. Consequently, a grey area may exist where the betting operator is not directly complicit in any money laundering activity but may turn a blind eye to the situation. This is particularly the case when betting regulatory authorities have failed to establish due diligence measures to prevent money laundering from taking place.

In the following example, a criminal whose money may come from drug trafficking launders €422,700 by betting and slowly increases his monthly stake amount and pay-out rate through single bets on high-profile football games with a single betting operator. Over 10 months, he will have bet 450,000 euros and collected 422,000 euros in washed money. A small proportion, the price of the laundering, is left to the operator (27,300 euros).

1. “Un réseau de piratage de distributeurs démantelé”, *Le Dauphiné*, 23 May 2016.

MONTH	STAKES	WINNINGS	PAY-OUT	PROFIT/LOSS
1	€10,000	€9,000	90%	-€1,000
2	€20,000	€19,500	97.5%	-€500
3	€30,000	€26,000	86.7%	-€4,000
4	€40,000	€39,000	97.5%	-€1,000
5	€40,000	€35,000	87.5%	-€5,000
6	€50,000	€50,200	100.4%	+€200
7	€60,000	€55,000	91.7%	-€5,000
8	€60,000	€58,000	96.7%	-€2,000
9	€70,000	€64,000	91.4%	-€6,000
10	€70,000	€67,000	95.7%	-€3,000b
TOTAL	€450,000	€422,700	93.9%	-€27,300

According to the interviews and questionnaires received from sports betting operators, it seems that the issue of money laundering is now being taken more seriously by betting operators than was the case, say 15 years ago (see below). This is in particular a response to the stronger stance from betting regulators. In most of the EU countries, betting operators will be subject to the 4th EU AML Directive. The UK Government, in contrast, chose not to extend the Directive to the sector (15 March 2017), although the GB Gambling Commission reported that betting presents higher money laundering risks.¹ Stricter money laundering rules have been announced by the Gambling Commission for later in 2017.

Betting operators argue that it can be difficult to apply AML rules since the link with the consumers is not as substantial as in the case of banks, for example. Another difficulty may arise from the theoretical advantages that betting may gain from letting money launderers bet. As we can see from the numbers in the table above, the bettor is an interesting customer, yielding a healthy profit (€27,300) with a good margin (6.1%), much different from professional bettors with whom bookmakers may have negative margins. Unscrupulous betting operators may be unlikely to send a report of suspicious activity to the financial intelligence unit in cases like these. Tensions can arise between commercial considerations and the effective application of safeguards against criminal use of the betting sector (and against problem gambling, which is another potential explanation for betting large amounts relative to reported income). Research for this Report found that senior staff in a company tended to be fully committed to compliance and that front-line staff typically followed correct procedures. Failures seemed to happen at middle-management level, where decisions may be compromised because commercial pressures are most keenly felt at that level. Although there does not appear to be a conflict of interest caused by the direct link between earning and bonuses, middle managers are likely to feel that career progression depends on profitability in their unit. They may thus be reluctant to take action that could lead to the loss of high-value customers. Loss of customers is possible even when customer money is licit, since they may shift operator if pressed to reveal personal data such as their bank statements.

1. Gambling Commission, *Money laundering and terrorist financing risk within the British gambling industry*, 31 October 2016.

In one case in the UK, an individual was convicted of large-scale theft and resale of equipment from his employer, earning £5.6 million. He had held an account with Bet365 since 2005. Between 2010 and 2013, he deposited £5.9 million into the account, losing £4.8 million on its sportsbook in 40,000 sports betting transactions. This could be said to be “spending the proceeds of crime” rather than money laundering, but the UK legislation makes no distinction, and the operator needs to stay vigilant, whether the intent of money laundering is clear or not. Bet365 was judged to have been non-compliant with both anti-money laundering regulations and social responsibility licence conditions. Although two suspicious activity reports (SAR) were eventually filed, the operator had been insufficiently thorough in investigating the customer. It had kept inadequate records of interaction with the customer despite its own procedures flagging the need for due diligence. It had also been complacent in accepting the legitimacy of transactions made via a UK bank debit card and had missed readily available public domain information pertaining to the customer’s bankruptcy. Other reports from the GB Gambling Commission (see below), in which it “names and shames” individual operators, tell similar tales of betting firms showing “insufficient curiosity” about sources of funds and being “satisfied too easily” when conducting due diligence in line with their own protocols.

- **Money laundering as an internal risk**

Here, the betting operator and/or its agents are the origin of the money laundering risk. There are two major types, depending on the distribution network.

Online betting:

In this case, criminals create a betting website and use it to launder money from illegal activity.

The most traditional method is simple and very well described by Banks (2011).¹



For the operator and its owner, the money will be recorded as receipts (gross gaming revenue) and they can be safe in the knowledge that the local authorities will not look too closely, particularly

1. J. Banks, “Online Gambling and Crime: A Sure Bet?”, *The ETHICOMP Journal*, 2012.

as the bets were made abroad. This type of betting website is generally located in one of the less strongly regulated offshore jurisdictions,¹ and the use of these “fake” accounts can be hidden in a mass of legitimate betting accounts, further reducing the possibility of detection and making investigation difficult. This technique is representative of the strategy of major criminal networks to mix legal and illegal activities. One of the most emblematic case studies is the “Paradise Bet” affair,² where a criminal network, the “Parisi” clan, established a sports betting operator *ex nihilo* and used it in all phases of the money laundering process.

Another significant recent example comes from the ongoing investigation into a number of betting websites established in Malta by frontmen working for major Italian OC groups (see case study above).

Criminals can also infiltrate an online betting website in order to bet very large amounts of dirty money without arousing suspicion. This was the case in the Bochum trial, where a criminal network managed to open a VIP account at London-based operator Samvo and earned more than €30 million through this account. The three Samvo employees who were at the behest of the criminal network used the information from the criminals and placed bets on the Asian market to secure additional profits.³

Most high-profile cases focus on the laundering of money gained through illegal activities such as drug trafficking, racketeering or illicit arms sales. Many countries, including the United States, are coming to recognise illegal betting as a criminal activity in itself and define the proceeds (and tax evasion) are considered to be money laundering as well.⁴

Retail betting:

When it comes to offline, retail betting, the vendor is the weak link in the system. Even betting operators with advanced fraud detection systems may have weaknesses when it comes to their vendors or their employees, simply because they are numerous and have a strong level of autonomy. Vendors may exploit these opportunities in a number of ways.

- If a vendor has money coming from illicit activity (including undeclared income and illegal gaming machines), they can purchase winning betting tickets. The procedure is very easy to carry out: a vendor pays for winning betting tickets from their own pocket (with dirty money) and then declares themselves to the operator as the official winner. This operation is particularly interesting with first prizes or jackpots because the vendor can launder a lot of money at once. If the vendor is scrutinised by a financial investigation unit, they can claim that the first prize was won with a small stake.
- The vendor may at times be only an accomplice of the money launderer, colluding to giving the latter the opportunity to get rid of illicit funds through the purchase of winning betting slips. The vendor will generally be paid for their collusion.

1. I. Fiedler, 2014, *op. cit.*, p. 92.

2. C. Kalb and P. Verschuuren, 2013, *op. cit.* p. 103–105.

3. “European Soccer’s Master of Match-Fixing”, *Bloomberg*, 22 March 2013.

4. I. Fiedler, 2014, *op. cit.*, p. 82.

- Some betting operators have special procedures for the payment of small prizes by authorising cumulative payments. For instance, if a bettor has 10 winning tickets for €50 each, the bettor can ask for a single cheque or bank transfer (€500) instead of €50 in cash ten times. If the bettor placed stakes with dirty money, the money is then laundered. In some cases, the vendor or a vendor's accomplices will organise a laundering procedure like this on a large scale. It may even be the case that the vendor pays more winnings than stakes are collected, which is not usual behaviour.
- The most common way to launder money today via a point of sale betting retailer is to purchase it. The owner therefore benefits from a legitimate cover and can implement a wide range of money laundering procedures. The owner can even pay funds into his or her "vendor" bank account with money coming from illegal activity.

Case study No. 11: Using gaming to launder the proceeds of criminal acts and offences (vendor and an employee)¹

Mr X is an employee of a point of sale for FDJ (sports betting) and PMU (horse betting) located in the Metropolitan Paris region and run by Mr Y. France's financial intelligence unit, Tracfin, was alerted to an unusually large number of cheques and wire transfers of winnings credited to the bank accounts of these two individuals.

Over a 15-month period, Mr X made more than 4,000 separate transactions to deposit winnings totalling about €1.5 million. Mr Y made nearly 700 separate transactions to deposit winnings totalling more than €200,000. The winning tickets, nearly all of them from sport and horserace betting, were validated in Mr Y's outlet. Consequently, the turnover in "gaming" products in his outlet increased exponentially over the same period.

However, the origin of the money bet by the two parties involved was not clear. It would be revealed that, although payments by cheque, wire transfer or credit card were registered to their bank accounts, their accounts did not sufficiently justify the recurrence and the extremely high amount of the winnings. The two parties must have been injecting additional money into gaming, whose origin was unknown. This then raised red flags. Particularly of note was the fact that Mr X's officially declared sources of income were quite modest, yet he lived a quite comfortable lifestyle and had also acquired real estate.

- **Differentiated responsibilities regarding money laundering**

Responsibility of betting operators in money laundering cases

Even in cases where the owner or employees of a betting operator are not directly involved in a money-laundering scheme, the operator may still be complicit in the act depending on the anti-money-laundering policies and procedures they have in place. As was the case in the UK recently, betting operators can be sanctioned for not applying enough due diligence and vigilance to the bets they accept. Between the Darknet operators, offshore-licensed, mostly legal or mostly illegal, the attitudes of betting operators towards money laundering can be very different. The level of control and nature of the regulation where those companies operate is a central issue.

1. Tracfin, *Tracfin Annual Report*, 2014.

LEVEL	Betting operator's behaviour	Attitude towards ML
1	Operator's actions partly or wholly illegal No significant money laundering prevention procedure (focus on business) No significant suspicious reports sent to financial intelligence unit	Totally passive towards money laundering
2	Operator's actions mainly legal No significant money laundering prevention procedure (focus on business) Minimum number of suspicious reports sent to financial intelligence unit	Passive towards money laundering
3	Operator's actions mainly legal Basic money laundering prevention procedures (focus on compliance with betting regulatory authorities procedures) Reasonable number of suspicious reports sent to financial intelligence unit	Quite active towards money laundering
4	Operator acting legally Improved money laundering prevention procedures (focus on security and the risk to public order) Good number of well-documented and reliable suspicious reports sent to financial intelligence unit	Proactive towards money laundering

The following two examples show weaknesses that can exist in betting operators' AML programmes, even if the operators can be considered as responsible. These operators cannot be classed as Level 4, and probably even Level 3 in some cases. The case studies demonstrate the need to fight against money laundering in the gambling sector, and in the betting industry in particular.

Case study No. 12: Serious weaknesses in the AML and social responsibility controls¹

The Gambling Commission identified a number of serious historical weaknesses in the AML and social responsibility (SR) controls used by Gala Coral Group Ltd t/a Coral Racing Limited and Coral Interactive (Gibraltar) Limited to mitigate the risk of money laundering and problem gambling.

Law-enforcement agents notified the Commission that a Gala Coral Group customer had been convicted of theft and had been sentenced to several years' imprisonment after pleading guilty to stealing £800,000 from a vulnerable adult. Examination by the police of the individual's bank records — which were not available to the Gala Coral Group — led them to conclude that the theft had been used to fund the customer's gambling. The majority of this gambling was with Gala Coral Group companies: Coral Racing Limited and Coral Interactive (Gibraltar) Limited. The customer had been a retail customer of Gala Coral Group since 2012 and was an online customer between January 2014 and January 2015. The Commission examined documentation supplied by Gala Coral Group in relation to the customer's gaming records and its internal AML and SR policies. It also met with senior Gala Coral Group staff. Gala Coral Group confirmed that the customer was a significant customer and a VIP in both retail and online operations.

After considering the evidence, the Commission found that Gala Coral Group had failed to meet its AML and SR obligations in a number of key areas, even though the customers may have spent the proceeds of his crime without the intent to properly launder it. The Commission found that if Gala Coral Group had exercised its duties to monitor the customer from an AML or SR perspective, it is likely that he would have been identified as a customer of concern earlier and action taken to limit or prevent further gambling.

The identified failings, however, had a wider impact beyond one customer's particular case and demonstrated significant weaknesses in Gala Coral Group's corporate AML and SR policies at that time.

1. Gambling Commission, *Gala Coral Group: Failures in anti-money laundering and social responsibility controls public statement*, April 2016

Case study No. 13: Tabcorp accused of many breaches in money-laundering reporting¹

Gaming giant Tabcorp has been accused of 61 reporting breaches as part of a landmark Federal Court action taken by anti-money laundering watchdog Austrac. Tabcorp Holdings Limited (Tabcorp) is an Australian wagering, gaming and keno operator. They carry a supporting media arm. The ASX-listed company faces penalties of up to AUD 18 million over allegations it routinely flouted anti-money-laundering and counter-terrorism financing provisions by failing to report suspicious transactions.

Austrac chief executive Paul Jevtovic said the new breaches came to light after it launched legal proceedings in July 2015 against Tabcorp and its NSW and Victorian wagering businesses.

"This ongoing investigation into Tabcorp's extensive, significant and systematic non-compliance with Australia's money laundering and counter-terrorism financing legislation has resulted in these additional allegations," Jevtovic said.

Austrac alleged that Tabcorp contravened its reporting obligations on 236 occasions, which had the potential to facilitate large-scale money laundering by crime syndicates or compromise the integrity of the financial system.

In 2015, Fairfax Media revealed underworld figures were exploiting Tabcorp betting accounts to launder cash, while violent inmates sometimes used the accounts to receive payments for extortion rackets run inside Victoria state prisons.

Betting operator anti-money laundering processes and procedures (example of the UK)

The Precrimbet research programme interviewed staff and observed operations at the premises of two large bookmakers in Great Britain and of two operators based in Gibraltar but holding licences from the British as well as the Gibraltar gambling commissions.²

It should be noted that the GB Gambling Commission follows the definition of money laundering set by the Proceeds of Crime Act 2002: the operator commits an offence by accepting the proceeds of any crime. Thus, the term refers both to money laundering directly (i.e., the purpose of the transaction is to conceal its origin) and to the ordinary spending of the proceeds of crime (where criminals obtain money illegally and spend it on a range of licit goods and services. This includes betting, as gambling is sometimes considered to be part of a criminal lifestyle).³ Where an operator knows or reasonably suspects that money is being laundered according to this broad definition, its designated money laundering reporting officer (MLRO), must file a suspicious activity report (SAR) with the relevant financial intelligence unit (FIU), which will be an autonomous section of the national crime agency if the operator is based in Great Britain or its local equivalent if based offshore. In either case, the Gambling Commission must be advised that the SAR has been filed.

There has been a sharp increase in the number of SARs filed over the past two years.⁴ This can be explained by the widening of the Gambling Commission's regulatory authority brought about by the switch to point-of-consumption licensing, and negative public reporting on, and financial sanctions for, failings at various bookmakers since 2014. The Gambling Commission also provides advice to operators with regard to AML protocols. Some operators have quite considerably increased the number of staff responsible for AML processes and procedures.

1. "Tabcorp accused of 61 new money laundering reporting breaches", *The Sydney Morning Herald*, 28 April 2016.

2. Since 2014, as noted previously, betting operators must be licensed by the British Gambling Commission and subject to its regulatory powers if they provide services to British residents.

3. All operators in the United Kingdom that were consulted in preparation of this report regarded the direct spending of the proceeds of crime as much more important and widespread than actual money-laundering operations. This was evident from the fact that in most cases where it was revealed that better money had been criminally acquired, betting patterns were deemed "normal" and typical of recreational bettors in terms of, for example, favoured odds ranges. It was thought that criminals had a particular appetite for risk, as demonstrated by their taste for betting.

4. According to *The UK National Risk Assessment of Money Laundering and Terrorist Financing* (2015), the number of SARs from the non-casino gambling sector was 80% higher in 2013–2014 than in the previous year. Individual operators interviewed in preparation of this report confirmed the upwards trend, which appears to have continued over the 2014–2016 period as well.

The operators studied in preparation of this report had the following broad system in place. Risk is managed in stages by (1) monitoring all customer transactions, (2) flagging some customers as “high risk” according to predefined criteria or because of staff concerns, (3) escalating these for further investigation through the use of publicly accessible information, interviews with the customer, etc., and (4) deciding on a course of action (e.g., accept that there is a legitimate explanation for the customer’s pattern of behaviour, close the account, file an SAR, etc.). The Betmonitalert research programme extensively analysed the monitoring systems set in place by betting operators for the flagging of suspicious betting activity. According to the programme, the betting operators have developed experience and expertise in their anti-money laundering process, which can also be applied for flagging betting behaviour related to match-fixing.

Whether operating a retail or online business, assessing risk across many fronts is a key part of a betting operator’s work, since criminal risks can occur alongside commercial and social-responsibility risks (such as problem gambling). Some indicators could apply across all these risks.

One of the large operators submitted 352 SARs in 2015 of which 214 were from retail rather than online activity.¹ Given that most transactions are anonymous, detecting suspicious cases will often depend on staff vigilance rather than automated procedures.² All shop managers and relevant employees at area and regional level receive annual AML training. Researchers also reviewed a company manual that included substantial guidance to staff on when to report suspicions to their manager. Staff are examined on their knowledge of this material each year.

Staff in retail betting outlets are instructed to look for potentially suspicious behaviour.³ Given that betting shops also tend to be rather socially exclusive spaces, where staff will be familiar with regular customers, they are asked to consider a customer’s betting behaviour in the context of other broader indicators.⁴ Whenever staff are suspicious, they must start a reporting procedure that refers cases to the regional level.

Staff in shops must also refer all attempts to place large bets — as defined by amount the customer wins if the bet is successful — to a central control room which must give authorisation before the bet is accepted. This is done while the customer is waiting and the analyst at central control can see real-time high-resolution images of the bettor. Often the individual may already be known from attempts to place bets in other shops. It may simply be a case of a skilled bettor, and the typical response may be to authorise only a smaller sized bet. Should there be suspicion of money laundering and/or social responsibility issues, the bet may be accepted but the customer informed that identification must be presented when collecting any winnings. This enables further checks to be made on the customer and the potential source of their funds.

The operators visited in preparation of this report deal with AML in online operations through a similar set of principles, although referrals to analysts come from statistical algorithms rather than

1. Some of these were related to use of in-shop gaming machines rather than betting.

2. There are, however, automated systems to alert staff to abuse of in-shop machines. An example would be if a customer made a large deposit into the machine, engaged in minimal play, and then requested a refund of unused credit on the machine. This is regarded by operators as the most likely scenario for criminals to use retail betting shops to launder money.

3. Such as: betting on non-runners in horse and dog races; placing large stakes on short odds; a dramatic increase in stakes by a particular customer ; requesting winning bets ; betting in cash but asking for winnings to be paid through a card.

4. Such as: Does the customer have a job? Is the customer from a wealthy family? Is there any local intelligence (local newspapers, gossip) indicating criminal association? Does he bet in one shop but collect winnings in another? Is a regular customer placing bets for someone else?

from frontline staff reports. Customer accounts are screened to identify potentially suspicious activity, such as large, regular bets at short odds or the existence of two or more accounts at a single IP address.¹ A customer may then be asked to prove the source of funds used for betting. In cases where the sources of funds include a bettor's own company, proof of 100% ownership is required.

One operator, in addition to screening transactions, automatically checks on a monthly basis all active bettors — defined as having made at least one transaction in the three preceding months — to identify sanctioned persons and politically exposed individuals. Checking for sanctioned persons is carried out against EU, UK and US lists and the Dow Jones database. This was said to reveal approximately one case per year. In such a case, the account is closed and the authorities informed. The number of politically exposed persons identified each year is higher. Typically, they are permitted to continue as customers but with restrictions on bet amounts.

Operators also have terms and conditions with rules designed to deter money laundering. Typical terms and conditions permit a customer to pay into their betting account using only a bank account, debit card or e-wallet. Only one source of funding may be selected and it must be used for both payment and receipt of winnings. Customers seeking to send payments to another country must apply for special permission. At the operators visited, businesses are not permitted to open accounts except in the case of "reputable" betting companies using the account to lay off bets.

Limitations of AML procedures

Betting is one of the sectors reviewed in the official *UK National Risk Assessment of Money Laundering and Terrorist Financing*, published by HM Treasury and the Home Office in October 2015. It notes inherent risks such as the prevalence of cash transactions and anonymity in the offline sector and the challenging nature of customer verification in an online setting. More practically, it also draws attention to significant cases, reported by the Gambling Commission, where weak controls by operators have permitted criminals to launder criminally derived cash. Nevertheless, it gives the official risk classification for betting as "low" (compared with, for example, "high" for banks and "medium" for estate agents). This risk-assessment was used as justification to leave the betting sector outside the scope of the 4th EU AML Directive.

Despite their heightened efforts, operators themselves noted their own limitations when it came to being able to access relevant information. Certain operators have also been publicly rebuked by the Gambling Commission for failing to appropriately apply procedures and processes in cases where criminal exploitation of betting came to light through the efforts of law enforcement agencies.²

One obvious limitation of any customer-screening procedure is that the operator can only see betting in its own shops or on its own website. Criminals may not be spending an amount of money out of line with their licit income at any one operator, but they may be wagering larger amounts in total, spread across operators.

1. We were informed that it is rare to detect a customer betting on both sides of a proposition, an obvious technique in money laundering. Staff believed that criminals aiming to wash money this way are probably sufficiently aware to use different operators for the opposing transactions.

2. It should be noted, however, that, in its reports, the Gambling Commission had accepted that the operators in question had already tightened their procedures as a result of the Commission's investigations.

Operators suggested that there was potential for information sharing when a customer is under investigation. The general sentiment was that an industrywide culture of cooperation had emerged in the area of betting-related sport corruption but had not done so with regard to issues of money laundering. This was proposed as a means of making AML action more effective.

Operators also had limited ability to access a customer's financial information. One operator recommended that betting companies should be able to appoint a designated official who is authorised to seek information from counterparts at financial institutions. Such a framework already exists for banks where an "accredited financial investigator" at one bank can discuss concerns about a customer with the accredited investigator at another bank where the customer may do business. A fuller picture could also be obtained were bookmakers able to access credit rating reports that include loans details and other pertinent information. Credit reports are routinely used by firms in the finance sector.

Another important aspect is the verification of costumers IDs. Betting operators consulted throughout the Precrimbet programme informed us that they use specific services to check the accuracy of the bettor's ID. Some operators have a central capacity, others outsource it. The results of the "Mystery Benchmark" exercise (see below) seem to show that operators can actually manage to identify "fake IDs". From the discussions with betting operators it seems that it may be more difficult to identify IDs that have been stolen than IDs that are articially created. As evident from findings in the Betmonitalert research programme (by Jean-Loup Richet: "betting in the Darknet" report), it s relatively easy for any individual to buy fake IDs (stolen ID) online, on the "Darknet".

