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Risks of money laundering and the financing of terrorism in the gambling sector

Quick scan

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Summary

Dutch titel of the report: Risico's van witwassen en terrorismefinanciering in de kansspelsector.

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Summary

Research question
This report is the result of a quick scan into the risks of money laundering (ML) and terrorist financing (TF) in the gambling sector. In particular this quick scan addresses the question whether there are segments in this sector with a low ML and TF risk. This question has been raised in the fourth EU directive on money laundering and terrorist financing.[1] According to the Directive all segments of the gambling sector must comply with the ML and TF requirements in the Directive, however:

> " With the exception of casinos, and following an appropriate risk assessment, Member States may decide to exempt, in full or in part, providers of certain gambling services from national provisions transposing this Directive on the basis of the proven low risk posed by the nature and, where appropriate, the scale of operations of such services."[2]

By 26 June 2017 Member States have to bring into force the laws, regulations and administrative provisions necessary to comply with this Directive.
It is the ambition of this quick scan to identify - for The Netherlands - those segments in the gambling sector in which ML and TF risks are low.

Research approach
The assessment of ML and TF risks for the segments in the gambling sector has been made along the key concepts defined for this purpose by the Financial Action Task Force (FATF): *risk, threat, vulnerability* and *consequence*.[3] To that purpose data of several sources have been gathered.
After a desk study, representatives of seven organisations with expertise in the subject, have been interviewed. The aim of the interviews was getting insight into the opportunities of ML and TF in the different segment of the gambling sector: casinos, arcades with gambling machines, lotteries, sport betting and (illegal) online gambling.
The National Public Prosecutor's office has been asked to provide background information on ML and TF offences linked to the gambling sector. The Financial Intelligence Unit (FIU) of the Netherlands was approached for information on suspicious transactions related to the gambling sector. Finally, National Risk Assessments (NRA's) of five other countries (four in Western Europe and the USA) were studied. The conclusions in those NRA's on the vulnerability and risk of ML and TF in the gambling sector were compared with the results of the quick scan.

Results
The risk of TF appears to be quite small in the gambling sector, compared to the ML risk. For this reason most of the results reported in the quick scan apply to ML.
The scope of this quick scan didn't allow for an extensive investigation into the *size of the threat* of ML. Nonetheless there are strong indications that the gambling sector frequently is used to launder money. This is reflected in the ML cases described in the 'Criminaliteitsbeeldanalyse Witwassen' (Soudijn, 2012), most of which are situated in the casinos of Holland Casino (HC), the only company that is allowed to exploit casinos and is

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[1] Directive (EU) 2015/849 of the European Parliament and of the Council, 20 May 2015
[2] Idem, article 2.2.
[3] FATF (2013), National Money Laundering and Terrorist Financing Risk Assessment, FATF Guidance.

state-owned. Furthermore, relative to the scope of the activities, HC reports a rather large amount of unusual transactions to FIU Nederland. HC also takes extra measures to prevent money laundering. It is plausible that persons trying to launder money in casinos also will seek similar opportunities in other segments of the gambling sector.

In all studied NRA's of other countries it is concluded that the gambling sector is a possible instrument for the laundering of criminal money. This adds to the plausibility that this is also the case in The Netherlands.

In the ML methods in the gambling sector the respondents mentioned, two kinds can be distinguished. The first kind is based on the specific opportunities of the gambling sector. Methods of the second kind are also applicable in other sectors but are facilitated by the characteristics of the gambling sector (many and fast cash transactions).

Only applicable in the gambling sector are: 1. claiming (fake) gambling winnings, 2. 'forcing' gambling winnings and 3. making use of the specific transaction opportunities to disguise the illicit origin of the money. Strictly speaking the third method is not limited to the gambling sector, but is in combination with fake gambling winnings very effective.

'Forcing' gambling winnings also creates the possibility to claim gambling winnings but in this case the winnings are 'real'.

Vulnerability for money laundering

The conclusions on the *vulnerability* of the different segments of the gambling sector for ML have been based on two aspects: the opportunities of ML and TF and the possibility to take (effective) counter measures. In the quick scan both aspects were inventoried for each segment and in the report elucidated.

Table I visualizes the conclusions on both aspects of vulnerability *for ML*. The scale on the left side indicates how large the opportunities of ML in each segment are. The horizontal scale indicates the potential of taking effective counter measures in each segment. In this way the segments are classified on both aspects.

Table I: the scale of opportunities for *money laundering* and the potential of effective counter measures in the different segments of the gambling sector. The segments which are considered most vulnerable for money laundering are displayed in red.

Opportunities for money laundering	Potential for *effective* counter measures		
	High	Limited	low
Very high			**Online gambling (*illegal*) (casino table games, sport betting, gambling machines)**
High		**Casinos**	**Sport betting (*illegal*, land-based,)**
Significant			
Limited		Sport betting (*legal*, land-based and online)	
Very limited		Arcades with gambling machines	
Approximately nil	Lotteries		

The conclusion is that the *vulnerability* of the segments 'lotteries', 'gambling arcades' and the state-regulated sport betting is low, based on the low or limited opportunities for ML and the high or limited potential to realize effective counter measures.
In contrast, the vulnerability of the other three segments - casinos, *illegal* land-based sport betting and *illegal* online gambling - is estimated as high, with illegal online gambling as most vulnerable.
Risk is defined by FATF as a function of threat, vulnerability and consequence. In this quick scan it is assumed that the (potential) threat and the consequences of ML doesn't differ between the different segments of the gambling sector. This means that if the vulnerability of a segment is larger, so is the risk of ML.

Vulnerability for terrorist financing
In the quick scan we encountered only two opportunities for TF in the gambling sector. Passing money between terrorists in illegal online gambling seems an effective opportunity and difficult to detect because of the opacity of giro transactions.
We conclude that illegal online gambling is highly vulnerable for TF and because of that, so is the risk. The vulnerability for TF of the other segments is estimated as very small.

Comparison with the National Risk Assessments of five other countries
All five NRA's acknowledge an ML risk in the gambling sector but not all give an estimate of how high this risk is. Only two NRA differentiate between segments within the gambling sector in their risk assessment. In fact, there is insufficient information for a clear comparison between countries with respect to the ML risks in the separate segments. Sometimes segments are non-comparable between countries because of differences in characteristics (gambling facilities, legal framework).

Nonetheless there is a strong indication that the *illegal* gambling facilities, land-based and online, have the highest ML risks in all five countries. Furthermore it is plausible that in these illegal facilities the alertness of ML is low and preventive measures are absent.

Compared to the methods described in the five NRA's, the ML methods we encountered in this quick scan and described in this report, seem rather complete,.
Only two of the NRA's addressed the risk of terrorist financing. The gambling sector was not mentioned explicitly as a TF risk.