Online Gambling and Money Laundering

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1. Introduction

- **Money laundering is the process by which criminals attempt to conceal or disguise the nature, location, source, ownership or control of their ill-gotten gains, so as to make it possible to invest or consume the proceeds of crime** (Masciandaro1999)

- **Money laundering (Unger, 2007):**
  - distorts prices, consumption, saving and investment rates;
  - increases the volatility of import/export levels, the demand for money, interest and exchange rates, as well as the availability of credit;
  - threatens the solvability and liquidity, as well as the reputation and profitability of the financial sector;
  - Endangers the continuance of foreign direct investment (FDI)
  - Acts as a multiplier for crime, corruption, bribery and terrorism

→ ML as a necessary condition for organized crime
What makes ML different from other crime?

- Money laundering is a criminal activity
- Still, it is different:
  - the negative externalities of money laundering are to a large part indirect: Money laundering lowers the cost of (other) criminal actions and, hence, increases the amount of crime.
  - In contrast to a criminal who can be ideologically motivated (think of a terrorist) the money launderer is not necessarily prone to the "injurious" behavior of an ordinary criminal – he is only motivated by profit
- Money Launderer is an agent of the producer of crime and the weak link in the chain of organized crime and (McCarthy et al. 2013)
The Market for Money Laundering

1. Criminal Production
   - 80% Transferred to Money Launderers
   - 70% of Criminal Proceeds Cleared for Investment
   - 20% Consumed on Cash Goods

2. Money Launderer
   - 100% of the Criminal Transfer
   - 90% of Criminal Proceeds Returned

3. Money Laundering Market
   - 10% the Criminal Transfer Retained as Fees and Invested

4. White / Legitimate Economy
Measuring the Immeasurable: Prevalence of Money Laundering

- 2-6% of the global GDP stems from illicit sources
- $0.6-2.5 trillion flow through money laundering markets per year
- 0.1%-0.3% of money laundering is detected and intercepted

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*Mainly reproduced from Schneider (2008)
Gambling and Money Laundering

• Gambling as a perfect tool for money laundering
  - Huge volume of transactions/cash flows
  - No physical product
  - Often tax free „winnings“ (not in U.S.)

• Three different cases of money laundering:
  1) Illegal gambling as an illegal transaction and a money laundering offense per se
  2) Illegal transaction occurred ex ante: Deposit of illegal funds via anonymous method and payout as (tax free) gambling win
  3) Use of gambling as a payment tool for illegal transactions
E-cash Flows

Player ➔ Deposit Option ➔ Payment Processor ➔ Gambling Operator

235 payment methods
- Credit cards (physical/virtual)
- Debit cards (physical/virtual)
- Prepaid cards (physical/virtual)
- Bank wire
- ACH
- Cheque
- Gateways
- Player-to-Player transfer (P2P)
- (Mobil-)Telephone bill
- Cash

Player ➔ Withdraw Option ➔ Payment Processor ➔ Gambling Operator

2,910 Operators
- Casinos
- Bookmaker
- Betting exchanges
- Poker
- Bingo
- Skill Games
The Complexity of E-cash Flows with payment processors

Diagram:
- Player → Operators Site
- Operators Site → Payment Gateway
- Payment Gateway → Payment Processor
- Payment Processor → Credit Card Issuer
- Credit Card Issuer → Operators Bank Account

Numbers: 1, 2, 3, 4, 5, 6, 7, 8

Analyzing different scenarios
Case A: Small cocaine dealer

Objective: Transfer €10,000 of illegal drug funds to legal bank account

→ Use a prepaid card (e.g. Paysafecard)

10,000€ Cash → 100x100 € Paysafecards → 10,000€ Casino Account → 9,500€ Casino Account

Fog: Not observable for financial intelligence

500€ Casino Operator → 3 Wire Transfers as Gambling Wins → 9,500€ Bank Account

(Tax free) income!
Analyzing different scenarios
Case A: Small cocaine dealer

Objective: Transfer €10,000 of illegal drug funds to legal bank account

→ Use online gambling as a payment tool

1,000€ Bank Account Customer A

1,000€ Poker Account Customer A

10,000€ Poker Account

1,000€ Poker Account Customer J

1,000€ Credit Card Customer J

3 Wire Transfers as Gambling Wins

10,000€ Bank Account

(Tax free) income!

Fog: Not observable for financial intelligence
Analyzing different scenarios
Case B: Medium cocaine dealer

Objective: Transfer €200,000 illegal drug funds to legal bank account

→ Deposit via offshore accounts

200,000€ Cash → Switch Country → 200,000€ Foreign Bank Accounts

Couple Deposits → 200,000€ Casino Account

Play → 195,000€ Casino Account

Wire Transfer + Phone Call "Jackpot" → 195,000€ Bank Account

Fog: Not observable for financial intelligence

200,000€ Customer

5,000€ Casino Operator

(Tax free) income!
Analyzing different scenarios
Case B: Medium cocaine dealer

Objective: Transfer €200,000 illegal drug funds to legal bank account

→ e-Wallets as a payment system

Figure 9: Example of using online gambling as a payment tool for €200,000 of illegal proceedings.
Analyzing different scenarios

Case C: Huge cocaine dealer

Objective: Transfer €200,000,000 illegal drug funds to legal bank account

→ Found an online casino

1. Found a Gambling Operator in a "tax heaven"
2. Switch Country
3. Create Fake Revenues (and Expenses)
   - 200,000,000€ Cash
   - 200,000,000€ Customer
   - 200,000,000€ Foreign Bank Account

4. 200,000,000€ Business
5. 190,000,000€ Business Profits
6. 10,000,000€ "Tax Heaven"
7. Real Expenses, taxes etc.

Fog: Not observable for financial intelligence
Online Gambling as a „Game-Changer“ to Money Laundering

- Reduced detection rate of ML
- Lower costs of ML
- Lower price of ML
- Higher profitability of crime

More crime
Online Gambling as a Game Changer to Money Laundering

→ Decreased costs of money laundering due to online gambling
→ more organized crime
Conclusion

- Enforce the law against illegal operators (e.g. payment blocking)
- Tax gambling wins on the customer level
- Include legal providers as relevant parties for anti-money laundering directives
- Close down tax and regulatory havens
Thank you for your kind attention!

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