Responsibility of betting regulatory authorities with regard to money laundering

The level of involvement of betting regulatory authorities (BRA) must also be considered. The fight against money laundering is, in fact, at the intersection of policies set by public authorities and the approaches and attitude of betting operators.

The following chart classifies possible behaviour in betting regulatory authorities.

LEVEL	Betting regulatory authority's behaviour	Attitude towards ML
1	Sensitive nature of betting not taken in account	
	No or poor level of control of betting operators	Ineffective attitude
	No or poor due diligence and money laundering procedures	towards money
	Absence of due diligence or background checks on the owners of betting operators	laundrying
2	Sensitive nature of betting slightly taken in account	
	Partial or correct level of control of betting operators	Effectiveness towards
	Existing but ineffectively applied due diligence and money-laundrying procedures	money laundrying
	Partial checks on due diligence and backgrounds of the owners of betting operators	uncertain
3	Sensitive nature of betting taken seriously into account	
	High level of control of betting operators	Effective attitude
	Strong and applied due diligence and money laundrying procedures	towards money
	Strong due diligence and background checks of the owners of betting operators	laundrying

Three examples illustrate these scenarios.

- In Malta, the FATF Review Group was concerned that the FIU has not developed any methodology for its supervisory activities. It also notes that “the absence of a national risk assessment to identify the most risky areas for ML/FT, together with a low level of identified compliance infringements, give rise to concerns with regard to the effective implementation of the supervisory activity”.¹ Moreover, the high number of illegal activities and money-laundering cases involving Maltese betting operators would seem to place the Malta Gaming Authority among Level 1 betting regulatory authorities.
- France’s regulatory authority for online gambling, ARJEL, has strong control over sports betting operators through a system recording all betting transactions in real time.² Two years ago, it also established due diligence procedures and policies with regard to AML. ARJEL may therefore be classified as a Level 3 betting regulatory authority in the near future.
- The UK Gambling Commission appears as the most proactive gambling regulatory authority over the past two years with regard to the fight against money laundering. Nick Tofiluk, Director, Regulatory Operations, stated that “Britain’s gambling industry needs to focus on keeping crime out of gambling”.³ While the UK Gambling Commission may not be able to wholly to control betting operators, particularly because operators may base their online activities in Alderney, Gibraltar or the Isle of Man, it could be considered a Level 3 regulator. Nevertheless, the recent decision excluding Britain’s betting operators from the scope of the 4th AML Directive may require further analysis.

The precrimbet national seminars not only underlined the heterogeneity of positions and capacities of betting regulators, they also showed the rapid evolution of the national legislation landscapes. A number of countries are nowadays changing or amending their legislation (Lithuania, Poland, Germany, Netherlands), some countries are very likely to do so in the future (Sweden, Portugal) and other countries like Greece are currently in a transitional regime which needs to be resolved soon with permanent structures established.

The British non-prescriptive model of regulation

The Gambling Act (2005) established a permissive framework for gambling in Great Britain but set up a Gambling Commission which has a priority objective of “preventing gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime”.

The Commission builds this objective into the Licence Conditions, violation of which it can punish by a range of sanctions including revocation or suspension of licences. However, its approach tends towards the non-prescriptive. It requires operators to take steps to keep crime out of betting but generally does not dictate in detail what the steps should be. For example, there is no prescrip-

1. C. Kalb and P. Verschuuren, 2013, *op. cit.*, p. 91.

2. A number of other regulators use a similar tool (for example Italy, Lithuania, Poland)

3. Gambling Commission, *New rules to tackle crime linked to gambling*, 5 May 2016.

tion that bets above a certain threshold should be investigated on the basis of anti-money laundering criteria, only a general requirement that an operator has “appropriate policies, procedures and controls to prevent money laundering and terrorist financing”.

It was the view of the Commission that it was very much up to the operator to decide what was appropriate. The operator must be able to assure the Commission that it has effective procedures in place. The role of the Commission is to be assured or then to act if it is not assured.

This non-prescriptive approach was supported at the Commission by an argument that the gambling industry changes rapidly as new products and technologies emerge and risks change. Any detailed list of requirements may become outdated while the licensing objective is most likely to be met if operators are obliged to amend their procedures as new developments occur rather than wait for new regulations to be enacted by an external agency. One operator stated, however, that it would prefer specific guidelines on what it and others were expected to do in practice. It argued that, if different operators apply different policies, this may distort competition. For example, if one betting operator establishes a threshold for bet size over which the customers is required to prove the source of their funds, the customer may respond by moving to a rival firm which does not apply such a threshold.

In fact, over time and despite its preference for a non-prescriptive approach, the Commission does appear to be revealing in greater detail what it would regard as adequate or inadequate processes and procedures when carrying out assessment of operator compliance with the first licensing objective. First, it has held industry workshops to disseminate good practices. Second, it issues guidance notes on its website. Third, “public statements” are released describing cases where regulatory sanctions were imposed for non-compliance. In 2016, public statements were issued for two historic cases (at Paddy Power and at Gala Coral) where there had been “failures in anti-money laundering and social responsibility controls”. In each statement, the failures are described in detail and the document sets out a series of questions other operators should ask themselves when reviewing whether their practices are satisfactory. Each statement carries on its cover page the pointed observation that “The issues identified in this statement are likely to form the basis for future compliance assessments of gambling operators”.

In cases where a betting company is judged to have failed in taking appropriate steps to ensure compliance with licensing conditions, the Commission has the power to initiate a licence review, which can lead to the revocation of the licence. However, in the cases of Paddy Power and Gala Coral in 2016, it preferred to reach a voluntary settlement where the company’s failings were revealed in a public statement and where the operator incurred a financial penalty (paid to responsible gambling charitable causes) which was designed at least to remove profits made from the relevant betting transactions and to include an additional sum representing the Commission’s investigatory costs. Research revealed that senior management of these companies regarded the reputational damage from the “naming and shaming” to be considerable.

The Greek transitional betting regime and the difficulty in controlling foreign betting companies

In Greece a new betting law (L. 4002/2011) was implemented in 2011, in which OPAP remained the operator with the monopoly of a land based network, but also offers its services on-line as well. As well as OPAP, another 24 companies were allowed to provide gaming services on-line, under a transitional regime, until the full implementation of the L. 4002/2011, which will lead to the allocation of licenses for remote and on-line gaming.

All of these 24 online gambling and betting providers are established and licensed abroad, in the EU or the EEA; they are obliged to appoint a tax representative with the responsibility of representing the company to the Greek Authorities and submit legal documentation as proof of their actual establishments. Another obligation of these 24 providers and OPAP is the appointment of an AML Compliance Officer with no criminal record to ensure the implementation of AML policies according to Greek legislation, which is fully compliant with EU AML Directives and FAFT recommendations and submission.

Due to their establishments being based offshore, the HGC has limited potential for making spot checks. Nevertheless, administrative ones are being carried out, based on information the provider offers on each case. Concerning AML compliance, online audits are also being carried out, notably to ensure that winnings attribution – which potentially leads to a winnings certificate – respect the Greek AML law and HGC Regulations (e.g. online operators can transmit winnings only through the banking sector).

A thorn in implementing AML policies overall is the difficulty in verifying ultimate beneficial ownership (UBO). The implementation of the 4th Directive, which still has to be clearly defined, could be a positive step towards identifying the UBOs behind the gambling and betting companies.

According to anonymous interviews conducted during the Precrimbet programme, an investigation was opened in 2014 against a number of these licences, targeting people who have been accused of setting up secret betting and gaming agencies, with computers linking costumers to the on-line (legalised) websites. The investigation seems difficult because these shops use sophisticated software linking the physical and the online network. The case also involves tax evasion, as the software enables the manipulation of betting data: these companies are accused of failing to declare all the bets they received. The servers are based in Austria and Malta, and the companies co-operated with money transfer companies to proceed with the bets and payment of the winnings.

III. Payment processing and associated risks in online gambling

The GGR of the world sports betting market is estimated to have been 30 Billion Euros in the year 2016 (see the Precrimbet betting estimates in the Second Part). This money is lost by gamblers and earned as revenue by the operators. But the market for online gambling includes other actors apart from the two parties to the final transaction. An essential role in the market for online betting and gambling is played by payment processors. Payment processors act as intermediaries between the

players and the betting providers and ensure that money can move between them. Without these intermediaries, no player could place a bet. Thus, ensuring payment processors can be an effective means of enforcing regulation (Cook, 2016).

a) Acceptance of payment processors

The market for payment processors consists of 516 payment processors which can be categorised under eight different headings:

- Bank/wire transfers
- Credit cards
- Debit cards
- Prepaid cards
- e-Wallets
- Virtual currencies
- Money transfer
- Phone bill
- Payment by invoice.

The category “bank/wire transfers” refers to all payment processors based on the direct involvement of a bank account without any additional intermediary. Subcategories are wire transfers, SEPA transfers, and cheques. Credit, debit and prepaid cards are payment cards to pay for a purchase. The credit card is the only card and only larger payment option that allows the user to go into debt. The prepaid card works in the opposite way and is preloaded with funds.

An “e-wallet” is an intermediary where a customer can fund his account with various payment methods and use the funds to directly transfer funds to a gambling operator, which also holds an account with the e-wallet provider. The best known e-wallets in the context of online gambling are Neteller and Skrill (formerly Moneybookers).

“Money transfer” is defined as the act of transferring cash from one physical location to another (the money is not actually transferred but rather money is stored in both locations and rebalanced from time to time). Western Union and Money Gram are the most prominent examples. The category “phone bill” describes the opportunity to deposit by having the amount added to the customer’s domestic phone bill. An example for “payment by invoice” is the payment processor Zimpler. This provider offers the possibility to request a code by phone to pay with. At a later stage, the customer can decide whether he would like to pay the transaction by invoice or credit card.

Table 1 summarises the degree of anonymity, size of transaction and risk of money laundering associated with each payment option. While Bank/wire transfers and credit and debit cards allow for large transaction sizes, the degree of anonymity is very low so that the risk that they are mis-

used by players for money laundering may be considered as low. Prepaid cards, on the other hand, are totally anonymous but allow only small transactions (e.g. 100€ per card), so that the risk of money laundering cannot be deemed high but only medium. E-wallets and virtual currencies show the highest risk of money laundering. E-wallets have some know-your-customer (KYC) procedures in place but it is still possible to create fake accounts (as could be seen in the report on the Mystery Benchmark exercise) and fund accounts by anonymous payment methods such as Paysafecards or quasi-anonymous virtual currencies. The risk of money laundering is thus high. Direct usage of virtual currencies shows the highest potential for money laundering. While the usage of many currencies, including Bitcoin, is only quasi-anonymous (it takes a large effort to find out about these, see discussion later), the size of the transactions is virtually unlimited.

Table 1: Degree of anonymity, size of transaction and risk of money laundering per payment option

Payment Option	Degree of Anonymity	Potential size of transaction	Risk of money laundering through players
Bank/wire transfers	Very low	Very large	Low
Credit cards	Very low	Large	Low
Debit cards	Very low	Large	Low
Prepaid cards	Totally anonymous	Small	Medium
e-wallets	High	Very large	High
Virtual currencies	Very high	Unlimited	Very High
Money transfer	Medium	Large	High
Phone bill	Low	Medium	Low
Payment by invoice	Very Low	Medium	Low

Not all payment processors are accepted by all online gambling providers. Frequently, individual processors are only allowed on a few sites. Currently there are 3,620 different gambling providers on the Internet. Table 2 shows the ten most accepted payment processors in the worldwide online gambling market.

Table 2: Payment processor in worldwide online gambling market

Payment Option	Payment type	Acceptance in no. of Websites	Acceptance %
Visa	Credit Card	3,121	86.2
Mastercard	Credit Card	3,080	85.1
Wire transfer	Bank	2,481	68.5
Neteller	E-Wallet	2,294	63.4
Skrill	E-Wallet	2,134	59.0
Paysafecard	Prepaid Card	1,804	49.8
Maestro	Debit Card	1,641	45.3
Visa electron	Prepaid Card	1,471	40.6
Visa debit	Prepaid Card	1,211	33.5
Paypal	E-Wallet	768	21.2

Source: online.casinocity.com

Credit cards represent the dominant payment option for online gambling. Visa is accepted at 3,121 sites (86.2%) and Mastercard at 3,080 (85.1%). Wire transfers are accepted by 68.5% of all gambling operators and Neteller and Skrill are the fourth and fifth most accepted payment options with 63.4% and 59%. While credit cards and Wire transfers are used for any kind of business, Neteller and Skrill attribute a large part of their business to the gambling market. In contrast, Paypal, also an e-wallet, is widely used for any kind of business, but only accepted by 21.2% of gambling operators. Paysafecards are accepted at 49.8% of the sites. This payment option can be used anonymously without sharing private data online, since cards can be bought in local shops with cash and no identification is needed. Debit cards from Maestro and Visa are accepted by 33.5% to 45.3% of all operators.

Table 3 compares these figures with the corresponding numbers for each kind of payment option in 2010. It can be seen that the acceptance of the Visa credit card has fallen by 6.7 percentage points. One reason for this could be new payment processors on the market, which are competing with Visa credit cards or the increasing number of new online gambling sites that rely on other means of payment. The acceptance of wire transfers on the online gambling pages has risen by 7.2 percentage points since 2010. Visa debit cards showed the greatest increase in acceptance rates across gambling websites.

The figures in Table 3 refer to all gambling websites, irrespective of their legal status. They include state operators as well as private operators holding licences or not holding licences in the various jurisdictions they operate in. Hence, a changes in the acceptance rate can have different reasons. For example, the reduction of credit card acceptance might be because of competitive reasons in the market for payment processing, because some licensed operators are not allowed to accept this payment method, or because some unlicensed operators do not accept credit cards anymore. Hence, without knowing the legal status of the operators, these figures have to be interpreted carefully. As a general finding it can be stated that the acceptance of payment methods in general has increased over the years. This is an interesting finding, because the prevalence of licensed operators has increased since 2010 and licensed operators offer fewer payment options. It can thus be deduced that unlicensed operators have tended to widen the range of payment options they accept.

Table 3: Number of gambling websites accepting various payment options, 2010-2017

Payment processor	Acceptance absolute 2010	Acceptance absolute 2017	Acceptance in % 2010	Acceptance in % 2017	Change % 2010- 2017
VISA	2117	3121	92.9%	86.2%	- 6.7%
Mastercard	2063	3080	90.6%	85.1%	- 5.5%
Wire Transfer	1397	2481	61.3%	68.5%	+ 7.2%
Neteller	1623	2294	71.2%	63.4%	- 7.8%
Skrill	1243	2134	54.6%	59.0%	+ 4.4%
Maestro	733	1641	32.1%	45.3%	+ 13.2%
Visa Electron	582	1471	25.5%	40.6%	+ 15.1%
Cheque	583	629	25.6%	17.4%	- 8.2%

Source: online.casinocity.com

Another interesting analysis is the comparison between the acceptance-rates of different payment means on gambling and non-gambling websites. The data on non-gambling payments are based on a study by ibi research (2015) in cooperation with the University of Regensburg. It surveyed online stores (n=230) and which payment processors they offer for the payments of customers. Most widely accepted (71%) in the online shops included in the survey were wire transfers. Next, PayPal with 67% and credit cards with 47%. E-Wallets were not mentioned as accepted payment processors. But in the survey there is a category "other" with a 9% acceptance-rate. Other e-wallets may have been included in this category. In any case, this means that they are accepted by only a small proportion of regular businesses and show the highest difference between acceptance for gambling and non-gambling. The other extreme example is PayPal, which is accepted rather rarely in the online gambling market but very often in regular online businesses. One reason might be that, for a long time, PayPal had a policy of not transferring payments for gambling services. Credit cards were accepted by 86% of online gambling sites but only 47% of the online merchants. But this might be because the ibi study is focused on German online shops and credit cards are not as popular in Germany as in other countries.

b) Market size of payment processing

While there are no figures available on the current market size of payment processing in online gambling, the market size of payment processing can be estimated. The total money processed equals the sum of deposits plus cash-outs. And because cash-outs are defined as deposits less total revenue¹ the total processed cash can be calculated as follows:

Evidence from past ratios of deposits to gaming revenue in the industry enables inference of the expected level of player deposits, based on our preexisting forecasts of gross gaming revenue. That is, by reversing the equation of how deposits lead to gaming revenue, multipliers can be obtained for the ratio of deposits to total revenues, which are different for the different forms of gambling (see Table 4).²

Table 4 Multipliers for deposits and processed cash

	Deposits	Processed cash
Poker	~ 3,3 * GGY	~ 5,5 * GGY
Sports Betting	~ 3 * GRY	~ 5 * GGY
Casino	~ 2,7 * GGY	~ 4,4 * GGY
Lotteries	~ 2 * GGY	~ 3 * GGY
Bingo	~ 1,5 * GGY	~ 2,0 * GGY

Next, the processed cash can be multiplied by the average fee online gambling operators pay for payment processing. Table 5 shows the total revenues of the exchange-listed online gambling providers bwin.party and 888 between the years 2007 and 2015 and the transaction fees that they had to pay to the payment processors for processing the transactions are noted. The transaction

1. Please not that this equation does not need to hold true in any given year but it is the equilibrium as well as the average solution.

2. Note that the processed cash is higher for poker than for other games because of the higher density of professional players in the poker sector. These players might be rare in the total player pool but they have large bankrolls that they often transfer from site to site (because as VIPs, they typically don't pay fees; instead, they even get VIP rewards from their e-wallets -- as high as 1% of transferred money). Thus, the ratio of processed cash to total revenue is lower for other games.

fees set in relation to the total revenue result in the percentage transaction fee which the providers have to pay in one year. Transaction fees fell between 2007 and 2015 from 6.3% and 7.0% in 2007 to 4.6% and 5.1% in 2015. Compared to other industries, these costs of payment processing are extremely high and reflect the risks associated with these transactions, especially charge back but likely also regulatory risks. It also shows that the payment processors know their customers and their business models very well – otherwise they would not charge such a high premium.

Table 5: Transaction fees of 888 and bwin.party

	2007*	2008*	2009*	2010*	2011	2012	2013	2014	2015
Total Revenue bwin.party (million €)	217.4	255.2	310.1	357.3	691.1	801.6	652.4	611.9	263.8**
Total Revenue 888 (million \$)	213.4	256.9	246.7	262.1	331.2	375.8	400.5	454.7	462.1
Transaction fees bwin.party (million €)	15.3	17.1	19	18.9	37	40.9	30.1	27.2	13.5**
Transaction fees 888 (million \$)	13.4	15.3	16.0**	14.4	18.8	21.7	21.5	22.3	21.2
Transaction fees of GGR bwin.party (%)	7.0%	6.7%	6.1%	5.3%	5.3%	5.1%	4.6%	4.4%	5.1%
Transaction fees of GGR 888 (%)	6.3%	6.00%	6.5%	5.5%	5.7%	5.8%	5.4%	4.9%	4.6%

* Estimate

** first half year

Using costs of payment processing of 4.5% of all processed funds allows us to extrapolate the market size for payment processing for sports betting. This results in an estimated market size of nearly €2 billion per year for Europe and €6.75 billion per year worldwide (see Table 6).

Table 6: Costs of payment processing for sports betting

	Europe	Worldwide
GGY million €	8,696	30,000
Processed cash in sports betting, million €	43,480	150,000
Costs payment processing, million €	1,957	6,750

c) Virtual currencies and anonymity

Virtual currencies are decentralised means of payments based on distributed ledger technology. While far the best known example is Bitcoin, coinmarketcap.com lists 717 digital currencies. Most of them, including Bitcoin, are quasi-anonymous. This anonymity can be considered as a factor facilitating money laundering and making money laundering more difficult to detect. However, it should be noted that the degree of anonymity is limited by Bitcoin. All transactions between two addresses are publicly logged and are permanently stored in the entire network. The system is

thus very transparent and all payment flows can be monitored in real time. This can actually help to combat money laundering. Other virtual currencies, however, such as Monero or Zcash, allow completely anonymous transactions.

Virtual currencies still make up only a tiny share of the market for payment processing in online gambling but have the potential to revolutionise the market. From the perspective of the operators, the main benefit is the very low cost of payment processing, since charge backs are not possible. And from the players' perspective virtual currencies can provide a higher degree of anonymity. While the reduced costs are certainly a substantial benefit, particularly for international operators serving multiple markets with multiple different local currencies, the anonymity of payments is often mentioned as a significant risk, especially in regards to money laundering and sports betting corruption.

It is not easy but, with sufficient effort, it is possible to track the identity of the party behind a Bitcoin transaction. This "blockchain forensic" is conducted regularly by law enforcement around the world but also by specialist companies. Using a potentially malicious transaction or address as an input, the tree of ledger entries can be followed until a gateway point like an exchange is reached, which adheres to AML/KYC standards. Knowing the entry and exit point of a transaction allows regular investigations to find out what happened in the transactions in between. All serious exchanges (i.e. most large exchanges) work together with law enforcement regularly. Whenever so called mixing services are involved this gets more complicated but can still be possible. The very fact that all transactions are recorded until the end of time makes it rather probable that at some time the "digital boomerang" will hit the criminals, for example when they are investigated in regards to another crime and their Bitcoin transactions then come to light. It is likely not a good idea for serious organised crime to use Bitcoin. However, it is still a good idea for criminals to use totally anonymous virtual currencies like Monero or Zcash.

Malicious transactions can actually be "flagged" on a black list and gateway points be asked not to accept these coins. That effectively makes such coins worthless, similar to coloured bank notes after a bank robbery. So far, this has not been done very often but the approach offers great potential. For example, in the hack of the exchange Bitfinex in August 2016, 120,000 Bitcoins were stolen that are currently worth \$180,000,000. But these coins were never moved, since the hacker knows that no one would ever accept these coins (he likely profited by shorting the market before and cashing in on the panic he caused with the hack).












Blockchain technology can also be used to de-anonymise transactions. For example, a quasi-anonymous currency could be de-anonymised by attaching identities to specific addresses. Then these addresses could be used to fund gambling accounts just like a bank account under the same name. This could be done in a coordinated effort with exchanges. If no identity is attached to an address, the operator should not accept a deposit. Another idea is to create a totally transparent virtual

currency that can be allowed for online gambling transactions. Such a payment system could be issued by a state owned payment processor, a bank or an otherwise trusted party.

An even newer application of blockchain technology are so called “smart contracts”. Smart contracts are not contracts in the legal sense, but rather blockchain-based decentralised computer protocols which execute contracts. All smart contracts are non-changeable and publicly available for anyone to monitor. The advantage is that the smart contracts could, for example, automatically enforce the rights of contracting parties (Buterin, 2014). These smart contracts are also used as a form of decentralised betting, where the gambler does not directly interact with a betting operator but only with the smart contract, which is not a legal entity but can be run by a legal entity that is receiving the revenues from the smart betting contract.

The role of virtual currencies can thus be distinguished into (1) regular online gambling operators also accepting virtual currencies as means of payment, (2) new online gambling operators accepting only virtual currencies as means of payment, (3) centrally operated casinos based on smart contracts and decentralised payments and purely decentral operations with no beneficial owner. While the last category is the most threatening for gambling regulators, no such operator currently exists (see table 7).

Table 7 Gambling operators based on virtual currencies

<u>Purely decentral</u>	<u>Decentral payment, central operation</u>	Central operation, anonymous payment	Classic online gambling
	vDice 	betchain 	royal panda casino 
	edgeless 	fortuneJack 	Jackpotcity casino 
	virtue poker 	Bitoomba 	<u>casinoclub</u> 
	etherplay 	cloudbet 	<u>cherrycasino</u> 

d) Virtual currencies and the Darknet

Gambling is seen as one of the industries with the highest level of associated risk when it comes to virtual currencies. In fact, because only a few regulators authorise them as legitimate means of payments, the Bitcoin gambling industry remains on the fringe of the market, and is mostly used on poorly-regulated websites. Therefore, the risk of fraud is far greater than when betting with traditional operators.¹ A number of Bitcoin casinos have absconded with user funds and disappear permanently.

This is compounded by the fact that online gambling is an “extremely easy” method of money laundering, in particular on the Darknet. According to a specific report, “Betting in the Darknet”, prepared as part of the Betmonitalert research programme, it has been found that the Darknet provides support and mechanisms for anonymisation and overcoming IP-based, telecom and legal identification. Crypto(virtual)currencies like Bitcoin are very popular on the Darknet betting websites and they allow total anonymisation. The study focused on the main Darknet, the Tor network, although other Darknets are available. According to the study, it “is the biggest and most famous Darknet, and as a result attracts most of the illegal activities (cybercrime, drugs, traditional criminal organisations, contract killers, scammers, etc.): it’s where all the main hacking communities are located and most of the transactions take place”. To access illegal betting websites, “virtual private networks” (VPN) are used to assure anonymity and bypass I-P blockings. These softwares can be bought with Bitcoins. Then, to access betting websites, some Darknet service providers sell fake SMS codes which can be used to register on websites without providing a real phone number. ID documents can be bought, from 450 euros (driving licences) to 4000 euros (passport). Most of these documents come from ID thieves (hackers specialising in ID), who acquired them through a hack on computers (administration or companies for example) or through a scam (when “Nigerian scams” ask users to provide their bank details and ID). For each of these services, Bitcoin or other similar crypto currencies are used, once again ensuring anonymity. The fact that the Darknet websites constantly assure visitors that anonymity will be respected shows that the Darknet audience is different from the general public.² This suspicion is corroborated by the Europol 2017 SOCTA report, which found that “as of January 2017, the TOR network had over 1.7 million directly connecting users, and hosted over 60,000 unique onion domains. In one study, almost 57% of active sites could be classified as related to some form of illicit activity” (p. 22). The technology is therefore creating concerns for national and international investigative bodies.

e) Regulating Bitcoin and other virtual currencies?

By way of example, the central bank of the Philippines (BSP) will soon draft rules to govern the use of Bitcoin in the country, which is one of the virtual currency’s fastest-growing markets. The Bank’s Deputy Governor said data showed that the Philippines was third-fastest in the world in terms of growth in Bitcoin applications as growth rates in the first half of 2015 exceeded 100 per

1. “Bitcoin Gambling Scene Full Of Scams As Experiment Displays”, *The Merkle.com*, 9 February 2015.

2. See “Betting in the Darknet”, Jean-Loup Richet, Betmonitalert programme, April 2017.

cent. “In the Philippines, Bitcoin exchanges or estimated transactions passing through registered companies here range between \$2 million and \$3 million a month. So, it is not a small amount of transactions. We are looking at formally regulating virtual currencies for two important reasons: aspects of money laundering and consumer protection concerns,” the Deputy Governor said.¹

In July 2016, the European Union announced that it would seek to fight against terrorism and tax evasion in a coordinated way. The Commission presented a series of measures in order to limit the use of virtual currencies and prepaid cards. In addition to compiling a black list of countries for money transfers (including Afghanistan, Bosnia and Herzegovina, Iraq, North Korea, Syria, Uganda and Yemen), the Commission also recommended better control for Bitcoin which could be used to finance terrorism or launder money. For instance, it would no longer be possible to exchange between Bitcoins and real currency anonymously.

In the gambling industry, in 2016, the Isle of Man’s Gambling Supervision Commission (GSC) and Treasury approved changes to the island’s gambling regulation to allow virtual currencies such as Bitcoin to be accepted as cash, according to a report from the GSC’s Deputy Chief Executive, Mark Rutherford.² An operator will be able to accept virtual currencies subject to regulatory safeguards assuring the safety of the way value is stored and protected. The GSC also requires an operator’s cryptocurrency exchange to have a reporting requirement to a credible financial intelligence unit. Licensees will be allowed to open accounts for players who use convertible virtual currencies. A money deposit is required to open an account using a credit card, debit card or other means approved by the Commission.

Virtual currencies such as Bitcoin represent specific threats because they are not well monitored or understood by authorities. The current anonymity of virtual currencies is of major concern, since it enables possible money launderers to conceal the real origin of their funds. The development of such currencies, however — which may one day become widely accepted and seen as legitimate — forces financial institutions and authorities to adapt and possibly to invest in the currency themselves, further contributing to its growth.

In the betting industry, certain operators and regulators could be tempted to accept Bitcoin as a way to save on currency conversion costs, should they become a more commonly payment method. Netbet recently became the first UK-based operator to accept Bitcoins.³ During the Precrimbet seminar in the UK, betting operators explained that if a customer uses Bitcoins, they will be more vigilant in their Know Your Customer (KYC) and AML processes. Virtual currencies could become acceptable and carry no more risks than real currencies, but to do so they will need to be better understood and monitored. At present, law enforcement agencies need to invest in blockchain forensic technology and skills in order to be able to retrace virtual payments. More globally, anonymity will be broken if the source of the currencies remains openly available, as is actually the case today. For example, most gateways into the Bitcoin system require customers to identify themselves to

1. “BSP eyeing regulation of virtual currencies”, *The Manila Times*, 6 June 2016.

2. “Bitcoin Gambling Approved in Isle of Man by Regulator”, *CCN.La*, 1 May 2016.

3. “NETBET becomes first UK licensed operator to accept Bitcoin”, *SBCNews*, 18 October 2016.

meet AML and KYC standards. In this way, and with a certain effort, the real identities of senders and receivers of all transactions can eventually be identified, as explained above. One important reason for this is that all transactions are permanently kept as public record on the blockchain. Anonymity in Bitcoin is provided mixing services of specialised websites. In this sense, virtual currencies do not differ from real money. The main differences at present regard the regulation and control of this emerging means of payment.

IV. Mystery benchmark: evaluating the compliance of sports betting operators in the EU

A key objective for all betting regulation is that only licensed operators serve the market. Although unlicensed operators might well hold a licence in another jurisdiction, there is no way to guarantee they adhere to the same regulatory standards. The most important parameter to evaluate the regulation of sports betting is whether unlicensed, illegal operators serve the market. This is a first part of the mystery benchmark, to see whether operators reject or accept players from countries where they do not hold a licence during the signup, the deposit, the betting or the withdraw processes. The second part of the mystery benchmark tests whether licensed operators only accept players who are allowed to bet, that is only adults signing up with their correct credentials. This test is further divided to see whether someone with false identity documents can also join the betting processes. The full methodology and details of this benchmarking test are available in Annex 1 of this report.

Nineteen betting operators were tested, for five jurisdictions-of-residence (Germany, Italy, Belgium, France and Spain). Out of 166 test cases in total, 15 violations against regulations were found.

Violations in the betting and withdrawal process

Operator	Violations
Unibet	(German real players)
Lotto BG	No Violation
Hrvatska L.	No Violation
Pinnacle Sport	Italian and Belgian real players
Danske Spil	No Violation
Veikkaus	No Violation
FDJ	No Violation
Tipico	German Fake Players (German real players)
Bwin	Spanish Fake Players
OPAP	No Violation
Sbobet	No Violation
GVC	No Violation
Lottomatica	Real Belgian Players
SNAI	(German real players)
Betclic	(German real players)
Betfair	(German real players)
William Hill	Spanish Fake Players
Ladbrokes	German Fake Players (German real players)
Bet365	German Fake Players (German real players)

Ten of the cases relate to Germany, where the regulatory situation is not yet fully settled. Up to now, sports betting licences have not been handed out by the German regulator – with the exception of some licences that apply only in the northern state of Schleswig-Holstein, home to only about 3.5% of the German population. German law is unambiguous in two regards: sports betting is considered gambling and to offer gambling, a licence must be held. Still, six out of the nineteen operators examined accept German players and advertise intensely in Germany. They appeal to the free movement of services within the EU market. EU Member States may restrict the free movement of services in cases where they feel higher-order values are at risk, such as public health. In the case of gambling, it is uncontroversial that the risks associated with gambling allow Member States to issue country-specific laws. However, the laws must be coherent with the goals that the MS wants to achieve. Betting operators offering their services in Germany argue that the German gambling legislation is incoherent and thus violates EU law.

Outside Germany, the remaining issues are centred on two issues: (1) Pinnacle Sports not having a licence but still accepting players from Belgium and Italy, and (2) false identity documents not being identified and blocked in Spain at Bwin and William Hill.¹ The only other breach is Lottomatica in Belgium, which may have been caused by the fact that the user registering with their real identity also had Italian citizenship. Lottomatica automatically found the user's Italian tax number on the basis of their name, date and place of birth but did not require actual proof of identity. This may therefore be a small loophole that would not apply for all Belgian citizens. If this case is excluded, only four violations remain. This means that the sports betting operators tested have the technical means reliably to check ID and that they are in fact largely compliant in their jurisdictions. This is especially true for the regulated markets of Italy, Belgium, France and Spain.

The failure to identify or block players using false identification documents remains an issue for the integrity of sports betting. Criminal organisations could, for example, make use of this shortcoming to place bets with illegitimate funds to profit from fixed matches. Most operators were, however, able to identify and block attempts to sign up with a false identity document. An industrywide exchange of best practices could therefore eliminate the problem. Should the problem persist, a different approach to consider would be regulations stipulating that operators only allow players with registered bank accounts to sign up, as is the case with betting operator Veikkaus. A similar solution would be to require an identification document to be presented, as is the case in Denmark.

Given that the testing was conducted with relatively low wagers between €5 and €100 each, it may be that the incidence of accepting false identity documents would be less if larger amounts were wagered. One argument for a stricter control of bettor identity when placing large wagers is that large wagers carry additional financial risk for the operator. An argument for reduced control of bettor identity and false identification documents when placing large wagers is the operator's potential profit generated from such accounts.

1. Here it should be noted that fake ID can also be real ID that might have been "stolen" and then bought on the Darknet.

In Europe and elsewhere, the main risk is posed by offshore operators such as Pinnacle Sports which do not comply with local regulations. Enforcing the law against illegal operators is at the very heart of the fight against criminal risks.

V. Scale of risks related to sports betting

Previous chapters defined various categories of sports betting–related criminal risk. ISO standard 31010 will be used to classify these risks into different levels.

ISO/IEC 31010 is a standard concerning risk management codified by The International Organisation for Standardisation and The International Electrotechnical Commission (IEC). The standard's full name is ISO/IEC 31010:2009 – Risk management – Risk assessment techniques.

The following methodology will be used:

- Identifying different classes of risks based on probability and possible impact to the various stakeholders involved in sports betting (states, including ministries for public order and finance, sport organisations, consumers, including bettors and website visitors, betting operators);
- Determining preventative actions needed to fight crime (anticipating, recognising and assessing levels of crime risk and implementing action to mitigate the risk), (definition adopted by the UK Home Office).

a) Assessing impact and possible consequences

In general, impact matrices include three to five levels of possible consequences:

- insignificant/minor (no significant change for the stakeholder if the risk occurs);
- moderate (limited change for the stakeholder if the risk occurs, or the impact is difficult to assess);
- major/catastrophic (substantive change for the stakeholder if the risk occurs).

The chart that follows provides a guide for the impact of a given risk on a specific target. The impact of a risk to state security is considered to be much higher than the impact of risk to football's public image. The numbers in the chart below are not based on a linear scale and only aim to assess the potential consequences of a given risk.

- Insignificant: Risks that will cause a negligible amount of damage to sports-betting stakeholders.
- Minor: If a risk results in damage, the degree of damage is not likely to be significant or to have a substantive impact on sports-betting stakeholders.
- Moderate: Risks may not constitute a large threat, but may yield sizable damage to sports-betting stakeholders.
- Major: Risks with significantly large consequences that can cause considerable losses.

- Catastrophic: Risks that have the most severe repercussions for stakeholders and that must be a top priority when managing risk.

These numbers should be approached with caution. Since they are not supposed to be fully proportionate, they should serve only to help the reader understand how different risks can be differentiated between insignificant/minor, moderate and major/catastrophic.

15. "State security" refers to any event that may disturb social order, public security or the rule of law. Public order can be defined as the set of rules governing social life.

16. "State economy" refers both to government revenues and to the broader economic environment (national employment and economic dynamism).

17. The impact on the business includes an impact on the image of the operator.

Potential consequences	Insignificant / Minor	Moderate	Major / Catastrophic
Impact on State security ¹⁵ (risks to public order)	+6	+9	+12
Impact on State economy ¹⁶ (public income)	+4	+7	+10
Impact on the public image of sport	+2	+5	+8
Impact on the sport economy	+2	+4	+6
Impact on a group of individuals' lives	+2	+4	+6
Impact on a betting operator business ¹⁷	+0	+2	+4
Impact on the image of a betting operator	+0	+1	+3

Examples:

- 1) Illegal betting connected to organised crime = +12 (State security) +9 (State economy) +4 (operator business) = 25
- 2) Match-fixing case involving Transnational Organised Crime (TOC) and a whole championship on several occasions = +9 (State security) +8 (public image of sport) +4 (sport economy) = 21
- 3) Illegal betting through an online operator based in a country with a strong level of betting regulation = 4 (State economy) +4 (operator business) = 8
- 4) Money laundering through a sports betting website = +6 (State security) + 4 (State economy) +1 (operator image) = 11
- 5) Cybercrime against a sports betting website = +4 (medium impact on a group of individuals) +2 (medium impact on operator business) + 1 (medium impact on operator image) = 7
- 6) Money laundering through a sports-betting vendor = +6 (State security) +1 (operator image) = 7
- 7) Match-fixing case involving an internal fix with players betting = +4 (public image of sport) +2 (sport economy) + 2 (group of individuals) = 6
- 8) Odds manipulation by a trader = +2 (operator business) +1 (operator image) + 2 (group of individuals) = 5
- 9) Operator's fraud = +2 (Group of individuals) = 2

The following ratings of impact are suggested in order to take into account all the different stakeholders:

- insignificant/minor: less than 7 points;
- moderate: between 7 and 11 points;
- major/catastrophic: more than 12 points.

As is suggested in modern risk management methodology, in cases where the public perception of a risk is high, an additional two points should be added to the calculation.¹ For instance, risks associated with terrorism are perceived as significantly more dangerous than risks involving cocaine trafficking.

b) Determining likelihood

In general, impact matrices include three to five levels of likelihood:

- rare/unlikely (the likelihood of a risk occurring is low, the probability of occurrence remains under 30%, the number of reported cases in recent years is small);
- possible (the likelihood of a risk occurring is moderate or difficult to assess, the risk of occurrence is near 50/50, the number of reported cases during the in recent years is not insignificant);
- likely/almost certain (the likelihood of a risk occurring is high, the risk has a 60% or greater chance of occurring, the number of reported cases in recent years is significant).

Examples:

- 1) Illegal betting connected to organised crime: Likely
- 2) Match-fixing case involving TOC and a whole championship on several occasions: Possible
- 3) Illegal betting not connected to organised crime: Likely
- 4) Money laundering through a sports betting website: Likely
- 5) Cybercrime against a sports betting website: Possible
- 6) Money laundering through a sports betting vendor: Likely
- 7) Match-fixing case involving an internal fix with players betting: Possible
- 8) Odds manipulation by a trader: Rare
- 9) Operator’s fraud: Possible

c) Summary

The following chart summarises this analysis, based on the ISO 31010 standard.

Risk = Possible consequences × Likelihood	Insignificant / Minor	Moderate	Major / Catastrophic
Rare / Unlikely	Low risk	Moderate risk	High risk
Possible	Moderate risk	High risk	Extreme risk
Likely / Almost certain	High risk	High risk	Extreme risk

Examples:

Extreme risk: Risk cannot be justified

- Illegal betting connected to organised crime
- Match-fixing case involving TOC and a whole championship on several occasions

1. B. Rohrmann, *Risk Perception, Risk Attitude, Risk Communication, Risk Management: A Conceptual Appraisal*, 2008. http://tiems.info/dmdocuments/events/TIEMS_2008_Bernd_Rohrmann_Keynote.pdf

High risk: Risk tolerable only if risk reduction is not practical or if its cost is grossly disproportionate to the improvement gained

- Illegal betting through an online operator based in a country with a strong level of betting regulation
- Money laundering through a sports betting website
- Phishing against a sports betting website
- Money laundering through a sports betting vendor

Moderate risk: Risk tolerable if the cost of reducing the risk would exceed the improvement gained

- Match-fixing case involving an internal fix with players betting
- Operator’s fraud (fake bonuses offered by a betting operator, non-payment of winnings to customers).

Low risk: Necessary to maintain assurance that risk remains at this level

- Odds manipulation by a trader

Risk = Possible consequences Insignificant / Moderate Major / Catastrophic			
× likelihood	Minor		
Rare / Unlikely	Odds manipulation		Betting operator laundering money deliberately
Possible	Internal match fixing	Cybercrime	Match-fixing with organised crime
	Operator’s fraud		
Likely / Almost certain	Malware	Illegal betting	Illegal betting with organised crime
		Money laundering through betting	

A 100% rule: Just because a strategy is not 100% effective, does not mean it should not be used

d) Scale of risk adapted to the level of organised crime and illegal betting within a country

Given that situations vary widely across EU countries, the scale of risk can be grouped into the following categories:

	Low level of organised crime	High level of organised crime
Low level of illegal betting ¹⁸	Risk Matrix No. 1	Risk Matrix No. 2
(less than 30% of GGR)	e.g., Austria, Denmark	e.g., Latvia, Malta
High level of illegal betting	Risk Matrix No. 3	Risk Matrix No. 4
(more than 30% of GGR)	e.g., Luxembourg, Sweden	e.g., Germany, Italy

¹⁸ Illegal betting means placing bets with operators that do not have the required authorisation to accept the bet.

Risk Matrix No. 1

Risk = Possible consequences	Insignificant /	Moderate	Major /
× likelihood	Minor		Catastrophic
Rare / Unlikely	Odds manipulation		Betting operator laundering money deliberately
Possible	Internal match fixing	Cybercrime	Match fixing with organised crime
	Operator's fraud	Money laundering through betting	Illegal betting with organised crime
	Illegal betting		
Likely / Almost certain	Malware		

Risk Matrix No. 2

Risk = Possible consequences	Insignificant /	Moderate	Major /
× likelihood	Minor		Catastrophic
Rare / Unlikely	Odds manipulation		Betting operator laundering money deliberately
Possible	Internal match fixing	Cybercrime	Match fixing with organised crime
	Operator's fraud	Illegal betting	
Likely / Almost certain	Malware	Money laundering through betting	Illegal betting with organised crime

Risk Matrix No. 3

Risk = Possible consequences	Insignificant /	Moderate	Major /
× likelihood	Minor		Catastrophic
Rare / Unlikely	Odds manipulation		Betting operator laundering money deliberately
Possible	Internal match fixing	Cybercrime	Match fixing with organised crime
	Operator's fraud	Money laundering through betting	
Likely / Almost certain	Malware	Illegal betting	Illegal betting with organised crime

Risk Matrix No. 4

Risk = Possible consequences	Insignificant /	Moderate	Major /
× likelihood	Minor		Catastrophic
Rare / Unlikely	Odds manipulation		Betting operator laundering money deliberately
Possible	Internal match fixing	Cybercrime	Match fixing with organised crime
	Operator's fraud		
Likely / Almost certain	Malware	Illegal betting	Illegal betting with organised crime
		Money laundering through betting	

Every country should therefore tailor its policies and legislation to reflect the nature of illegal betting in its country.

N.B.: This categorisation of countries in relation to their levels of organised crime and illegal betting should be seen as indicative only. Individual countries themselves are best placed to assess their position within the risk matrix in relation to their domestic conditions.

Recommendations to limit sports betting– related criminal risks

During the discussions among Precrimbet experts and with national experts and authorities during the national seminars, there were two different approaches on how to regulate the betting market and protect it from criminal risks. These positions are based on opposite philosophical approaches:

- The first one, commonly observed in Great Britain, and supported by the private betting industry, focuses on the competitiveness of the legal market, which is considered as an efficient tool to dry the illegal market. According to this view, restrictions on the legal market would automatically drive consumers to the illegal market, which exists de facto and is relatively accessible. In terms of fighting criminal risks, such as match-fixing or money laundering, this regulatory approach trusts the betting industry. It considers that gambling, and in particular betting, can be a sensitive sector but that it should not be regulated too strictly. Regulation therefore mainly focuses on the consumer's satisfaction. However, if a risk has been identified, regulators then set up some measures to limit the harm for society;
- The other one, mostly observed on the "continent", considers the betting sector as a sensitive area, to be regulated more stringently. Regulation therefore mainly focuses on the precautionary principle and imposes restrictions on the betting market. Also it tends to put low trust in the industry, and therefore imposes more control on the operators and the market. This kind of regulation aims at minimising harm for society, without setting consumer's satisfaction as an overarching priority. To fight against illegal betting, on the one hand a compromise is found between the attractiveness of the legal market and restrictions, and on the other hand measures are enforced to block and repress illegal operators.

Most of the following recommendations are based on the second approach, i.e. the precautionary principle. They defend a three-step approach:



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graph LR; A[Monitoring and controlling legal betting activity] --> B[Fighting against illegal betting]; B --> C[Favouring national and international cooperation];
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Monitoring
and
controlling
legal betting
activity

Fighting
against
illegal
betting

Favouring
national and
international
cooperation

I. First objective: Monitoring and controlling legal betting activity

All EU Member-States have passed specific legislation regarding betting activity. Whether more restrictive or more liberal, the legislative framework should allow the regulator sufficient tools and capacities to effectively monitor and control betting activity and reduce associated criminal risks.

Proposal No. 1: Develop a good knowledge of betting operators and force them to be transparent about their shareholders and management boards

- Vetting the ownership of betting operators and publishing an official list of their shareholders (including parent companies and subsidiaries to determine their ultimate beneficial owners). This recommendation, supported by the Tax Justice Network,¹ should be a necessary condition for obtaining a licence or any other agreement from a betting regulatory authority.
- In addition to betting companies' shareholders, it is important to know who is involved in their management (licences issued to managers appointed in each position following background checks, with possibility of revoking licences if managers fail to carry out their legal responsibilities).
- Betting licences should be awarded only to companies located in "cooperative countries" (i.e., they are not classified as "offshore financial centres" by the International Monetary Fund (IMF) or the Financial Secrecy Index). It is also recommended that licensed betting operators have a tax representative and a physical connection with the country where they are doing business. Lastly, companies applying for licences from regulatory authorities could be obliged to provide financial guarantees.

GOOD PRACTICE: The GB Gambling Commission issues personal management licences for persons occupying these functions within the gaming and betting industry:

- overall strategy and delivery of gambling operations
- financial planning, control and budgeting
- marketing and commercial development
- regulatory compliance
- gambling related IT provision and security
- management of licensed activity for a particular area in Great Britain where you have five or more sets of premises for which you hold a premises licence
- management of a single set of bingo and/or casino licensed premises.

Applicants are subject to criminal record checks. The Gambling Commission can impose sanctions on managers who are found guilty of misconduct within their activity. Sanctions can be: warning, imposing additional conditions or amending existing ones, financial penalty (only in the event a licence condition is breached), suspension, revocation. For example, recent revocations of personal management licences concerned managers who provided fake ID documents, stole money from their company or colluded with costumed characters. A list of all sanctions, with justifications, is made public on the Commission website.

GOOD PRACTICE: The 4th EU AML Directive includes provisions for the transparency of beneficial ownership of companies. A public database should be set up with the name, month and year of birth, nationality and country of residence of the beneficial owners as well as the nature and extent of the beneficial interest held by the beneficial owner. This database is accessible to persons who have a legitimate interest, so is open to foreign authorities. Other sectors such as the extractive industry, highly transnational and involving high liquidity and corruption risk, are also adapting to new rules regarding the control of beneficial ownership.²

1. See C. Kalb, P. Verschuur, 2013, *op. cit.*, p. 160.

2. See the EITI Initiative in the extractive industry: <https://eiti.org/blog/beneficial-ownership-transparency-what-eiti-requires-lessons-learned-for-eu>

Proposal No. 2: Control betting operators to ensure compliance with all sports betting provisions

- Requiring all transactions by licensed operators in a jurisdiction to be recorded with the betting regulatory authority. The “Betmonitalert” programme has raised this issue as one of the three conditions for a successful regulatory regime (see Part 3 of the Betmonitalert report for further analysis), because it creates parallel controls at operator and regulator levels and facilitates sharing of expertise between both parties. If a regulator is able to have access to all betting transaction data through an IT system, it has the possibility to exercise direct control in situations where there is a risk not only of money laundering, but also of betting-related manipulation of sport competitions and problem gambling. The information can also be used for preventive and harm-reduction measures to curb gambling addiction

GOOD PRACTICE: ARJEL (the French regulator) implemented a quite unique technical system from the start of the online betting law in 2010. It works with a “frontal bone”, which means the possibility to control all the betting transactions placed online in France. This frontal system is therefore able to automatically detect suspicious sports events, thanks to different levels of alerts.

In Italy, the betting regulator AAMS also created a monitoring and alert system on the basis of the betting operators’ data. AAMS has real time access to all the gambling / betting data (including betting accounts). There are (2 to 4) internal analysts (but generally only from Friday to Sunday, key point of the football week) checking bets (retail and online) in real time. AAMS’ analysts primarily check three kinds of data: Odds change, abnormal turnover and geographic distribution.¹ In such monitoring systems, automatic systems of detection of match-fixing or money laundering can be useful but the human skills and capacities are key. Similarly in Poland, betting operators are obliged to give the regulator access to the betting data in real time, through a secured remote access. Thanks to this option, the Ministry of Finance can for example monitor the identity of online bettors, volumes of stakes, payment transactions, etc. In Lithuania and in Portugal, the regulator can also directly access all online betting operations (through a platform and a website).

- In countries where this option is not possible, it is important that public authorities have the power to carry out spot checks and investigations on betting operators, with an appropriate level of possible sanction. The relationship between regulatory authority and betting operator cannot be based exclusively on trust, even if trust is an essential component of a fruitful partnership. In some countries, betting operators do not even have a physical presence within the jurisdiction. This makes investigation difficult. In these countries particularly, it may be markedly beneficial to require betting operators to make all betting transaction data available to the regulator in real time through computer systems that are required by licensing conditions.

GOOD PRACTICE: In Lithuania the gambling authority can conduct random checks at the premises of the betting operators to check whether there is a difference between the website access and the central system of the operators.

- In countries where organised crime is especially prevalent, the number of betting operators could be limited as a way of maintaining higher levels of control. In such countries, it could be appropriate to grant around five betting operator licences that come with strong levels of regulation and control. The precise number of licences should be adapted to the level of risk assessed by the country and to its population size. The selected operators would benefit from a better business environment because of reduced competition.

1. For more analysis on the monitoring systems by betting regulators, see Betmonitalert programme.

Proposal No. 3: Improve procedures for identifying customers (and winners) of betting operators on the basis of the obligations set out in the EU's Fourth Anti-Money Laundering Directive

- Verifying consumer identity against an independent source. It appears essential to reduce, if not eliminate, the anonymity provided by some payment methods (including current Bitcoins and blockchains systems, prepaid cards, Bitcard Secure BTC Plastic, etc.).
- Increasing vigilance on consumers betting or winning¹ over €2,000 (in a single transaction) by recording customer data.
- More stringent procedure for certain types of high-risk bettors.
- Only paying a gambler's winnings into their original account, to prevent the layering of funds and facilitate any potential money-laundering investigation.

EU GOOD PRACTICE:

The Fourth European Union Anti-Money Laundering Directive was approved by the European Council on 10 February 2015, and by the European Parliament on 20 May 2015. Member States are required to incorporate the Fourth Directive into national law by 26 June 2017.

The purpose of the Fourth Directive is to strengthen EU rules against money laundering while aligning the international approach with the recommendations of the Financial Action Task Force (FATF). The FATF recommendations are broadly considered to be the global standards for combating money laundering and terrorist financing.

Core areas of the Fourth Directive remain in line with those of the Third Directive, although there have been key updates in six components in the new Directive:

1. Risk-Based Approach: The Fourth Directive incorporates a new requirement for EU Member States to conduct a national-level risk assessments. The results of the risk assessments will be made available to Obligated Entities and other Member States to identify, understand, manage and mitigate possible risks.
2. Beneficial Ownership: As a result of the Fourth Directive making tax evasion a predicate offense to money laundering, the Fourth Directive also proposes enhanced clarity and transparency with regard to beneficial ownership information.
3. Politically Exposed Persons (PEP): The Fourth Directive broadens the definition of PEPs while also clarifying the requirements for carrying out enhanced due diligence (EDD) on these persons. PEPs will now encompass persons entrusted with a prominent public position domestically (e.g., heads of state, members of government, judges, etc.) as well as domestic PEPs who work for international organisations.
4. Policies and Procedures: The Fourth Directive more clearly defines the need for policies and procedures to ultimately mitigate money-laundering and terrorist-financing risks at EU, national and business levels. The Fourth Directive introduces new requirements for entities to include data protection provisions within anti-money-laundering and terrorist-financing policies and establishes procedures for any sharing of customer information, with the primary aim of strengthening control while keeping data protected.
5. Penalties: Minimum penalties are set out in the Fourth Directive that apply to breaches by Obligated Entities, which are serious, repeated, and/or systematic in the areas of customer due diligence, suspicious transactions reporting, record keeping and internal controls (administrative penalties: at least €1 million, sanctions for financial institutions, for legal entities or individuals : at least €5 million)

¹. Vigilance on consumers' winnings can be important when betting remains anonymous. At least the operator should monitor the activity.

According to the text of the 4th EU AML Directive, “the use of gambling sector services to launder the proceeds of criminal activity is of concern. In order to mitigate the risks relating to gambling services, this Directive should provide for an obligation for providers of gambling services posing higher risks to apply customer due diligence measures for single transactions amounting to EUR 2 000 or more. Member States should ensure that obliged entities apply the same threshold to the collection of winnings, wagering a stake, including by the purchase and exchange of gambling chips, or both. Providers of gambling services with physical premises, such as casinos and gaming houses, should ensure that customer due diligence, if it is taken at the point of entry to the premises, can be linked to the transactions conducted by the customer on those premises. However, in proven low-risk circumstances, Member States should be allowed to exempt certain gambling services from some or all of the requirements laid down in this Directive. The use of an exemption by a Member State should be considered only in strictly limited and justified circumstances, and where the risks of money laundering or terrorist financing are low. Such exemptions should be subject to a specific risk assessment which also considers the degree of vulnerability of the applicable transactions. They should be notified to the Commission.”¹ As of today (April 2017), Precrimbet has been informed that UK will not extend the Directive to the betting operators.

NATIONAL GOOD PRACTICE:

NORWAY: Under supervision of the Norwegian Gambling Authority (NGA), the Norwegian monopolistic operator Norsk Tipping has implemented a unique Player’s ID Card system. The company coordinates and issues the cards, with a highly secure ID process with the age, gender, address and phone number of the consumer. All bets, online or offline (except paper scratch tickets), are registered on the card. These data can be useful to collect evidence. The NGA can get these data on demand. Quite importantly, the market seems to have reacted positively to this initiative as the customers accepted this new procedure.²

SWEDEN: In Sweden the national lottery Svenska Spel, recently changed practice and nowadays identifies all customers like on the online market: to place a bet the customer has to present his individual customer card or a Swedish driving license. The document is scanned in the terminal by the retailer and the information is sent to Svenska Spel’s system to be checked. After a check, the customer can place his bet, and his name is printed on the bet slip. If he picks up prizes above 100 Euros, he needs to present an approved identification document. In the case of Svenska Spel, revenues have dropped, showing either that legitimate customers find this procedure too cumbersome, or that some money launderers have been deterred.³

Proposal No. 4: Ensuring the complete implementation of the Fourth Anti-Money Laundering Directive and encouraging national regulators (betting and money laundering) to be more cooperative and open on the matter

- Requiring betting operators to declare any suspicious potential money-laundering activity to the competent authority, in accordance with the provisions of the proposed Fourth Anti-Money Laundering Directive.
- Requiring betting operators to nominate a liaison officer to deal with issues relating to money laundering.
- Setting criteria for suspicious transaction reports and identifying atypical behaviour using a risk-based approach. Betting regulatory authorities could then help operators configure their IT systems to detect suspicious activity such as several

1. Directive (EU) 2015/849 of the European Parliament and of the Council, 20 May 2015, p.20.

2. Interview with Frank Hoff Hana, Senior Adviser, Norwegian Gaming Authority, email, 15 March 2017.

3. Interview (by email) with Jan Svensson, Svenska Spel strategic analyst, 1st and 2nd of May 2017.

betting accounts by a single person, various payment methods used by a single person, country of origin of a payment card, frequency of deposits and withdrawals, regular large winnings for a single person, multiple cumulative winnings for a single person and losses with bets regularly placed at low odds.

- Promoting cooperation between betting regulatory authorities and the banking industry, so as to take advantage of the expertise already developed by the banking industry to combat money laundering. Some forms of information exchange could even be permitted if personal data restrictions were bypassed or lifted. Banks possess information on individuals which would be beneficial in establishing consumer risk-assessment profiles.
- Payment processors play an important role in the prevention of money laundering and must take part in the enforcement of AML regulation.
- Promoting cooperation among financial intelligence units with regard to gambling. It may be beneficial to create a group dedicated to gambling, for example within the FATF along the lines of the task force created by Interpol to coordinate the fight against manipulation of sports competitions in football.

The report, *Money Laundering: The Latest Threat to Sports Betting* (2013, IRIS Editions) put forward seven recommendations for all stakeholders tending towards the principle of precaution and seeking to limit risks:

- Combat organised crime, and more particularly, make cybercrime a priority
- Combat illegal betting and tackle this in the context of non-cooperative and offshore financial jurisdictions
- Have a good knowledge of betting operators and force them to be transparent about their shareholders and management boards
- Adapt the sports betting market to manage the risks associated with money laundering
- Improve procedures for identifying customers (and winners) of betting operators on the basis of the obligations set out in the fourth EU anti-ML Directive
- Require betting operators to draw up suspicious transactions reports and get national regulators (betting and money laundering) to be more cooperative and forthcoming on the subject
- Control betting operators in such a way as to ensure they comply with all sports betting regulations

NATIONAL GOOD PRACTICE:

From 2015, many betting regulatory authorities, beginning with the UK Gambling Commission, developed a concrete anti-money-laundering strategy and sanctioned operators that failed to comply. Since the fight against money laundering in the gambling industry became a priority, monitoring and detection systems trigger more cases than before. More cases are not therefore necessarily a sign of an increase in money-laundering activity.

The obligation to report suspicious betting activity can also cover match-fixing issues. A number of countries, such as Belgium and the UK for example, oblige licensed operators to report irregular (Belgium) or suspicious (UK) activity. In the UK, betting operators are required to report suspicious activity to the Gambling Commission under their licence conditions of the Licensing Conditions and Codes of Practice (Section 15.1). According to Section 15.1, betting operators are required to provide information to Sports Governing Bodies and to conduct an effective investigation if the betting operator suspects that they have any information from whatever source that may:

- Lead the Commission to consider making an order to void a bet;
- Relate to a breach of a rule on betting applied by that sport governing body.

The regulator both in Belgium and the UK has the power to investigate and to sanction in case the betting operator does not comply with these rules. In some countries (for example, the Czech Republic or Italy for example), operators are also required to suspend a betting account or a bet where there is a suspicion of fraud.¹

1. Betmonialert report, pp. 79-80

Proposal No. 5: Adapt the sports betting market to address risks associated with money laundering

A compromise has to be found between measures to mitigate money laundering risks, and keeping the market sufficiently attractive to retain enough customers on the legal market. Within this compromise, there are potential measures that can be taken into account by States wishing to mitigate the criminal risks:

- Stakes could be limited to “reasonable” amounts following a risk assessment, and after identification of atypical behaviours regarding money laundering.
- Pay-out rates should remain within reasonable levels to lessen the appeal of betting for money launderers. The 2013 White Paper suggested limiting pay-outs on an annual basis. Experience shows that it would be more appropriate to limit the nominal pay-out per bet. A risk-based approach should be used to determine the level of the limit.
- To avoid cross-operators links, betting operators should not be authorised to offer bets to businesses. Also, betting traders should not be authorised to bet with any operator. When traders are prohibited from betting with their own company, they can place bets with other bookmakers and sometimes create considerable market changes. In Asia, some illegal bookmakers connected to match-fixers even bet with their competitors on fixed matches. Licensing conditions could include provision requiring betting operators to use a risk-based approach to set benchmark criteria for their traders (number of mistakes, average pay-out by trader with focus on in-play betting, etc.).

NATIONAL GOOD PRACTICE:¹

The newly amended German betting legislation (to be implemented in January 2018) will oblige operators to be compliant with new license requirements which notably address money laundering (strict identification, financial guarantee, maximum stake per month of €1,000, no live betting, etc.).

In France, ARJEL advocates betting restrictions (competitions and types of bets) based on a risk approach (risk to be assessed both by sports organisations, betting operators and public authorities). In coordination with sports authorities, ARJEL decides which competitions and types of bets can be proposed on the French betting market (some secondary competitions, friendly or exhibition competitions are excluded). The annual pay-out rate is also limited to 85%.

Proposal No. 6: Take the fight against cybercrime into account

The control of the legal market also requires to limit cybercrime risks (phishing, ID fraud, CB theft, malware). Given their broad nature, it may not be pertinent to make specific recommendations on cybercrime to betting regulatory authorities. To this end, however, the Precrimbet programme would like to draw attention to four particular issues:

- It is important that betting regulatory authorities are aware of the risk of cyber attack associated with the betting industry. Conditions to obtain a licence should therefore require provisions for adequate levels of security. Public authorities (betting regulators and law-enforcement) need to take into account the risks linked to the Darknet, and should develop their understanding of this growing platform of criminal transactions and communications.
- It would be beneficial for public authorities to institute public awareness campaigns of the dangers of placing bets with illegal operators, especially on the Darknet (i.e., with operators that do not have authorisation to offer bets in the jurisdiction).
- Public authorities should implement all possible measures to avoid criminal infiltration into the betting industry. Thus, proposal No. 1 recommending transparency in operator shareholders and management is a key issue.

1. It should not be noted that these measures do not automatically represent good practice as such. They serve as examples of restrictive provisions that have been enforced by national regulators, and can only be efficient if integrated in a wider framework which provides a sufficient attractiveness for the legal market, and some measures to fight against the illegal market. Likewise, the fight against illegal betting can only be efficient if it is counterbalanced by a legal betting market which is sufficiently attractive despite the criminal-risk-mitigation measures.

II. Second objective: fighting against the illegal market

This second objective can not be separated from the first objective. Legalising and reaching a sufficient level of market attractiveness is a prerequisite in the fight against the illegal market. In the US, the fight against illegal betting is failing because the prohibition regime forces many consumers on to illegal websites.

As was mentioned in Part 2, illegal betting takes numerous forms, from online operators accepting bets from foreign jurisdictions where they do not hold a licence to structured street bookmaking (which can also be linked to illegal online operators). In the former, traditional organised crime may not be closely involved. But for the latter, the territorial spread as well as the technologies and capacities to sustain such networks are typical features of crime groups' activities. It can be an area in which criminal organisations can diversify their activities. The appeals are obvious for criminals: significant levels of revenue, low levels of sanction and the ability to launder money directly online or in the conversion between physical networks and online betting.

There are various types of companies in the illegal online betting market, some operating legally while others are largely illegally.

- Category 1: Betting operators only offering bets legally (illegal activity: 0%)
- Category 2: Bookmakers operating mostly legally but who still have a small share of their online customers in countries where they are not licensed (illegal activity: less than 20%)
- Category 3: Companies with a licence in a "betting haven" that deliberately target customers in countries where they are not licensed to avoid betting duties (illegal activity: 20–75%)
- Category 4: Online betting operators connected to street markets using all possible illegal strategies (illegal activity: over 75%)

The fourth category can clearly be considered an extreme risk for society. For the second and the third category, as was suggested above, there is a need to determine a level of acceptance (or not). Public authorities could use the following tools to consider the importance of the fight against illegal betting:

- assessment of money-laundering risks;
- assessment of match-fixing risk;
- consumer protection;
- recovery of betting duties.

For states, fighting against illegal betting is a difficult issue for several reasons:

- When perpetrated online, illegal gambling is an intangible offence, different from murder, drugs, arms trafficking or prostitution. Much like financial crimes in the 1980s, many people do not see the dangerous side of this kind of "virtual" crime.

- The fight against illegal gambling is difficult, particularly on the Internet. It requires strong legislation, sophisticated technology and adequate human resources. When countries choose to open their markets to gambling operations, it is often largely because they recognise that illegal betting exists and any provision for legal betting would stop the movement of consumers towards illegal websites. The view that the fight against illegal betting is futile is supported by the lobbying groups of some betting operators.

- Since 1961, the UK has been a reference for sports betting in Europe. Its gambling strategy is of great importance to other European countries. The British regulatory framework therefore helps in understanding why illegal betting is sometimes not considered a “serious” issue. Prior to November 2014 in the UK, illegal online betting did not really exist, a situation unique in the world. An operator licensed in another jurisdiction was not allowed to advertise its betting products if its jurisdiction was not on the British “White List”. Advertising without a betting licence was even a criminal offence. Despite this regulation, a betting operator was not considered to be illegal when it offered bets to British citizens. In 2014, the government changed its regulation model in favour of one based on the point of consumption, “supporting the responsible provision of gambling facilities while deterring the illegal and irresponsible from trying to compete unfairly”.¹ It became an offence for a betting company to sell betting services into Britain unless it held a British licence (although not an offence for the person placing the bet). Interestingly, with the implementation of the “point of consumption” rule, betting operators had to pay 15% of their betting GGR to the Treasury. In this way, the UK collected £378 million in 2015, while forcing some operators from poorly regulated areas to leave the market.

- An important part of the betting industry, and a number of supporting jurisdictions like Malta, defend a different typology of betting operators. According to this view, one should not speak of legal or illegal betting, but of regulated or unregulated markets. The regulated market refers operators who benefit from a license in at least one EU jurisdictions, where all regulations are deemed to be strong and sufficiently protective of criminal risks. And unregulated operators are those who do not have such oversight. The Precrimbet programme does not support this point of view, for different reasons:

- without a clear definition of “well-regulated” or “poorly-regulated” market/operator, it is not possible to make a distinction between different jurisdictions/operators;
- even outside the EU, most of the markets are regulated (prohibition and monopolies are two ways of regulation);
- a licensed operator located in a “well-regulated” country might offer some bets in another country without any authorisation. This country might then consider it as illegal, even in Europe.

The results of the Precrimbet “Mystery benchmark” are rather positive, because the unlicensed betting operators for the main EU jurisdictions seem to respect national legislation. However this was tested only for the major countries (France, Italy, Spain, Germany, Belgium). For most of the visited countries, illegal betting remains important and is a priority for public authorities (For example in Poland the illegal market was estimated to be around 92% in 2016). Especially for smaller countries with less capacities and experience, the fight against illegal betting therefore requires awareness, a clear legal framework and technical tools. The Mystery Benchmark shows that such policies can have an impact.

Proposal No. 7: Implement a wide range of measures to fight against illegal betting at national level

One single measure generally does not fulfil the objective of sufficiently reducing illegal betting. Nevertheless, a voluntary strategy and a wide range of measures seems to channel a major part of the market on the legal market (For example, the level of the illegal market in France is below 20% - in turnover, according to ARJEL).

- Establish a blacklist of illegal betting operators, with Internet names and addresses of all identified websites lacking authorisation in the jurisdiction. This is a necessary prerequisite before adopting measures to block illegal operators. For example, the Belgian Gaming Commission issues a new blacklist every month and according to its representative, betting operators have contacted the Commission to know how to be unlisted from this blacklist; which shows that the industry reacts to it.
- Send official warnings. For example, prior to blocking an IP address, ARJEL, the French regulatory authority, sends a warning letter to the illegal operator to encourage them to take action of their own accord (i.e., by not targeting the French market or by filtering French customers). According to ARJEL, 95% of recipients do take action following this warning.
- Adopt legislative measures that: (1) directly, or indirectly, restrict access to illegal betting operators (retail and online); (2) provide high levels of sanctions for non-compliance with betting legislation.

In particular, these measures may include:

- The possibility of blocking of financial flows between betting operators and consumers.

As the high fees for payment processing clearly show, the payment processors do know who their customers are (see Part 2, III). Hence, the payment processor should be the first address for regulators to turn to in order to block payments for illegal online gambling. It needs to be kept in mind, though, that the around €2 billion payment processors collect for transferring funds for sports betting (see Part 2, III) might provide a large financial incentive to oppose any blocking of financial flows.

In regards to virtual currencies, an idea would be to allow these as means of payment, if a player associates himself with a specific address, for example the address he is using at an exchange that is compliant with all AML/KYC regulations. Then transactions from his address can be allowed to his sports betting account, but not from other addresses. That allows to make use of the benefits of virtual currencies, without running into the problems of anonymous transactions.

For example, in Greece, if financial institutions and payment services providers do not block illegal transactions, they may be ordered to pay fines up to €500 million. In Israel, operational measures were put in place to enforce payment blocking through the involvement of police services, work with issuers of credit cards used for illegal transactions and with payment service providers having to justify transactions, for example. In the USA, financial institutions and electronic payment services cannot process any transaction involving illegal remote gambling operators. They can be held liable if they do.

- IP blocking, through obligations on internet services providers. In Belgium, not blocking illegal websites is a criminal offence for internet service providers. When a customer tries to play on an illegal website, a “stop” banner is displayed on the screen with a police warning message. In Greece, ISPs that do not block websites on the black list are subject

to significant daily fines (€50,000). In Denmark, ISPs have 14 days to block illegal gambling websites after receiving an injunction from the country's gambling authority. In Italy, ISPs have to redirect players to the regulatory authority's webpage, indicating that they were trying to access a blacklisted website; they face large fines if they do not cooperate (up to €200,000).

- DNS (domain name service) blocking. This measure is more and more implemented within the EU. Most of the countries visited through this programme enforce such blocking: Denmark, France, Poland, Lithuania, etc.
- Closing illegal operators.
- Authorising police action.
- Dereferencing illegal operators from search engines, Google in particular, and web stores, such as the Apple Store.
- Preventing of hosting.
- Banning illegal advertising, as is the case in Belgium, where advertising illegal gambling is a criminal offence for the illegal operator but also for the media provider involved. In France, media providers also face hefty fines if advertising for illegal operators (up to €100,000 and possibly four times the value of the advertising budget).
- Envisaging mutual exclusion procedures (banning an operator when he is banned by a certain number of EU MS) and penalising customers.¹ In Poland, customers gambling illegally face a fine (100% of winnings).
- Setting a communication strategy for illegal betting operators and foreign betting regulatory authorities that may include sending official notices to offshore websites owners (particularly if the websites want to present a responsible corporate image) requesting them to stop illegally targeting citizens. If operators are non-respondent, denounce them publicly ("naming and shaming" approach) in order to undermine their reputation.

N.B.: ISP blocking illegal websites can be bypassed using technical means. A customer may directly download software or apps without need of the domain name, the website may frequently change its IP address, it may use mirror websites, a customer may use a "proxy" to remain anonymous, and so on. Nevertheless, ISP blocking usually works when betting operators want to maintain their reputation and positive public image.

- Requiring licensed betting operators to include a breakdown of stakes received country by country. This could be requested at the time of the initial licence application and for the annual regulatory return. It could be a violation of licence conditions to accept bets from a country where the betting is illegal.

Similarly, as part of the licensing process, operators are asked by the GB Gambling Commission to identify and satisfy that they are acting legally where they offer bets outside of the UK above a certain threshold, and that they can justify their approach.. Naturally, it will not be possible for regulators to check whether such declarations are entirely accurate, although there would be two ways to verify the information:

- regularly ask regulators from the countries involved to confirm the information;
- regularly organise secret testing to try to place illegal bets with the operator.

¹. Penalising customers betting illegally is generally considered as unfair because it is difficult for customers to have updated information about the blacklisted operators. Nevertheless, Poland set up an interesting measure where players on illegal betting websites face a penalty of 100% of the prizes won.

- Banning illegal advertising. This may include sanctions for the media selling advertising space to illegal operators, as is the case in France, or banning operators from renewing licences when they do not respect advertising restrictions, as is the case in the Netherlands.
- Negotiating with banking and electronic service industries to block payment of illegal transactions to customers. One way to achieve this is by transferring the responsibility for blocking illegal payments directly to the financial industry, as is the case in the USA through the Unlawful Internet Gambling Enforcement Act. Financial institutions then have the responsibility to determine the most adequate measures of doing so.

Proposal No. 8: Reduce the possibilities of illegal betting "grey areas"

- Adopting a clear definition of illegal betting at international level. The current definition put forward in the Council of Europe Convention on the Manipulation of Sports Competitions should be fully supported (see the current debate on this definition in second Part, I) . Once a binding and recognised definition is set, it would be possible to establish national lists of legal and illegal operators. Clarifying the situation at national and international level would be instrumental in reducing the size of the "grey area" .

- Raising awareness of the existence of grey areas (i.e., betting operators licensed in one jurisdiction and offering bets without authorisation in another) and their associated risks (impossibility of controlling an operator that lacks any authorisation whatsoever in a given jurisdiction).

- Defining the boundaries of acceptable and unacceptable "grey areas" at international level. At present, certain stakeholders, including some betting regulatory authorities, accept the idea that there is a "grey area" and make no distinction between licensed betting operators offering bets illegally. The illegal part of such betting operators can vary from 1% to 99% of total turnover. Since some public authorities accept the legitimacy of a "grey area", it would be appropriate to hold informal discussions as to the level of tolerance towards "grey areas" beyond, for example, the traditional distinction between Asian and European online betting operators.

- Publishing and disseminating a regularly updated international list of betting operators which do not meet a predefined set of criteria. Such a list could be edited by organisations such as UNODC, the Council of Europe (through, for instance, the Follow up Committee of the Convention on the manipulation of sports competitions¹) or the European Commission.

- Adopting a clear, international position against betting operators which do not meet these criteria. Importantly, it is highly advised that betting regulatory authorities award licences only to respectably operators meeting baseline standards. Of course, such operators should not be invited by public stakeholders or sports organisations during negotiations and official discussions regarding manipulation of sports competitions or betting regulations.

- To protect consumers from fraud from illegal operators (non-payment of winnings, etc.), -The consumers should be made aware of the risks to bet with illegal operators. If the country where the operator is licensed does not have the same definition of illegal betting, as for example in Malta, it is important for the betting regulatory authority where the licence has been issued to conduct international spot checks and impose sanctions on operators that fail to meet regulatory conditions.

1. Council of Europe Convention on the Manipulation of Sports Competitions, 2014, CETS No.215.

Proposal No. 9: Create international awareness and cooperation around illegal gambling

- Conducting an international criminology study specifically focused on the different forms of illegal betting, the mechanisms linking physical networks and offshore websites, the software and technology used by the network organisers, the profiles of organisers, the effectiveness of existing tools to fight illegal betting, best practices and a comparison with other industries. The study could be financed by the EC or UNODC, for instance.¹ Such a study should ideally be conducted by experts in criminology, with the support of gambling experts, and not the other way around.
- Organising seminars with betting regulatory authorities on illegal gambling, for instance through the International Association of Gaming Regulators (IAGR), the Gaming Regulators European Forum (GREF), the Expert Group on Gambling Services established by the European Commission or the network of regulators set up by the Council of Europe, known as the Enlarged Partial Agreement on Sport (EPAS). The objective of these seminars would be both to raise awareness and to discuss common strategies.
- Establishing an organisation to gather intelligence on illegal betting at international level. It could be led by Interpol, Europol, UNODC or even the Convention Follow-up Committee.

The broadest base possible of transnational cooperation among betting regulatory authorities is necessary to fight against illegal betting.

III. Third objective: Favouring national and international cooperation

The fight against criminal risks linked to sports betting requires the involvement of sectors which are not always used to cooperate. Addressing match-fixing, in particular, mobilises law-enforcement, betting regulators and operators as well as sports organisations. It can be technically and legally challenging to exchange information and cooperate between such different public and private actors, who do not always have the same interests.

Many worthy reports have been written on sports betting and corruption. One of the most complete is the “Sorbonne-ICSS Guiding Principles on Sport Integrity”, which includes 61 concrete recommendations. One noteworthy aspect is the strong support for the EPAS Convention Against the Manipulation of Sports Competitions, which addresses the key issues in the fight against the manipulation of sports competitions, which can be extended to other issues involving betting. On the basis of the criminal cases brought to light over the past two years and the additional findings through the Precrimbet research programme, all stakeholders are recommended to comply with EPAS requirements without delay. States around the world are encouraged to support, sign and ratify the Convention, while betting operators and sport organisations are invited to anticipate and implement operational measures proposed in the Convention.

1. It is important that betting operators are not involved in such a study to avoid any potential conflict of interest.

Proposal No. 10: Support and promote national cooperation between public and private authorities, in particular through national platforms linked to the Council of Europe Convention against the Manipulation of Sports Competitions.

- All international public institutions should seek to support this Convention (UNESCO, UNODC, Interpol, European Commission, Europol, etc.). Such support could be delivered financially (much like EC financing for the Keep Crime Out of Sport (KCOOS) project) or through active communication (such as UNESCO's promoting the Draft Convention during the Fifth International Conference of Ministers and Senior Officials Responsible for Physical Education and Sport (MINEPS V) in Berlin in 2013, as well as the ratification process in the build-up of the MINEPS VI which will be held in Kazan, Russia, in July 2017).
- At national level, it is important that states seeking to preserve the integrity of sport sign and ratify the Council of Europe Convention without delay.
- The implementation of the national platform should be a priority. It will serve as an information and exchange hub at national level and point of contact for international cooperation.
- For countries with no official platform, ensure that a taskforce, working group or any type of informal exchanges are possible between national public and private authorities to fight against manipulation of sports competitions.
- Authorities should ensure that cooperation and exchange of information between public and private authorities is not hindered by legal or technical obstacles. Authorities should also ensure that the implementation of instruments like the European General Data Protection Regulation (GDPR), to be implemented from May 2018, will not restrict exchange of information. In this regard, the Betmonitalert programme recommendations 19 and 28 need to be promoted here, and in particular the instruction for public authorities to:
 - Adapt the current legal system to the possibility to exchange information, at national and transnational level, between public and private (sports organisations and betting operators) stakeholders, in order to limit public order risks (and notably manipulation of sports competitions).
 - Set up a legal framework governing data protection and data use for the national platforms.
 - Set up Guidelines or a Code of Practice for all stakeholders within the national platform for disclosing information. These guidelines combined with an explicit legal framework and data protection legislation (EU directive and national laws, and from 25 May 2018 GDPR), will ensure that data are shared in a way that is necessary and proportionate, and that data sharing takes place within a framework that properly protects individuals' rights. Set up an agreed information sharing document for stakeholders within the national platform setting out mutually agreed standards on areas such as the use, handling and security of information. Set up an information chart to assist all parties with the duty to comply with data protection laws.

NATIONAL GOOD PRACTICE: About 30 countries have now signed the Convention, with 3 ratifications. A consensus at EU level is still to be reached to allow the ratification from EU Members-States. Nevertheless, most of EU countries have started to implement key measures from the Convention. Around 11 countries (as of April 2017) have established a national platform, which is a central tenet of the Convention.¹ These platforms adopt different formats and contents. Some examples can be presented here.

1. Article 13 : 1 Each Party shall identify a national platform addressing manipulation of sports competitions. The national platform shall, in accordance with domestic law, inter alia: a serve as an information hub, collecting and disseminating information that is relevant to the fight against manipulation of sports competitions to the relevant organisations and authorities; b co-ordinate the fight against the manipulation of sports competitions; c receive, centralise and analyse information on irregular and suspicious bets placed on sports competitions taking place on the territory of the Party and, where appropriate, issue alerts; d transmit information on possible infringements of laws or sports regulations referred to in this Convention to public authorities or to sports organisations and/or sports betting operators; e co-operate with all organisations and relevant authorities at national and international levels, including national platforms of other States.

DENMARK: The Danish national platform was created in 2016 but remains in a definition phase. The strategic level of the national platform, which is under the competence of the Ministry of Culture, is in charge of international and national cooperation. Anti Doping Denmark – an self-governing institution under the Ministry of Culture – is Secretariat for the National Platform.

The operational level – is still do be agreed between the partners, but it is likely the national platform will be in charge of the following issues: • Intelligence Manager appointed by Anti-Doping Denmark

- Intel-database end visualization software
- Reception and validation of information and data
- Passes on “need to know” data to relevant parties in compliance with Data Protection Legislation
- Comprehensive security in the data processing of Anti-Doping Denmark
- Information and education.

N.B.: For the storage of information, the platform has chosen the option of a technical supplier.

The national platform can also sign cooperation agreements. Its representatives insist that agreements must create real cooperation and not just be formal ones. That means that they should include regular meetings and be able to organise the exchange of information between the different parties.

FRANCE: The French national platform focuses on two different objectives (with two separate organisations): Prevention and Surveillance.

- The Prevention board is coordinated by the Ministry in charge of sports. It notably includes working groups on whistleblowing, on the financial vulnerabilities of sports clubs, and prevention with regards to sports actors.
- Regarding the “Surveillance” organisation, the French platform works as an alert system with 4 different levels:
- Green level: irregular betting patterns (detected through an automated system);
- Yellow level: Analyses (conducted by a group of ARJEL experts) where there is no rational explanation for an unusual pattern of betting;
- Orange level: Stronger level of risk regarding manipulation of sports competitions. Information is shared with all the experts taking part in the national platform / surveillance (and possibly sports organisations, including IOC/IBIS, and betting operators, including ESSA);
- Red level: Start of an investigation by law enforcement authorities. So far, the platform has triggered one red alert (concerning table tennis).
- Orange and red alerts can be issued from irregular betting patterns or other information sources regarding manipulation of sports competitions (Web intelligence, sport actors’ reports, punters, etc.).
- The delay between a yellow and a red alert can be quite short (2/3 days for the table tennis case).
- An orange or red alert is sent to all the members of the platform (surveillance group). Nevertheless, to protect some sensitive information, an alert can be exchanged in the framework of bilateral links.
- Storage of information: The Ministry of Sports is in charge of the implementation of a technical system to store and exchange information (security, data integrity, etc.).
- In France, it is quite easy to start an investigation (A single certified report - “Procès Verbal” - is sufficient). Other countries (UK, NL) can only start an investigation if the probability to send someone to a criminal court is high enough.

Nevertheless, given the increasing levels of risk that sport faces, the PRECRIMBET survey recommends, as does the Sorbonne-ICSS report, that public authorities jointly develop additional measures setting the highest standards in the fight against the manipulation of sports competitions.

The following proposals focus on additional sports betting and sport integrity measures that could be implemented.

Proposal No. 11: Develop transnational cooperation through a dedicated framework whose scope goes beyond that of the Council of Europe Convention

In some countries, the fight against the manipulation of sports competitions may be considered a priority for a number of reasons (e.g., the frequency and seriousness of scandals have created doubts as to public order and the rule of law). Therefore we suggest that these countries jointly establish a dedicated framework based on the best practices and not on a common standard framework to oversee the following:

- establishing a common standard of alerts across participating countries;
- adopting legal provisions forcing betting operators and services providers to report irregular and suspicious betting patterns;
- adopting legal provisions authorising the exchange of information on sport competition manipulation among public stakeholders in different countries (and possibly public and private stakeholders as well), including data protection issues;
- establishing a common capacity-building strategy for the fight against betting and criminal activity;
- developing and implementing a common strategy on the fight against illegal betting;
- if suspicious patterns are detected and if they relate to a possible case of manipulation in a foreign country, all pertinent information must be sent to the country's representative (respecting the common standard of alerts when the two countries share such a standard);
- joint, digital monitoring of the international legal and illegal sports betting market (through odds movements and levels of liquidities where available);
- creating a list of authorised bet types (competitions, betting types) based on a common risk-approach methodology;
- determining common patterns of atypical behaviours associated with sport competition manipulation based on a risk-approach methodology.

GOOD PRACTICE: The Council of Europe works on the dissemination of good practices and international cooperation through programmes such as KCOOS (Keep Crime Out Of Sport). In the meantime, the existing national platforms have set up a "Group of Copenhagen", coordinated by the Council of Europe, to facilitate transnational exchanges. It exists primarily as a network for exchange of information, experience and expertise in support of the implementation of the standards contained in the Macolin Convention, in particular in the context of:

- the elaboration of studies and compilations of good practices ;
- the practical support provided to existing national platforms to consolidate and further improve their systems;
- the assistance to countries for the creation of new National Platforms;
- the institutional and professional capacity building of national and international actors.¹

1. See Council of Europe website.

Proposal No. 12: Involve sports organisations in the national and international fight for sports and betting integrity

Unlike horseracing, which is financed directly by betting on horseraces, sport has no structural connection to betting — although the betting industry is an important sponsorship partner and may contribute through the sale of data streams for example. Because of the lack of direct connection, many sport organisations feel they do not have to deal with betting, except perhaps in certain instances of monitoring the betting market to detect suspicious activity. Yet since 2000 and the explosion of online betting, the manipulation of sport competitions has become a major threat in sport, which at first affected football, tennis and cricket most severely but which is now contaminating a very wide range of sports. Preventing criminal risks associated with the sports betting market should therefore also be a priority for sport organisations, which need to be mobilised in the fight against criminal risks, especially match-fixing.

First of all, it is important to enforce the provisions for sport organisations and competition organisers included in Article 7 of the Council of Europe Convention on the Manipulation of Sports Competitions:

Conflict of interest rules

Sports organisers are encouraged to implement the following rules:

- Prohibiting sport stakeholders from betting on sports competitions in which they are involved;
- Prohibiting the misuse or dissemination of inside information.

Awareness, education and prevention measures:

Sports organisers are encouraged to raise awareness among competition stakeholders, including young athletes, of the risk of manipulation of sport competitions and the efforts to combat it, through education, training and the dissemination of information. The process may be more effective by involving player unions where they are credible and strong organisations.

Sanctions:

Sport organisations are encouraged to apply specific, effective, proportionate and dissuasive disciplinary sanctions and measures to infringements of their internal rules against the manipulation of sports competitions.

These proposals should be strengthened:

- Given the number of athletes betting on their own competition and the high incidence of problem betting within this population, public authorities could set requirements for sport organisers (conflict of interest rules and awareness raising). At least, while respecting the “autonomy of sport”, they could make payments for public funds conditional on the implementation of appropriate measures.
- As an awareness-raising measure, sports organisers could be encouraged to set up information sessions for all sport professionals at least once every year. The session should be at least half an hour and address issues such as betting, criminal associations and disciplinary rules. These sessions should be provided also for academy and youth players who may not be classified (yet) as professional.

- If sport professionals are not authorised to bet on their own competitions (because of disciplinary rules set by sport organisations) it is important to be able to check whether these rules are respected. There is therefore a need to organise adequate levels of cooperation between sports organisers and betting operators, something that may not be particularly easy given privacy and data protection legislation.

- a. If the betting regulatory authority is able to have real-time access to all betting transaction data from locally licensed betting operators, it could be responsible for checking whether sport professionals bet on their own competitions. Sport organisations would send a list of athletes (along with dates of birth, city of birth, etc.) and the regulatory authority would check this against its central IT system. This system would be particularly effective because the checks are carried out by a public authority. Betting operators are not informed of the result of the procedure.

- b. If the betting regulatory authority does not have real-time access to all betting transaction data from locally licensed betting operators for technical or legal reasons, it would be necessary for sport organisations to organise the checks directly with locally licensed betting operators (with the consent of the sport actors). To respect privacy and data protection regulations, a possible way is to ask sports organisation to make sure that sports actors give consent to such checks within their working contracts. Another solution is to use an independent third party that would be authorised to collect encrypted data from both sport organisers and betting operators and be responsible for cross-referencing the data.

NATIONAL GOOD PRACTICE: ARJEL, the French regulator, has operated several checks with all main French sports federations (football, basket-ball, handball, tennis) to check whether sports actors, or their direct entourage, bet on their own competition or discipline. ARJEL worked with the national agency in charge of data protection (Commission Nationale Informatique et Liberté, CNIL) to ensure that individual data protection rights are protected).

Proposal No. 13: Include betting in the global strategies of sport organisations with focus on the following issues:

- Establishing a clear position with regard to illegal betting, means no acceptance of a “grey” area. As a consequence, sport organisations should take a clear stand on the marketing right for live-streaming events. Selling the right to broadcast sporting events on the Internet to betting operators with a high level of illegality increases the risk of manipulation. Moreover, signing any kind of memoranda of understanding with illegal operators on the exchange of suspicious betting patterns gives legitimacy to these operators. Sport organisations in such case have no choice but to trust these operators and lack any possibility of checking the accuracy of data provided.

- Contributing to the debate on possibly limiting the supply of betting (Article 9 of the Council of Europe Convention on the Manipulation of Sports Competitions), taking into account the following issues: the ease of influence (the easier a competition or a type of bet is to influence, the more likely the manipulation will be); and past cases. Sport organisations should become key stakeholders for this issue because they have the best field experience. Consequently, sport organisations should take a clear stand on the sale of sport data to betting operators, services providers or third parties. In fact, the presence of “court siders”, collecting and selling sport data to the betting market, increases the risk of manipulation (possible creation of bet types that are easy to influence, on low-level competitions, sale of data to the illegal market, etc.).

- Since modern sports betting, both offline and online, is one of the main reasons behind the increase in the manipulation of sport competitions, sport organisations are encouraged to analyse the possibility of a contribution to be paid by the betting industry towards the fight against sport competition manipulation. This contribution, which remains controversial today and does not need to take the form of an Intellectual Property Right, should be implemented under several conditions (see below).
- In addition, it could be beneficial for sport organisations to take a clear stand about the betting-industry sponsorship of sporting events. With such, there could be cases where, for example, a betting operator entering into a partnership with a football team opens betting accounts for the team's players and the staff. Some betting operators may still control the sport organisations on which they offer bets; this can create conflicts of interest. Whether or not there is sponsorship involved, gambling should not be marketed specifically to sports players, who represent a particularly vulnerable group in terms of problem gambling risks. This is an issue of social responsibility but is linked to sport integrity because players with gambling debt are vulnerable to approaches by match fixers.

Suggestion to finance the fight against criminal risks linked to sports betting:

In many discussions with national stakeholders, the issue of the financing of the fight against the criminal risks linked to sports betting has been mentioned. In the current financial constraints of public policies, public authorities face difficulties in mobilising resources to such new threats. One suggestion could be to involve the betting industry in the financing of national and international efforts to protect betting and sport integrity. Many cases of manipulation are linked to betting. Players, managers and officials, betting syndicates or criminals may influence sport competitions because the possibilities offered by betting have changed tremendously, including a range of modern betting possibilities, before or during the competition. In this way, sports betting, despite the goodwill of many betting operators, can itself be considered part of the problem. It could, however, also be part of the solution in the future. The Precrimbet programme suggests (based on the model of the “polluter-pays” principle):

1. national legislators to set up a financial contribution paid by sports betting operators and allocated to sport integrity. A reasonable and useful rate could be around 1% of sports betting GGR.¹ Naturally, the percentage amount has to be determined in cooperation with public authorities in charge of national platforms.
2. One part of the contribution should be allocated to national structures, the other part to a joint international sport integrity funding structure (organisation(s) to be determined).

An example of a possible scenario:

- *Five European signatory countries to the Council of Europe Convention on the Manipulations of Sports Competitions decide to put in place a financial contribution by sports betting operators towards sport integrity (1% of the GGR of licensed local betting operators). For the sake of the example, the five countries are Finland, France, Italy, Portugal and Spain.*

1. GGR: gross gaming revenue (i.e., stakes “or turnover” minus winnings).

- All countries set up both a national structure and contribute to an international structure to fight against sport competition manipulation.
 - The national structure would be able to finance the implementation of Council of Europe Convention guidelines and some additional prevention and education programmes.
 - The international structure could monitor the international sports betting market and serve as the framework for cooperation among national law enforcement agencies.
- This chart gives an overview of the financial outcome of such a cooperative strategy

(in € million)	Finland	France	Italy	Portugal	Spain	Total
GGR (licensed operators)	125	850	950	60	275	2260
Integrity contribution (1% of GGR)	1.25	8.50	9.50	0.60	2.75	22.60
National platform allocation (90%)	1.125	7.65	8.55	0.54	2.475	20.34
International platform allocation (10%)	0.125	0.85	0.95	0.06	0.275	2.26

This scenario could serve as a starting point. If this scenario works, several countries could join the model and the integrity contribution could even be reduced (e.g., with 30 participating countries, to less than 0.5% of GGR).

Of course, the implementation of such a contribution needs be strictly monitored and controlled, notably to ensure that it covers all sports disciplines, including amateur sports when necessary.¹

1. See the ASSER report, *Study on sports organisers' rights in the European Union*, February 2014.

Conclusion

All EU Member States, regardless of their regulation model, are concerned by the criminal risks associated with the sports betting market. In a way, the betting market has been a constant around the world. Forms of gambling predate any legislation and it would seem that outright prohibition is not possible as the industry would always find ways to reach customers. Contemporary examples in the United States and China demonstrate that even in controlled and policed jurisdictions, informal backstreet networks are capable of reaching a large pool of customers, taking bets and connecting their businesses with major online betting platforms that provide access to world markets and poorly restricted liquidity.

Therefore, all Member States must face two choices. The first is whether or not to legalise gambling. EU MS have generally moved beyond this debate in favour of legalisation. Other jurisdictions may also follow suit in the coming decades. The second choice is which type of regulatory framework should be put in place. There is still considerable debate in certain capitals on the matter. Although it is not the case across the board, with many countries still in favour of single betting monopolies, the general trend seems to favour liberalisation (Netherlands, Portugal, etc.). Opening access to the market is seen as a way to provide oversight and curtail illegal activity. Prohibition advocates would prefer not to accept any forms of betting, citing the associated social and criminal risks, and use policing to combat illegal betting and ensure the rule of law. Even for countries which opted for a more liberalised market, more and more regulators are setting up tools to control betting activity, giving them latitude to check operators' compliance. Spain, Lithuania and Poland have followed the example of France and Italy on this matter. In terms of restrictions, other countries choose to impose conditions for licensing (85% maximum pay-out rate in France, maximum stake per month of €1,000 and no live betting in Germany for example), while looking to keep the market sufficiently attractive for a large majority of consumers.

Since EU MS have a variety of regulatory frameworks for betting, the associated criminal risks do not appear uniformly across the Union. The variation is also shaped by major differences in the criminal environment of each State. The level and nature of betting-related criminal risk is also conditioned by the degree of criminal involvement in each State. Conversely, the effectiveness and preparedness of law enforcement — particularly heterogeneous at EU level — is a key variable in the protection of each MS against new criminal risks. Therefore, illegal betting in Greece is not the same as illegal betting in Denmark. Match fixing in Italy is not equal to match fixing in Ireland.

Because national situations differ greatly, and because little information exists on the effectiveness of established policies and initiatives, it is not possible to present certain national models as “best practices” and seek to impose them on other countries. However — and this is the intention of this report — initiatives, legislation and tools can all be promoted to raise awareness and knowledge of the fact that solutions to the issue do indeed exist. National authorities can look and find inspiration from elsewhere to help them adapt existing solutions to their own priorities, interests and context.

This report also seeks to demonstrate that even though there is no “perfect” policy to fight criminal risks such as illegal betting or match fixing, one should not conclude that no measures should be enforced at all. To draw a parallel, it is not because counterfeiting or the traffic of hard drugs cannot be fully eradicated, that the fight against those problems should cease. Examples of action reducing betting-related risks, however imperfect, have been presented here, and the hope is that they will, step by step, country by country, and sector by sector, contribute to the global fight against the risks associated with the sports betting market. This philosophy was also implicitly endorsed by the Council of Europe with the Convention on the Manipulation of Sports Competitions: match-fixing is a transnational threat and require the involvement of all States and stakeholders. The Convention does not intend to address all match-fixing at once, since outside actors (especially in Asia) are not yet touched by the Treaty. But the instrument is open to the potential involvement of all states, and its framers hope that, in the future, broad support at world level will enable an effective fight against criminal organisations targeting sport, thanks to enhanced transnational law-enforcement cooperation, the fight against illegal sports betting and grey legal areas, and an efficient network of national platforms. Likewise, the recommendations supported by this Precrimbet report are ambitious, and some of them would only be efficient in an “ideal world”, meaning if all states go in the same direction. However, the heterogeneity of the current international landscape should not be a reason for Member States to give up on the objectives of public regulation: protecting consumers and fighting against criminal risks.

As was demonstrated, many uncertainties and concrete risks stem from the “grey zone”, or flexible illegality, in which a number of betting operators look to continue to expand their businesses and their competitive advantage. It is important to remember that a majority of bets in the world are placed in the “grey” area, or illegally, which makes the market intrinsically deficient. While curtailing the grey market will be achieved incrementally through policies and measures taken at national level, it should also become a key political objective at European and international levels. Adopting such a central policy objective should drive capacity-building in national law enforcement agencies in terms of knowledge, assets, technology, international and interindustry cooperation and exchange of information, which is inadequate at present in almost all jurisdictions. Whatever regulatory framework is put in place with regard to betting, the most important focal points for law enforcement are:

- identifying and vetting the real beneficial owners of betting operators;
- monitoring regulatory and AML compliance by betting operators;
- building cyber and software expertise reflecting current state-of-the-art technology;
- controlling, blocking and testing access to illegal betting;
- infiltrating, dismantling and prosecuting criminal networks.

In one way, current debates on betting-market regulation are reminiscent of debates on financial-market regulation. The Convention of the Council of Europe on the Manipulation of Sports Competitions, prepared in cooperation with non-Member States and open to all, is the most advanced international-level initiative to meet the challenges of sports-betting-related criminal risk. The slow speed with which it is being implemented can be put down to two main reasons. First, despite recent progress, the three major stakeholder groups involved — sport organisations, public authorities and the betting industry — have not managed to reconcile their diverging individual interests to build trust and to develop joint frameworks to exchange information and cooperate. Second, political will continues to flounder at international level to give authority to Council of Europe instruments to provide worthy protection to the integrity of sport and to public order. It is understandable that in times when public purses are strained, states may prefer to focus on the most urgent and threatening risks to public order. Nevertheless, structural developments in criminality, fed by the lingering economic crisis and the shadowy fringes of Internet and international trade, require a global (and local) effort to sustain public order and the rule of law.

List of interviews

Belgian Gaming Commission, Etienne Marique, President, Peter Naessens, Advisor, Brussels, 16 February 2016

CTIF (Belgian FIU), Philippe de Koster, deputy director and Hans van hemelrijck, Strategic analyst, Brussels, 18 February 2016

Europol, Norbert Rubiscek, 9 March 2016

Transcrime, Michele Riccardi, Researcher, Milano, 30 March 2016

SISAL, Massimilo Temperelli, Business Unit Entertainment, Giovanni Maggi, Institutional Relations Director, Valerie Peano, Institutional relations, 31 March 2016

AAMS, Luca Turchi, Director for sports betting, Roma, 31 March 2016

Guardia di Finanzia, Philippe d'Albore, responsible for the fight against illegal gaming/betting, Roma, 31 March 2016

Lottomatica (GTech), Ludovico Calvi, Senior Vice President, 1 April 2016

Central Criminal Police of Estonia- Estonian Financial Investigation Unit, Kalmer Holmar – Urmas Pal and staff, Tallinn, 12 April 2016

Estonian Tax & Customs Board, Ministry of Finance, Tallinn, 12 April 2016

Hellenic Gaming Commission, Head of AML department, Head of licensing department, Athens, 18 May 2016

OPAP, Jiri Kottas, Chief risk & security officer, Leonidas Farmakis, Risk & security unit, Athens, 19 May 2016

Virginia Sakellaropoulou, Greek prosecutor, Athens, 19 May 2016

Greek FIU, Mr Paschos, Head of International Relations, Head of legal issues, Athens, 20 May, 2016,

Ianna Kannelli, Greek Senator (Communist Party), Athens, 20 May 2016

Greek financial and anti-cybercrime police, Emmanouil Ploumis, Major General, head of Financial Police, Anastasios Ch. Papathanasiou, Police Captain, head of first department, Iakovidis Ioannis, Police Lieutenant, Athens, 20 May 2016

Central Criminal Police & Financial Investigation Unit, Kalmer Holmar & Urmas Pal and staff, Tallinn, 12 April 2016

William Hill, Andrew Lyman, Director of Group Regulatory Affairs, & colleagues, Leeds, April 5

HM Government of Gibraltar, Phill Brier, Gambling Commissioner, April 22

Mark Henrich, Head of Legal and Company Secretary & Andrew Towills, Head of Compliance, William Hill Online, Gibraltar, April 22

Bet 365, Gibraltar, April 22

Nik Tofiluk, Director, Regulatory Operations, Lorraine Pearson, Betting Integrity Programme Lead, & Jack Stephenson-Saunders, Senior Officer- Sports Betting Integrity, Gambling Commission, Birmingham, May 16

Jean-Loup Richet, anti-Cyber-crime specialist, Paris 7 August 2016

Eric Vernier, AML expert, email, 10 October 2016

Frank Hoff Hana, Senior Adviser, Norwegian Gaming Authority, email, 15 March 2017

Jan Svensson, strategic analyst, Svenska Spel, email, 1 and 2 May 2017

Answers from regulator questionnaires:

Belgium
Denmark
France
Greece
Malta
Netherlands
UK

Answers from operator questionnaires:

Betfair
OPAP
Sazka
Unibet
William Hill

National Precrimbet seminars¹

France, 16 November 2016
Greece, 15 December 2016
UK, 24 January 2017
Lithuania, 27-28 February 2017
Denmark, 1 March 2017
Poland, 29 March 2017
Germany, 3 April 2017
Spain, 19 April 2017
Portugal, 20 April 2017
Sweden, 27 April 2017

1. Syntheses of these national seminars are available on the Precrimbet webpage: <http://www.iris-france.org/preventing-the-criminal-risks-linked-to-the-sports-betting-market/>

ANNEX 1: Mystery benchmark: Evaluating the compliance of sports betting operators

Dr. Ingo Fiedler

Introduction

A vivid discussion is currently underway on how to regulate sports betting operations in order to best secure their business integrity. Whether these regulations live up to their intentions depends on the compliance of sports betting operators with these regulations. The so-called “Mystery Benchmark” is part of an evaluation programme assessing compliance among sports betting operators.

The goals of sports betting regulation are to:

- (1) collect taxes;
- (2) combat sports betting corruption to secure the integrity of sport;
- (3) combat fraud in general to protect consumers;
- (4) combat money laundering;
- (5) protect vulnerable individuals including young people from the risks of sports betting;
- (6) combat gambling addiction to protect consumers, care for their mental health, and reduce social harm.

Key to the achievement of all goals is that only licensed operators serve the market. Although unlicensed operators might well hold a license in another jurisdiction, it cannot be ensured that they adhere to the same regulatory standards. In addition, the goal of collecting taxes is not met if unlicensed operators serve the market. Hence, the most important parameter to evaluate the regulation of sports betting is whether unlicensed, illegal operators serve the market. This is the first part of the Mystery Benchmark exercise. This part boils down to the question of whether operators block or accept players from countries where they do not hold a licence during (a) the signup process, (b) the deposit process, (c) the betting process, or (d) the withdrawal process.

The second part of the Mystery Benchmark tests whether licensed operators only accept players that are allowed to bet, that is, only adults who signup with their correct credentials. This test is broken down to the questions of whether someone with false credentials can (a) signup, (b) deposit, (c) bet, and (d) withdraw funds.

Methodology

Dataset

The Mystery Benchmark was conducted in March-May 2016. In total, 19 operators were tested (see Table 1). Four are based in the United Kingdom, two in Italy and two the Isle of Man, with the other operators distributed across jurisdictions.

The compliance of all operators was tested for five countries: (1) Germany, (2) Italy, (3) Belgium, (4) France and (5) Spain. Table 2 shows the operators that were tested and whether they hold a licence in the respective countries. If yes, they are only tested in the second stage of the Mystery Benchmark; if not, it will also be tested to determine if they accept players from a country where they do not hold a licence. For example, Unibet had seven test cases, two with valid identification documents from Germany and Spain to see whether such players would be accepted and five with false documents, one from each country.

Table 1: Operators tested for the Mystery Benchmark

	Operator	Jurisdiction
1	Unbent	Alderney
2	Lotto Belgium	Belgium
3	Hrvatska Lutrija	Croatia
4	Pinnacle Sport	Curacao
5	Danske Spil	Denmark
6	Veikkaus	Finland
7	FDJ	France
8	Tipico	Germany
9	Bwin	Gibraltar
10	OPAP	Greece
11	SBOBET	Isle of Man
12	GVC (Sporting Bet)	Isle of Man
13	Lottomatica	Italy
14	SNAI	Italy
15	Betclic	Malta
16	Betfair	United Kingdom
17	William Hill	United Kingdom
18	Ladbrokes	United Kingdom
19	Bet365	United Kingdom

No sports betting operator holds licences for all tested countries. A total of seven operators do not hold a licence in any of the countries. No operator holds a licence to operate in Germany, except for Betclic and Betfair, which are licensed to operate in the small state of Schleswig-Holstein. Licences in Belgium (6), Spain (5) and France (4) are held only by a minority of the tested operators, while over half of the operators hold Italian licences. In each case where a licence is not held, the operator is required to refuse the customer. In cases where a license is held, only the acceptance of false identification documents was tested.

Table 2: Countries where tested operators hold a license

	Operator	Germany	Italy	Belgium	France	Spain
1	Unibet	No	Yes	Yes	Yes	No
2	Lotto Belgium	No	No	Yes	No	No
3	Hrvatska Lutrija	No	No	No	No	No
4	Pinnacle Sport	No	No	No	No	No
5	Danske Spil	No	No	No	No	No
6	Veikkaus	No	No	No	No	No
7	FDJ	No	No	No	Yes	No
8	Tipico	No	Yes	Yes	No	No
9	Bwin	No	Yes	Yes	Yes	Yes
10	OPAP	No	No	No	No	No
11	SBOBET	No	No	No	No	No
12	GVC (Sporting Bet)	No	No	No	No	No
13	Lottomatica	No	Yes	No	No	No
14	SNAI	No	Yes	No	No	No
15	Betclic	Yes*	Yes	Yes	Yes	No
16	Betfair	Yes*	Yes	No	No	Yes
17	William Hill	No	Yes	No	No	Yes
18	Ladbrokes	No	No	Yes	No	Yes**
19	Bet365	No	Yes	No	No	Yes

*: Only in Schleswig-Holstein

** : Ladbrokes is called Sportium.es in Spain

Obtaining false identification documents

To test whether the operators block out customers who do not prove their real identity, false identity documents were obtained. The documents obtained do not represent the individual conducting the test at his or her computer. False identity documents were obtained through a rather complex procedure consisting of the following steps:

- (1) buy Bitcoins legally through legitimate sources at an exchange for fiat money
- (2) create a Bitcoin wallet (Blockchain.info)
- (3) send Bitcoins from Exchange to Wallet
- (4) sign up for a VPN tunnel service (hidemyass.com)
- (5) open VPN tunnel
- (6) install Tor Browser
- (7) opening an account at Valhalla, a dark web marketplace
- (8) find false identity document dealer
- (9) send Bitcoins to mixing service (Helix Light)
- (10) send Bitcoins from mixing service to false identity document dealer
- (11) download false identity document via MEGA Upload

With the exception of the initial purchase of Bitcoins, all Internet connections were made by first opening a virtual private network (VPN) tunnel to a random country and then using the Tor Browser to access the dark web. VPN tunnels can be bought from various sites to dissimulate or falsify the origin of a network connection from a desired location. Commercial VPN tunnels contact a VPN server via an encrypted connection. Using a VPN tunnel to open websites or connections allows the server to process the information, such as an IP address, from a desired location and relays the information to the customer who bought access to the VPN server. Various providers offer ways for customers to always be connected to a VPN when using the web. This way the true IP address — which would reveal the location or identity of the user — is more protected and the user can access sites that are blocked from his or her native IP address.

The Tor client provides a very high degree of anonymity to users on the web. Connection data is anonymised and users are able to use Tor for web browsing, email, chat or messaging. A user connects through the Tor network in this way:

1. A user installs the Tor client which connects them to the Tor network. The client loads all accessible Tor servers that can be used as proxies.
2. The “onion proxy” randomly determines a route over the previously loaded Tor servers.
3. The Tor client links via an encrypted connection to the first server of the randomly chosen route. Once this connection is established another server is added. This procedure is repeated and ensures that a connection always consists of at least three Tor servers.
4. Once a connection to the Tor servers is successfully established, data is sent via the Tor servers.

Dark web marketplaces for various illegal products and services and products can be found only via the Tor network since it allows a very high degree of privacy, although not total anonymity.

Bitcoins had to be used because they are the main currency at existing dark web marketplaces where false identity documents are offered for sale. Bitcoin is used in these marketplaces because they provide users with a high degree of anonymity, since all transactions can be done without providing the real identity of an individual but rather just by providing the cryptic key to a Bitcoin address. However, Bitcoin transactions are only semi-anonymous because most gateways into the Bitcoin system require customers to verify their identity to meet AML and KYC regulations. As a result, with a certain amount of effort, it is possible to discover the real identity of the sender and receiver of all transactions. A key reason for this is that all transactions are permanently kept on public record on the blockchain. Consequently, to further disguise the nature of the payments, Bitcoin transactions were sent through a mixing service.

In mixing services, various transactions are bundled and afterwards redistributed to customers. For example, ten individuals all send one Bitcoin to a mixing service. The Bitcoins are mixed by the provider and randomly sent back to the individuals after subtracting a flexible fee of between ten and fifteen per cent from the initial one Bitcoin. Each individual thus receives a mixed transaction

worth between 0.9 and 0.85 Bitcoins. Providers of mixing services are neither regulated nor monitored and customers have to trust in the service provider and its expertise.¹

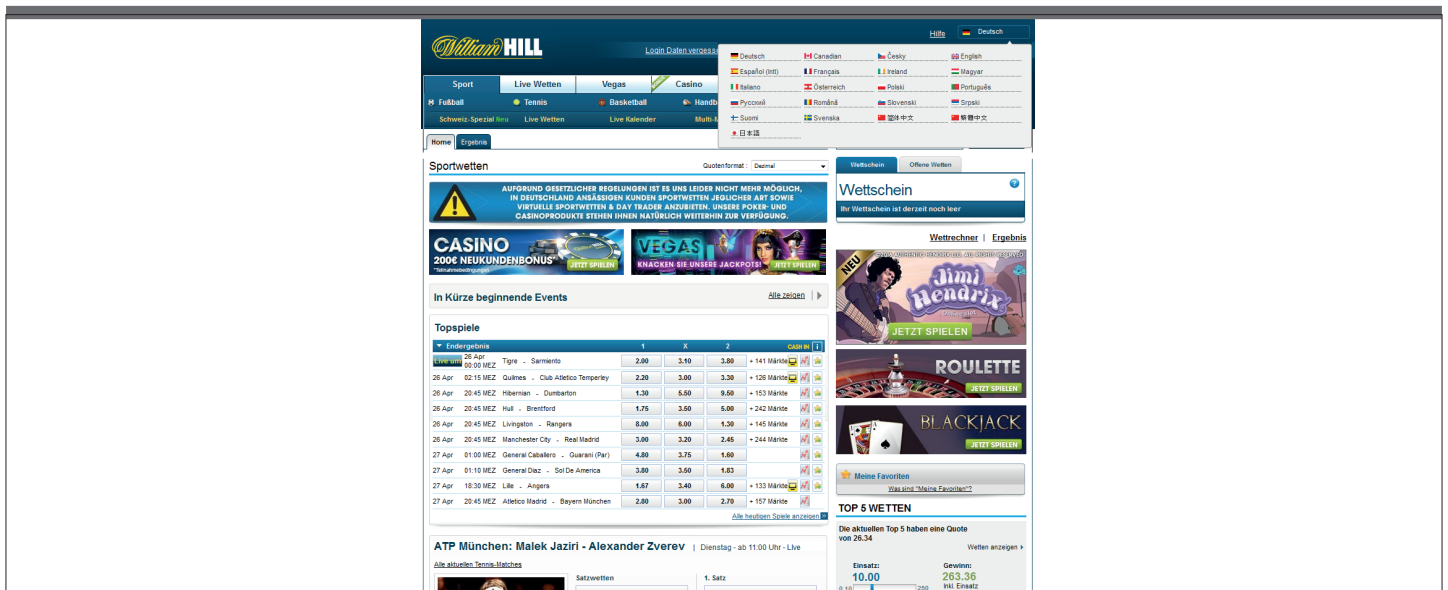
Signup, deposit, betting, withdrawal process

Each test case with real identity documents followed this process:

- (1) obtain an IP address from the respective country
- (2) open the website of the operator and try to sign up for a new account
- (3) try to deposit money via various methods (bank transfer, credit card, ewallet)
- (4) try to place a fixed-odds bet on the outcome of a sports competition and an in-game bet on a live event
- (5) try to withdraw the remaining funds (and potential winnings)

Each test case with a false identity documents also involved — after the initial acquisition of the false documents as described above — opening a Neteller account for each false identity and funding the account with a Bitcoin transaction. All payments for false identity accounts went through Neteller and Bitcoin.

The example of the operator William Hill serves to illustrate the main steps in signing up, depositing and betting. William was chosen at random to provide the example.



Screenshot 1: William Hill Homepage in customer language

Screenshot 1 shows the website of UK-based William Hill. When accessing the page via a German-based IP address, language settings were automatically switched to German, thus enabling easy access to the website for German-speaking bettors.

1. Since mixing services are rather expensive and the user has to trust these service providers, some newer blockchain technologies take advantage of the fact to provide services for even more anonymous transactions, for example DASH and Monero (XMR) and the soon-to-be launched Z-Cash. Recently, AlphaBay became the first black marketplace to accept Monero for transactions and it is expected that, over time, more users will convert from using Bitcoin to other more anonymous, decentralised payment methods

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William HILL

Login Daten vergessen? Speichern Username Passwort Login Jetzt anmelden

Hilfe Deutsch

Sport Live Wetten Vegas Casino Live-Casino Games Poker Lotterien

Fußball Tennis Basketball Handball Eishockey Motorsport Mehr Sport (+ 25)

Schweiz Spezial Neu Live Wetten Live Kalender Multi-Match-Märkte Promos & Boni Kundendienst Top Bets

Home Ergebnisse Wettsuche Suche

Sportwetten Quotenformat: Decimal

Wettschein Offene Wetten

Ihr Wettschein ist derzeit noch leer

Wettrechner Ergebnis

CASINO 200€ NEUKUNDENBONUS* Jetzt spielen

VEGAS KNACKEN SIE UNSERE JACKPOTS! Jetzt spielen

Jim Menden

In Kürze beginnende Events Alle zeigen

Registrierung - eröffnen Sie Ihr Konto Schließen

PayPal Haben Sie bereits ein PayPal-Konto? Melden Sie sich an und zahlen Sie ein, in zwei einfachen Schritten!

Titel Herr

Name Vorname Nachname

Geburtsdatum (Sie müssen mind. 18 Jahre alt sein) Tag Monat Jahr

E-Mail-Adresse

Handynummer

Land Deutschland

Adresse

Stadt/Ort

Gemeinde/Bundesland (Optional)

Postleitzahl/PLZ

Benutzername

Passwort

Passwort bestätigen

Sicherheitsfrage Wählen Sie eine Sicherheitsfrage

Antwort

Währung EUR

Einzahlungslimit Typ und Betrag Methode wählen Limit

Promocode (Optional)

☐ Ich akzeptiere die [Geschäftsbedingungen](#), [Datenschutz](#) & [Richtlinien](#) für das verantwortungsvolle Glücksspiel wie auf dieser Seite veröffentlicht und bestätige, dass ich mind. 18 Jahre alt bin.

☒ Ich möchte kostenlose Wetten, Prämien & exklusive Angebote und News von William Hill erhalten

Mein Konto erstellen

REGISTRIEREN SIE SICH NOCH HEUTE

SEIT DEM 20. JULI 2012 WERDEN SPORTWETTEN, DAYTRADER UND VIRTUELLE WETTEN FÜR IN DEUTSCHLAND ANWÄSSIGE KUNDEN NICHT LÄNGER VERFÜGBAR SEIN

KUNDENDIENST - TELEFON, E-MAIL UND CHAT

BITTE BEACHTEN SIE: WENN SIE SICH IN ÖSTERREICH BEFINDEN, NÜTZEN SIE BITTE DIE ÖSTERREICHISCHE VERSION DIESER SEITE

Wünschen Sie Hilfe?

Gratis 08006649372

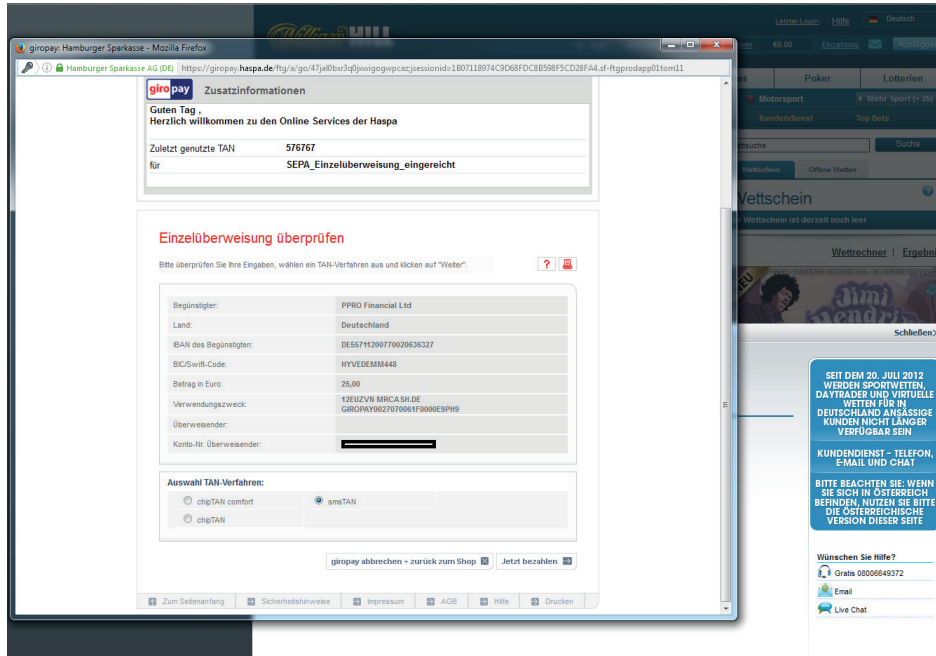
Email

Live Chat

Screenshot 2: Signup Process, William Hill

Screenshot 2 shows the popup window that opens for customer registration. Individuals must provide their personal details to register on the page. Once all requested information has been entered, the account is established. By opening an account the first step – signup – was completed.

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The screenshot displays a web browser window with the URL `https://giropay.haspa.de/...`. The page is titled "giropay Zusatzinformationen" and includes a greeting: "Guten Tag, Herzlich willkommen zu den Online Services der Haspa". It shows the last used TAN as "576767" for a "SEPA_Einzelüberweisung_eingereicht". Below this, there is a section "Einzelüberweisung überprüfen" with a prompt to check the entered information. A table of details is provided:

Benefiziar:	PPRO Financial Ltd
Land:	Deutschland
IBAN des Benefiziar:	DE55711200770020636327
BIC/Swift-Code:	HYVEDE33HAN44
Betrag in Euro:	25,00
Verwendungszweck:	12EUZVW MISCASHDE GIROPAY0027070004700000000000
Überweisender:	
Konto-Nr. Überweisender:	

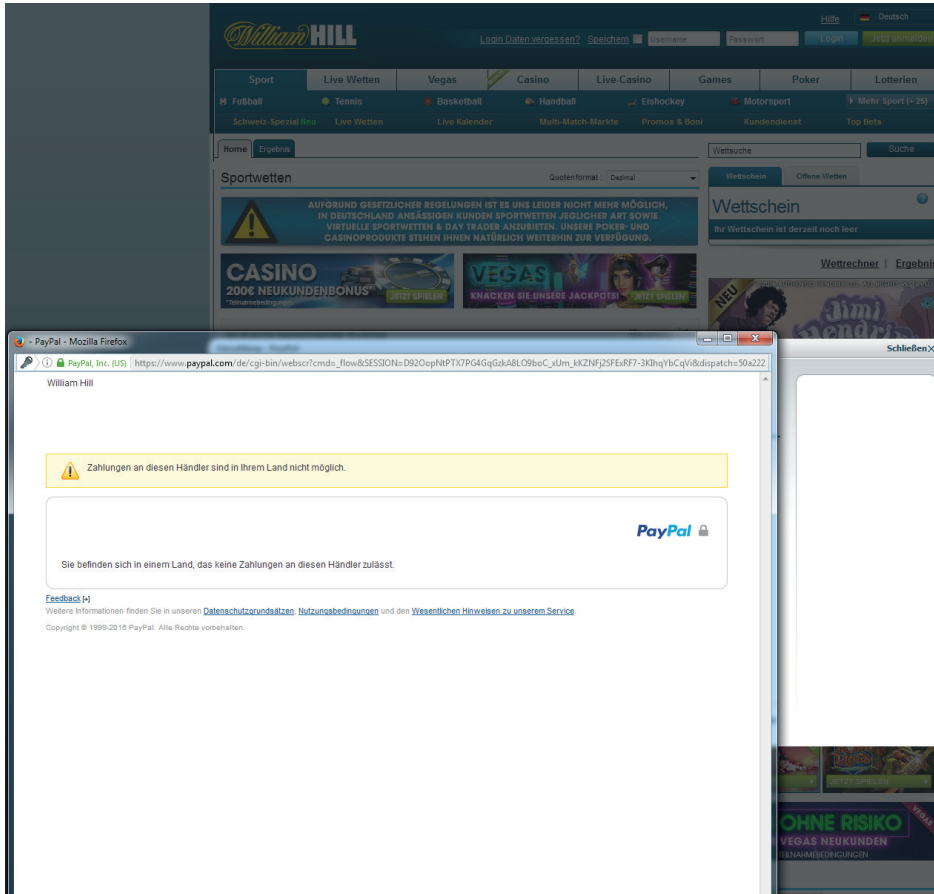
Below the table, there is a section "Auswahl TAN-Verfahren:" with two options: "chipTAN comfort" and "chipTAN". The "chipTAN" option is selected. At the bottom, there are buttons for "giropay abbrechen + zurück zum Shop" and "Jetzt bezahlen".

In the background, the William Hill website is visible, showing various betting options like "Poker", "Lotterien", "Motorsport", and "Wettschein". A blue banner on the right side of the background page reads: "SEIT DEM 20. JULI 2012 WERDEN SPORTWETTEN, DAYTRADER UND VIRTUELLE WETTEN FÜR IN DEUTSCHLAND ANWÄSSIGE KUNDEN NICHT LÄNGER VERFÜGBAR SEIN". Below this, there is a "KUNDENDIENST - TELEFON, E-MAIL UND CHAT" section with a phone number "0800 0649372" and a "Live Chat" button.

Screenshot 3: Giropay Deposit, William Hill

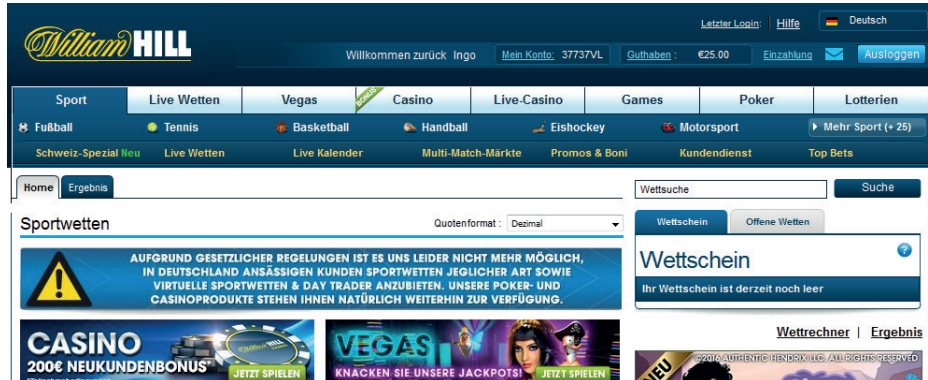
Screenshot 3 shows how the deposit process was initiated with William Hill. Over 30 different payment options for deposits were enabled for customers. When choosing the Giropay option, the customer was redirected to the respective financial institution and had to enter their relevant payment information. Once the information was successfully entered, the payment was completed. Giropay did not notify users with a German-based IP that payments were prohibited.

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Screenshot 4: PayPal Deposit, William Hill

While William Hill allowed Giropay deposits, deposits via PayPal were not possible. Screenshot 4 shows the popup window that opens on the William Hill website if a person with a German IP address tries to deposit via PayPal. PayPal automatically notifies actors that payments to William Hill are not possible.



Screenshot 5: William Hill Betting Prohibited

Screenshot 5 shows a section of the William Hill website after a deposit from a German-based IP was successfully completed. The blue box with the yellow sign states that German-based customers are not able to participate in any form of sports betting or day trading due to legal reasons. However, poker and casino products can be used. In a last step, a withdrawal could be initiated via the same method the deposit was made.

Findings

There were 95 test cases with false identity documents and 71 test cases with genuine identity documents testing whether a user was able to open an account, deposit, bet or withdraw. In total, there were 166 test cases.

Table 3 provides an overview of the tested operators and, as a criterion of whether a market is served, indicates if the country's language is supported on the site. Only Unibet provided service in all test market languages. Although English is the most commonly served language, German, Italian and Spanish languages are available on about half of all tested operators. Danish and Dutch are less often present.

Table 3: List of operators and supported languages

Operator	Language						
	German	Italian	Dutch	English	French	Danish	Spanish
Unibet	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lotto Belgium	No	No	No	No	Yes	No	No
Hrvatska Lutrija	No	No	No	No	No	No	No
Pinnacle Sport	Yes	Yes	No	Yes	Yes	No	Yes
Danske Spil	No	No	No	No	No	Yes	No
Veikkaus	No	No	No	No	No	No	No
FDJ	No	No	No	No	Yes	No	No
Tipico	Yes	No	No	Yes	Yes	No	No
Bwin	Yes	Yes	No	Yes	Yes	Yes	Yes
OPAP	No	No	No	Yes	No	No	No
SBOBET	Yes	No	No	Yes	No	No	Yes
GVC (Sporting Bet)	Yes	No	No	No	No	No	No
Lottomatica	No	Yes	No	No	No	No	No
SNAI	No	Yes	No	No	No	No	No
Betclic	Yes	Yes	Yes	Yes	Yes	No	Yes

Betfair	Yes	Yes	No	Yes	No	Yes	Yes
William Hill	Yes	Yes	No	Yes	Yes	No	Yes
Ladbrokes	Yes	No	No	Yes	Yes	No	No
Bet365	Yes	Yes	No	Yes	No	Yes	Yes

Sign up

The process of signing up and registering an account is the first step to start participating on a sports betting site. Usually, individuals must simply provide proof of identification in order to register successfully.

Table 4 illustrates the tested possibility of signing up on the websites of the respective operators. The heading "Real" indicates that a genuine identity document was used, while the heading "Fake" indicates that false identity documents were used in the attempt to register. "Yes" and "No" indicate whether the attempt to register was successful or unsuccessful. Bold entries indicate when it was possible to access a sports betting operator which did not possess the required licence for the user's jurisdiction and sign-up should not have been possible. For example, Unibet, although offering its site in the German language, does not hold a licence to operate in Germany. Even with a genuine German ID it should not have been possible to register for an account. Thus, the "Yes" in this case is in bold. Text in bold also designates regulatory infractions on the tables for deposits, betting and withdrawals.

Out of the 166 test cases checking for regulatory infractions, 19 violations were identified in the sign-up process. Eleven did contain illegitimate offerings for holders of German IDs. A total of eight false identity documents were accepted for the signup process, notably only those from Germany and Spain. Seven operators had multiple infringements while nine out of the nineteen operators had no violations in the signup process. However, seven operators were not able to detect false identity documents or did not carry out preventive measurements to prevent their use. Both Pinnacle Sport and Ladbrokes stand out with a total of three violations.

Table 4: Violations in the Signup Process

Operator	Real GER	Real IT	Real BE	Real FR	Real ES	Fake ES	Fake USA	Fake FR	Fake GER	Fake DK
Unibet	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No
Lotto BG	No	No	Yes	No	No	No	No	No	No	No
Hrvatska L.	No	No	No	No	No	No	No	No	No	No
Pinnacle Sport	No	Yes	Yes	No	Yes	No	No	No	No	No
Danske Spil	No	No	No	No	No	No	No	No	No	No
Veikkaus	No	No	No	No	No	No	No	No	No	No
FDJ	No	No	No	Yes	No	No	No	No	No	No
Tipico	Yes	Yes	Yes	No	No	No	No	No	Yes	No
Bwin	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No
OPAP	No	No	No	No	No	No	No	No	No	No
SBOBET	No	No	No	No	No	No	No	No	No	No
GVC	No	No	No	No	No	No	No	No	No	No
Lottomatica	No	Yes	Yes*	No	No	No	No	No	No	No
SNAI	No	Yes	No	No	No	No	No	No	No	No
Betclic	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Betfair	Yes	Yes	No	No	Yes	Yes	No	No	No	No
William Hill	Yes	Yes	No	No	Yes	Yes	No	No	No	No
Ladbrokes	Yes	No	Yes	No	Yes	Yes	No	No	Yes	No
Bet365	Yes	Yes	No	No	Yes	No	No	No	Yes	No

* Automatically calculated a former Italian tax registration number on the basis of name, date and place of birth but did not require actual proof of identity. It accepted a Belgian residence address.

Deposit

In order to place bets, individuals must make an initial deposit. To do so, the user has to log into their account and visit the website's "cashier". Various payment methods are generally accepted for the user to choose. After entering relevant payment details, the individual chooses the amount they wish to deposit.

Table 5 shows the success of depositing on the various sports betting sites. All operators where it was possible to sign up were tested using genuine and false identity documents. In the course of the experiment, it was attempted to deposit a total amount between €5 and €100 on each website using both genuine and false identity documents. Out of the 19 violations that appeared in the signup process, 17 also accepted deposits. Or, to put it differently, two violations were eliminated during the process of depositing.

- Pinnacle Sport did allow individuals with real Spanish IDs to sign up but prohibited them from depositing funds.
- Ladbrokes allowed the registration of a false Spanish identity document but prohibited the account from depositing funds to the website.

Seventeen violations were nevertheless allowed to successfully deposit funds on the sites. Eleven out of seventeen violations are associated with German IDs. All British-based operators allowed real German ID holders to deposit, while only Ladbrokes and Bet365 prevented deposits from account with false German identity documents. A total of six cases of false identity document account were able to deposit funds.

Table 5: Violations in the Deposit Process

Operator	Real GER	Real IT	Real BE	Real FR	Real ES	Fake ES	Fake USA	Fake FR	Fake GER	Fake DK
Unibet	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No
Lotto BG	No	No	Yes	No	No	No	No	No	No	No
Hrvatska L.	No	No	No	No	No	No	No	No	No	No
Pinnacle Sport	No	Yes	Yes	No	No	No	No	No	No	No
Danske Spil	No	No	No	No	No	No	No	No	No	No
Veikkaus	No	No	No	No	No	No	No	No	No	No
FDJ	No	No	No	Yes	No	No	No	No	No	No
Tipico	Yes	Yes	Yes	No	No	No	No	No	Yes	No
Bwin	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No
OPAP	No	No	No	No	No	No	No	No	No	No
SBOBET	No	No	No	No	No	No	No	No	No	No
GVC	No	No	No	No	No	No	No	No	No	No
Lottomatica	No	Yes	Yes	No	No	No	No	No	No	No
SNAI	No	Yes	No	No	No	No	No	No	No	No
Betclic	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Betfair	Yes	Yes	No	No	Yes	Yes	No	No	No	No
William Hill	Yes	Yes	No	No	Yes	Yes	No	No	No	No
Ladbrokes	Yes	No	Yes	No	Yes	No	No	No	Yes	No
Bet365	Yes	Yes	No	No	Yes	No	No	No	Yes	No

Betting

To bet, a player bets deposited funds on the outcome of sports events in order to either lose the funds they placed or have them multiplied by a defined factor in case of successful betting. Sports betting operators offer both fixed-odds betting and live betting. In the process of fixed-odds betting funds are placed on the outcome of a sports event prior to its start. In live betting, individuals are able to place bets while watching the event, and odds are adjusted in real-time over the event's course.

In Table 6, the possibilities of placing bets on the various sports betting operators' sites using genuine and false identity documents are shown. Violations are again indicated in bold. Of the total of seventeen violations that were identified in Table 5, three violations were eliminated through the process of placing bets:

- Betfair prohibited betting with false Spanish identification documents, although deposits had been allowed.
- William Hill allowed deposits from genuine German ID holders, but did not enable any betting.
- Additionally, William Hill did not allow any live betting from the account that signed up with a false Spanish identity document. Surprisingly, normal betting was still enabled.

In total, fifteen violations occurred where an individual was able to access a site and start betting. Two thirds of these violations involve German users. Only Pinnacle Sports and Lottomatica violated regulations when dealing with real, non-German identity documents. From a total of six violations with the use of false identity documents, four were associated with a false German ID while two were associated with a false Spanish ID.

Table 6: Violations in the Betting Process

Operator	Real GER	Real IT	Real BE	Real FR	Real ES	Fake ES	Fake USA	Fake FR	Fake GER	Fake DK
Unibet	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No
Lotto BG	No	No	Yes	No	No	No	No	No	No	No
Hrvatska L.	No	No	No	No	No	No	No	No	No	No
Pinnacle Sport	No	Yes	Yes	No	No	No	No	No	No	No
Danske Spil	No	No	No	No	No	No	No	No	No	No
Veikkaus	No	No	No	No	No	No	No	No	No	No
FDJ	No	No	No	Yes	No	No	No	No	No	No
Tipico	Yes	Yes	Yes	No	No	No	No	No	Yes	No
Bwin	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No
OPAP	No	No	No	No	No	No	No	No	No	No
SBOBET	No	No	No	No	No	No	No	No	No	No
GVC	No	No	No	No	No	No	No	No	No	No
Lottomatica	No	Yes	Yes	No	No	No	No	No	No	No
SNAI	No	Yes	No	No	No	No	No	No	No	No
Betclic	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Betfair	Yes	Yes	No	No	Yes	No	No	No	No	No
William Hill	No	Yes	No	No	Yes	Yes*	No	No	No	No
Ladbrokes	Yes	No	Yes	No	Yes	No	No	No	Yes	No
Bet365	Yes	Yes	No	No	Yes	No	No	No	Yes	No

*No live betting

Withdraw

The withdrawal process is the final step in successfully participating in a sports betting site. By withdrawing funds that were previously deposited — or won — an individual is able to remove funds from an operator's site.

Table 7 shows whether the withdrawal process was possible on the selected operator sites when using genuine and false identity documents. In the fifteen violations recorded in Table 6, the withdrawal of funds was never prohibited. Therefore, a total of fifteen violations remain, of which two thirds can be associated with German IDs. Only Pinnacle Sports and Lottomatica violated regulations when dealing with real, non-German identity documents. Four breaches were associated with false German IDs while two were associated with false Spanish IDs.

Table 7: Violations in the Withdrawal Process

Operator	Real GER	Real IT	Real BE	Real FR	Real ES	Fake ES	Fake USA	Fake FR	Fake GER	Fake DK
Unibet	Yes	Yes	Yes	Yes	No	No	No	No	Yes	No
Lotto BG	No	No	Yes	No	No	No	No	No	No	No
Hrvatska L.	No	No	No	No	No	No	No	No	No	No
Pinnacle Sport	No	Yes	Yes	No	No	No	No	No	No	No
Danske Spil	No	No	No	No	No	No	No	No	No	No
Veikkaus	No	No	No	No	No	No	No	No	No	No
FDJ	No	No	No	Yes	No	No	No	No	No	No
Tipico	Yes	Yes	Yes	No	No	No	No	No	Yes	No
Bwin	No	Yes	Yes	Yes	Yes	Yes	No	No	No	No
OPAP	No	No	No	No	No	No	No	No	No	No
SBOBET	No	No	No	No	No	No	No	No	No	No
GVC	No	No	No	No	No	No	No	No	No	No
Lottomatica	No	Yes	Yes	No	No	No	No	No	No	No
SNAI	No	Yes	No	No	No	No	No	No	No	No
Betclic	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Betfair	Yes	Yes	No	No	Yes	No	No	No	No	No
William Hill	No	Yes	No	No	Yes	Yes	No	No	No	No
Ladbrokes	Yes	No	Yes	No	Yes	No	No	No	Yes	No
Bet365	Yes	Yes	No	No	Yes	No	No	No	Yes	No

In summary, less than half – eight out of 19 – of all tested operators did not have any breaches with regard to the entire processes of signing up, depositing, betting and withdrawal. These operators were:

- Lotto BG
- Hrvatska L.
- Danske Spil
- Veikkaus
- FDJ
- OPAP
- Sbobet
- GVC

Three operators allowed all four steps of the processes for both genuine and false German identity documents without holding the respective license to do so. They were:

- Tipico
- Ladbrokes
- Bet365

Two operators allowed users with false Spanish IDs to successfully participate in their sites. They were:

- Bwin
- William Hill

A total of two operators offered services for individuals using Belgian IDs when they did not have licenses to operate in Belgium:

- Pinnacle Sport
- Lottomatica

In Italy, only Curaçao-based operator Pinnacle Sport wrongfully allowed holders of an Italian ID to use the full range of its services.

General Discussion

In 15 out of 166 test cases, violations against regulations were found. Ten of the cases came from Germany, where the regulatory situation is not yet fully settled. This is a special case that will merit special attention when interpreting the results of this study.

When excluding Germany from the results, the remaining issues concentrate in two areas: (1) Pinnacle Sports not having a licence but still accepting players from Belgium and Italy, and (2) false Spanish identity documents not being identified and blocked by bwin and William Hill. The only other breach is Lottomatica in Belgium, which may be a special case caused by the fact that the user attempting to register using their genuine information also possessed Italian citizenship. Lottomatica automatically identified the user's former Italian tax registration number on the basis of the user's name, date and place of birth with requiring actual proof of identity. This may be a genuine outlier that would not be indicative of the situation for every Belgian citizen. Excluding this outlier, only four violations remain, meaning that most sports betting operators are compliant in the various countries where they operate.

Nevertheless, the failure to identify and block users registering with false identity documents is a serious issue for the integrity of sports betting. For example, criminal organisations could make use of this loophole and place bets with illegitimate funds to profit from manipulating sport events. Most operators were, however, able to identify and block attempts to sign up with a false identification document. An industry-wide exchange of best practices could therefore eliminate the

problem. Should the problem persist, a different approach to consider would be regulations stipulating that operators only allow players with registered bank accounts to sign up, as is the case with betting operator Veikkaus. A similar solution would be to require an identification document to be presented, as is the case in Denmark for online betting.

Given that the testing was conducted with relatively low wagers between €25 and €100 each, it may be that the incidence of accepting false identity documents would be less if larger amounts were wagered. One argument for a stricter control of bettor identity when placing large wagers is that large wagers carry additional financial risk for the operator. An argument for reduced control of bettor identity and false identification documents when placing large wagers is the operator's potential profit generated from such accounts.

In Europe and elsewhere, the main risk is posed by offshore operators such as Pinnacle Sports that do not comply with local regulations. Enforcing the law against illegal operators is at the very heart of the fight against criminal risks.

Discussion of the German Case

Up to now, sports betting licences have been handed out by the German regulator – with the exception of some licences that apply only in the northern state of Schleswig-Holstein, home to only about 3.5% of the German population. German law is unambiguous in two regards: sports betting is considered gambling and to offer gambling, a licence must be held. Still, six out of the nineteen operators examined accepted German players and advertised intensively in Germany. They appeal to the free movement of services within the EU market. EU Member States may restrict the free movement of services in cases where they feel higher-order values are at risk, such as public health. In the case of gambling, it is uncontroversial that the risks associated with gambling allow Member States to issue country-specific laws. However, the laws must be coherent with the goals that the MS wants to achieve. Betting operators offering their services in Germany argue that the German gambling legislation is incoherent and thus violates EU law. Interestingly, Pinnacle Sports, the offshore operator from Curaçao that illegally accepted Italian and Belgium players, does not serve German customers because of the lack of legal clarity in the country¹.

It is beyond the scope of this report to assess whether German gambling regulation is coherent or not. The current state of regulation is, however, certainly the reason why some operators accept German bettors despite not holding licences to operate in that country. Companies operating illegally in Germany will quite likely comply with regulations once the legal situation is settled. Consequently, there is pressure to resolve the dispute around German gambling legislation to achieve clear legal positions for everyone involved in the market. It is rather puzzling that some operators offering their services in Germany seem to use the lack of clarity in German legislation as an excuse to not verifying bettor identity with the same level of scrutiny as in other countries, leading to situations where false identity documents were accepted. These operators are Unibet, Tipico, Ladbrokes and Bet365, all of which were able to identify false identification documents from other countries.

1. "Pinnacle Sports verlässt deutschen Markt", *sportwetten.org*, 14 March 2016.

Limitations

The Mystery Benchmark can serve only as small-scale test to determine whether sports betting operators were compliant with regulations. Only 19 operators were tested and using genuine and only false identity documents from five countries. The test cannot be used to conclude, from a single incidence of compliance, that an operator is always compliant. At the same time, a single failure to comply is not proof of non-compliance. A broader test using more identities from more countries could very well find worse results. Moreover, only small amounts were wagered in each test case. These amounts are certainly not representative of the amounts used by organised crime. It is quite possible that these tests are “below the radar” of the sports betting operators. At the same time, it may be the case that operators are less strict in their controls when large amounts are at stake. Either hypotheses may be true and it is not possible to use this test to ascertain which is more likely.

Another limitation was that only Neteller was used for accounts with false identity documents. Rates of success were not measured for false ID accounts using bank accounts. A false ID account using a bank account may have had more success with sports betting operators.

Conclusion

Overall, the results of the Mystery Benchmark are positive. While in total in 15 out of 166 test cases identified a regulatory violation, 10 of these cases came from Germany. If the special case of Germany is excluded, the vast majority of sports betting operators are compliant with the regulations tested. If the current, hotly debated and unclear German regulatory situation is settled, it is likely that sports betting operators will comply with the regulations in the same way they do in other countries. The issue may therefore cease to exist in the hopefully not too distant future.

The remaining violations that were identified fall into two groups: (1) bwin and William Hill did not identify a false Spanish identity document, (2) the offshore Curaçao-based operator Pinnacle sports operates in Belgium and Italy without a licence¹.

Account openings with false identity documents is an issue that can be solved using existing techniques, as was demonstrated by the fact that most operators did indeed block false ID accounts. It is recommended that regulators monitor the issue and regularly test whether their licence-holders comply, and fine those who do not. If that is not sufficient, regulators may consider requiring a verified bank account to register with a sports betting operator.

The main betting-related criminal risks come from offshore operators that offer their services in EU Member States (or elsewhere) but do not hold a licence. These operators can neither be taxed nor have their practices regulated. It is not possible to determine whether they are a vehicle for organised crime. It may even be the case that such operators are, in fact, owned by organised crime organisations and used for match fixing and money laundering. It remains a threat that should to be addressed by law enforcement.

1. Lottomatica serving a Belgian citizen is likely a small loophole created by the fact that the user attempting to register also had Italian citizenship and an Italian tax registration number.

ANNEX 2: PANORAMA OF MAIN OCGs OPERATING IN THE EU

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19. FBI, Two New Jersey men sentenced to prison for their roles in illegal online gambling enterprise, 2015.
“Alleged Italian mafia soccer match-fixing scandal leads to 50 plus arrests”, Casino.org, 21 May 2015.

20. OCP project, op. cit., p. 2.

21. “Italy: 10 arrested in football match fixing probe”, OCCRP, May 2015.

22. “Italy police arrest 50 in football match-fixing probe”, BBC, 19 May 2015.

23. “Italian police seize €2bn in ‘Ndrangheta mafia assets’ BBC, 22 July 2015; “Maltese lawyer, consultant in ‘Ndrangheta gaming bust, off the hook”, Malta Today, 8 June 2016.

24. ““Italian Anti-Mafia Police Bust ‘Rigged’ Online Gambling Network”, Casino.org, 3 April 2016.

25. “The FBI busted a Russian gambling ring that catered to Wall Streeters, oligarchs, and Hollywood stars”, Businessinsider, 16 April 2013.
“International Russian organized crime ring does old-school gambling in a new way”, OCCRP, 13 May 2013.

26. “Europol Investigating ‘Russian Mafia’ Football Match Fixing”, The Moscow Times, 29 July 2013.

27. “Online gambling guru and 14K triad member Paul Phua snared in Las Vegas arrest”, South China Morning Post, 27 July 2014.

28. “Malaysian black market bookmaker, Crown Casino high roller linked to match-fixing”, ABC News, 28 March 2016.

Main OCGs	Main criminal activities	Sectors of infiltration	Examples of evolution	Historical features	Structure and organisation	Examples of cases in the betting/gaming industry
Cosa Nostra	Drugs Extortion Embezzlement Arms trafficking Investment in the public works economy	Construction Wholesale and retail trade Bars and restaurants Manufacturing Real estate activities	Spain: active selling of seafood products through front companies (money laundering); active in olive oil industry Renewed efforts to invest in waste and scrap management and renewable energy (wind power and solar).	- Established in 1860 in Sicily (<i>Atlas des Mafias</i>) - Historical interest in construction and real estate activities	- Centralised - Weakened by recent arrests of high-level members - Currently undergoing restructuring: partitioning and consolidation of family ties	- Investments in illegal gaming and betting (Italy, USA) ¹⁹ - Investments in legal gaming - Currently undergoing restructuring: for ML purposes (USA, France, Croatia, Romania) ²⁰ Match-fixing in Italy ²¹
‘Ndrangheta	Drugs (cocaine and heroin) Extortion Investment in the public works economy	Construction Bars and restaurants Hotels and other tourist accommodations Agriculture and fishing Wholesale and retail trade	Rapid expansion throughout Europe Expansion in the construction industry (especially in southern France) and the real estate sector (especially in Italy, Spain and the UK) Investments in Germany: hotels, restaurants, construction, food wholesale/retail	- Developed in the twentieth century in the Calabrese region.	- Horizontal structure - Its central base is formed from the family unit - Current structuring particularly in the province of Reggio - Agreement between clans to diminish tensions and conflicts.	Match-fixing in Italy ²² Illegal gaming and betting networks (online and offline) in Italy ²³
Camorra	Drugs Forgery/Piracy Waste recycling Smuggling Economic penetration of public Casinos, VLT and betting activities works sector	Wholesale and retail trade Bars and restaurants Construction Waste and scrap management	Investments in Europe, particularly in restaurants, bars, catering companies and food wholesalers Growing involvement in construction sector Strong infiltration in Spain’s economy Increasing investment in transportation sectors (particularly in petrol stations)	- Established in the nineteenth century in Campania - Traditionally involved in various business sectors (wholesale and retail trade of food, dairy products, clothing, etc.)	- Polycentric conflicting structure due to the presence of a multitude of concurrent groups - “Cartelisation” occurs in some provinces (for example in Caserte around the Casalesi clan).	Match-fixing in Italy ²⁴ Illegal betting and gaming

29. "Balkan Organized Crime Sets up in Prague", OCCRP, 23 November 2015.

30. "How German police fell on European football's biggest match-fixing scandal by accident", The Telegraph, 5 February 2013.

31. "Match fix indictment alleges mafia was a player in football", The Hurriyet Daily News, 10 December 2011.

Main OCGs	Main criminal activities	Sectors of infiltration	Examples of evolution	Historical features	Structure and organisation	Examples of cases in the betting/gaming industry
Russian/ Georgian OCGs	Extortion Cybercrime Arms trafficking Assassination/ kidnapping, Drug trafficking Human trafficking	Wholesale and retail trade Bars and restaurants Real estate activities Hotels Casinos, VIT and betting activities	Recent investments in Finland (construction and transportation sectors), France (real estate sector), Italy (money-laundering in hotel, restaurants and real estate), UK (sports/gaming, supplies banking/finance and wholesale/retail trade) Substantial presence in Spain	- Gained power during the 1970s. Corrupt officials turned to criminals to source black market - Historical split in 1982 between Georgian (close to officials) and Russian criminals (purists)	- Hierarchical; - Individual leadership - Clanship divisions	Illegal gambling and betting networks ²⁵ Match-fixing in Russia ²⁶
Chinese OCGs (Triads)	Drug trafficking Illicit trading, gaming, and betting Sex trade Entertainment industry	Wholesale and retail trade Bars and restaurants Transportation and renting of motor vehicles Real estate activities	France, Italy, UK, Spain: investments in bars and restaurants France, UK: investments in real estate, wholesale/retail trade	- Formed in central China, Hong Kong and Taiwan during the late nineteenth century (in a context of rising Chinese patriotic groups and declining imperial authority). - Cooperation between autonomous groups, which are not subjected to a structures ²⁷	- Illegal betting and gambling groups, which are not subjected to a structures ²⁷ - centralised or hierarchical structure. - Money laundering - Match-fixing ²⁸	
Outlaw motorcycle gang	Firearms smuggling/trafficking Narcotics Extortion Financial Crime	Bars and restaurants Construction Private security Wholesale and retail trade Repair and retail of vehicles	Expansion of financial interests throughout other European countries, particularly in real estate, registered assets (motorbikes), bars and restaurants, construction and private security In particular, infiltration of tattoo shops in Finland Increasingly involved in the illicit firearms trade	- Historically, has been active in Scandinavia and Northern Europe however cooperate flexibly and opportunistically with other actors in the criminal world	- Hierarchically structured, however cooperate flexibly and opportunistically with other actors in illegal gambling	Match-fixing (Canada, Australia)
Balkan and Southeast European OCGs	- Drug trafficking - Gambling - Human smuggling - Arms Trade - Counterfeiting - Sexual trade - Organised property crime	Wholesale and retail trade Real estate activities Sex, and other personal activities	- Has accumulated a significant surplus in arms and ammunition since the Cold War	- Historically considered to be among the "most violent groups engaged in human trafficking" - Primarily involved in Belgium, Germany, Sweden with fraud activity	- Roots in traditional clan structures with familial ties - structured more as an unorganised clan, centred around several leaders	Illegal gambling ²⁹ Match-fixing (Italy, Germany) ³⁰

Main OCGs	Main criminal activities	Sectors of infiltration	Examples of evolution	Historical features	Structure and organisation	Examples of cases in the betting/gaming industry
Turkish OCGs	<ul style="list-style-type: none">- Drug Trafficking- Counterfeiting- Fraud-Human trafficking- Money laundering	<ul style="list-style-type: none">Wholesale and retail tradeReal estate activitiesBars and restaurantsHotelsMoney service businessesRepair and sale of vehicles, transportation and renting of motor vehicles	<ul style="list-style-type: none">- Recently were found to have used a real estate-companys to invest in immovable goods near the German border- they have grown in influence and presence due to their geographic proximity to trafficking routes, have better access to raw materials such as drugs	<ul style="list-style-type: none">- Has a tendency to transfer illicit proceeds generated in Europe back to their countries of origin	<ul style="list-style-type: none">- Family ties	Match-fixing (Turkey) ³¹
North African OCGs	<ul style="list-style-type: none">- Drug trafficking- Counterfeiting- Sexual trade- Organised property crime	<ul style="list-style-type: none">Wholesale and retail tradeReal estate activitiesBars and restaurants	<ul style="list-style-type: none">- Have become particularly active in France in terms of car theft	<ul style="list-style-type: none">- Historically involved in drug trafficking (using the route between Morocco, Spain, France and northern Europe)- based in the suburbs of major French cities	<ul style="list-style-type: none">- Formed primarily by French Maghrebis (Algerians, Tunisians, Moroccans from Northwest Africa)	

Main sources: F. Maccaglia and M-A. Matard Bonucci, *op.cit.*, and OCP Project, *op. cit.*

ANNEX 3: ESTIMATION OF THE ILLEGAL BETTING MARKET

Country	Number of inhabitants	GDP / inhabitant (US \$)	Currency	Exchange rate (1 currency = X €)	Turnover retail (in m€)	GGY retail (in %)	Payback retail (in %)	Turnover online (in m€)	GGY online (in m€)	Payback online (in %)	Legal sales total (in m€)	Legal GGY total (in m€)	Payback total (in %)	Sources / Year (in m€)	Illegal market GGY (in m€)	Illegal market sales (in m€)	Source / Year	Betting per capita	Betting GDP
		(Source: UN)																	
Algeria	41	6000									0	0			5	50	Precrimbet - Level 3	0,12 €	0,00%
Argentina	44	15000	ARS	0,06							15	8	50%	WLA (2015)	25	250	Precrimbet - Level 3	0,74 €	0,01%
Australia	25	65000									3 500	350	90%	Precrimbet - H2 Gambling	35	438	Precrimbet - Level 3	15,40 €	0,03%
Bangladesh	165	1000									0	0			20	250	Precrimbet - Level 3	0,12 €	0,01%
Belgium	11	45000			426	114	73,2%	359	46	87,2%	785	160	79,6%	Com. Jeux belge (2015)	16	229	Com. Jeux Belge - Level 1	16,00 €	0,04%
Brazil	211	11000	BRL	0,3							41	26	37,60%	CAIXA (2015)	100	1 000	Precrimbet - Level 3	0,60 €	0,01%
Canada	37	52000									433	142	67,2%	Loto Québec (2015)	150	1 500	Precrimbet - Level 2	7,89 €	0,02%
China	1390	7000	CNY	0,136							8 010	2 403	70%	WLA (2015)	6 000	200 000	HKJC - Level 2	6,05 €	0,09%
Colombia	49	8000									0	0			30	300	Precrimbet - Level 3	0,61 €	0,01%
Congo DR	91	400									0	0			0	0		0,00 €	0,00%
Czech Republic	11	19000									1 400	98	93%	Sazka (2015)	100	2 000	Sazka - Level 2	18,00 €	0,10%
Denmark	6	59000	DKK	0,13							2 199	264	88%	DGA (2015)	10	200	Precrimbet - Level 3	45,65 €	0,08%
Egypt	95	3000									0	0			5	42	Precrimbet - Level 3	0,05 €	0,00%
Ethiopia	104	500									0	0			1	8	Precrimbet - Level 3	0,01 €	0,00%
France	66	44000	€	1	2 345	586	75,0%	2 081	349	83,2%	4 426	935	78,9%	ARJEL-FDJ (2016)	94	1 871	ARJEL - Precrimbet - Level 1 and 2	15,59 €	0,04%

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Germany	81	45000									200	70	65,0%	Oddset (2015)	320	2 667	MCEN- Precrimbet - Level 1 and 2	4,81 €	0,01%
Greece	11	22000									1 337	392	70,7%	OPAP (2015)	250	2 500	HGC - Level 1	58,34 €	0,28%
Hong-Kong	8	38000	HK \$	0,12							10 440	1 296	87,6%	HKJC (2015/2016)	204	6 800	HKJC - Level 2	187,50 €	0,52%
Hungary	10	13000									428	53	87,6%	Szerencsejatek (2015)	18	177	Szerencsejatek - Level 2	7,07 €	0,06%
Indonesia	264	4000									0	0			250	3 125	HKJC - Level 2	0,95 €	0,03%
India	1342	1500									0	0			750	9 375	Indian surveys - Precrimbet - Level 1 and 3	0,56 €	0,04%
Iran	81	5000									0	0			5	50	Precrimbet - Level 3	0,06 €	0,00%
Irak	39	7000									0	0			5	50	Precrimbet - Level 3	0,13 €	0,00%
Israel	8	37000									692	242	65,0%	WLA (2015)	24	242	Precrimbet - Level 3	33,30 €	0,10%
Italy	61	29000	€	1	2 700	448	83,4%	2 800	254	90,9%	5 500	702	87,2%	agimeg.it (2016)	211	2 107	AAMS - Guardia di Finanza - Level 2	14,96 €	0,05%
Japan	126	38000	JPY	0,0085							922	461	50,0%	WLA (2015)	500	10 000	Precrimbet - Level 2 and 3	7,63 €	0,02%
Kenya	48	1300									ND	ND			2	17	Precrimbet - Level 3	0,04 €	0,00%
Malaysia	31	10000									0	0			200	4 000	Precrimbet - Level 3	6,45 €	0,07%
Mexico	130	11000									1 500	300	80,0%	G3 Report - Precrimbet (2016)	20	200	Precrimbet - Level 3	2,46 €	0,02%

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Morocco	35	4000	MAD	0,093							147	56	56	62,3%	MDJS (2016)	10	83	MDJS - Precrimbet - Level 2	1,87 €	0,05%
Myanmar	55	1100									0	0	5			5	50	Precrimbet - Level 3	0,09 €	0,01%
Nigeria	192	3000									ND	ND	50			50	417	Precrimbet - Level 3	0,26 €	0,01%
NL	16	51000									95	29	95	70,0%	WLA (2015)	95	1 188	Precrimbet - Level 3	7,72 €	0,02%
Pakistan	197	1300									0	0	20			20	200	Precrimbet - Level 3	0,10 €	0,01%
Peru	32	7000	PEN	0,29							70	25	10	64,0%	WLA (2015)	10	83	Precrimbet - Level 3	1,11 €	0,02%
Philippines	104	3000									ND	ND	50			50	1 000	Precrimbet - Level 3	0,48 €	0,02%
Poland	38	13000									100	22	128	78,5%	Roland Berger (2015)	1 275	1 275	Roland Berger (2015) - Level 1	3,92 €	0,03%
Portugal	11	21000									75	26	50	65,0%	Santa Casa (2015)	500	500	Precrimbet - Level 2 and 3	6,93 €	0,04%
Russia	146	15000									1 000	200	300	80,0%	Gambling Compliance - CK Cons.	300	3 000	Precrimbet - Level 3	3,42 €	0,02%
Spain	46	35000	€	1	280	126	55,0%	4 091	174	95,7%	4 371	300	15	93,1%	DGOJ (2015)	300	300	DGOJ / Precrimbet - Level 2 and 3	6,85 €	0,02%
Romania	20	9000									ND	ND	20			20	200	Precrimbet - Level 3	1,00 €	0,01%
South Africa	55	7000									300	60	20	80,0%	H2 Gambling - Precrimbet	200	200	Precrimbet - Level 3	1,45 €	0,02%
South Korea	51	26000	KRW	0,000829							2 860	1 172	782	59,0%	WLA (2015)	15 633	15 633	Spor Toto - Level 2	38,32 €	0,16%

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Sudan	42	1300									0	0	0	1		8		Precrimbet - Level 3	0,02 €	0,00%
Sweden	10	58000									600	170	71,7%		Svenska Spel - (2015)	50	625	Svenska Spel - Level 2	22,00 €	0,04%
Tanzania	57	800									0	0	1			8		Precrimbet - Level 3	0,02 €	0,00%
Thailand	68	6000									0	0	120			2 400		Precrimbet - Level 3	1,76 €	0,03%
Turkey	78	11000									3 095	1 548	50,0%		Inteltek (2015)	155	1 548	Inteltek - Level 2	21,82 €	0,21%
Uganda	42	600									ND	ND	1			8		Precrimbet - Level 3	0,02 €	0,00%
UK proprietary			£	1,17 €				11 317	963	91,5%					UK GC (2015/16)					
UK total	65	39000	£	1,17 €	2 209	499	77,4%	15 429	1 313	91,5%	17 638	1 812	89,7%	36	UK GC (2015/16)	100	1 208	Precrimbet - Level 2 and 3	28,44 €	0,08%
Ukraine	42	4000																Precrimbet - Level 3	0,24 €	0,01%
USA	326	53000	US \$	0,94							4 253	188	95,6%		Nevada Gaming Board (2016)	2 000	66 667	NBA- NISC - Gambling Compliance - Level 1, 2 and 3	6,71 €	0,01%
Uzbekistan	31	1900									0	0	5			50		Precrimbet - Level 3	0,16 €	0,01%
Venezuela	32	8000									0	0	10			83		Precrimbet - Level 3	0,31 €	0,00%
Vietnam	95	2000									0	0	60			1 200		Precrimbet - Level 3	0,63 €	0,03%
TOTAL 1	6472										76 433	13 509	82,3%			13 352	347 480		4,15 €	
Other Europe	111	1,5%									1 529	270	82,3%			267	6 950	Precrimbet - Level 3	4,84 €	

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Other World	950	12,6%									7 643	1 351	82,3%		1 335	34 748	Precrimbet - Level 3	2,83 €	
TOTAL	7533										85 605	15 130			14 954	389 177			
											18%	50%			50%	82%			
															Total sales	474 782			
															betting				
															Total GGY	30 085			
															betting				