Illegal Betting and Related Financial Crime: Talking Points 2023

Asian Racing Federation Council on Anti-Illlegal Betting & Related Financial Crime
KEY POINTS ON ILLEGAL BETTING

- Illegal betting is big and growing
- Illegal betting funds organised crime
- Illegal betting undermines integrity of racing and other sports
- Illegal betting has a highly negative social impact
- Illegal betting creates real-money costs for society
- Preventing illegal betting requires a multi-stakeholder approach
- Awareness of the problem has increased, but action is needed at the national level
Illegal betting is big and growing
A CLEAR DEFINITION OF ILLEGAL BETTING IS PROVIDED BY THE COUNCIL OF EUROPE IN THE MACOLIN 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.

Council of Europe Convention on the Manipulation of Sports Competitions (the ‘Macolin Convention’)
ILLEGAL BETTING IS WIDESPREAD IN ASIA

China
- Cross-border illegal betting causes CNY 1 trillion (USD 145 billion) capital outflow each year
- Estimated 85% of Chinese sports betting market is illegal, worth CNY 3.9 trillion yuan (US$ 600 billion) a year – accounts for majority of global illegal market (~USD$750 billion to 1 trillion)

Malaysia
- Illegal lottery operations are estimated to have recorded around MYR 15 billion (USD 3.4 billion) a year in revenue
- Illegal betting syndicates cause the government to lose MYR 3 billion (USD 670 million) in tax revenue annually

Thailand
- Total money in circulation within the illegal gambling industry is around THB 436 billion (USD 13 billion)
- Gross gaming revenue of (illegal) online gambling alone is THB 100 billion (USD 3 billion)

Source: AGB, SCMP

Source: The Sun Daily, The Straits Times

Source: The Pattaya News, Thai PBS
THE ILLEGAL BETTING MARKET CONTINUES TO GROW

- ARF Council research found that in 2020 during the Covid-19 pandemic there was a major increase in betting via online illegal betting websites on horse racing, e-sports, alternative leagues and sports.
- The unavailability of retail cash betting in many jurisdictions pushed more people to use online betting, hastening an ongoing switch in customer preferences from physical to online betting platforms.
- More online betting operators were taking bets on horse racing and alternative sports to substitute for the loss of traditional popular sports that were cancelled.
- Illegal operators could adjust their betting product offering much faster than legal licensed operators, who are often restricted by license conditions or other regulations as to what betting products they can offer.
ILLEGAL BETTING IS GROWING MUCH FASTER THAN LEGAL BETTING

- **36%**
  Growth of traffic to licensed and regulated betting websites

- **36%**
  Growth of traffic to Licensed but Under-regulated betting websites (e.g. Curacao, Malta, Philippines)

- **64%**
  Growth of traffic to Unlicensed and Unregulated betting websites

- **Strict licence conditions and gambling regulations on the number of sports and types of bets**
- **Offer better prices as based in offshore tax havens, no levies for sports and problem gambling**
- **Operators have better prices, product, promotions, less operating costs, no regulation**

ILLEGAL BETTING HAS GROWN IN PARALLEL WITH INTERNET AND MOBILE TECHNOLOGY GROWTH

Internet users have more than doubled in the last decade

Mobile data traffic has grown from 2GB per smartphone per month in 2016 to almost 20GB in 2023

5G mobile data traffic will grow from less then 20 exabytes per month in 2022 to over 160 in 2027

Note: One Exabyte (EB) is equal to 1,000 Petabytes or one billion gigabytes (GB)
INCREASED 5G UPTAKE WILL GREATLY IMPACT ILLEGAL BETTING DEMAND SINCE IT...

- Eliminates connectivity and bandwidth issues acting as barriers to illegal bettors
- Enables new betting technologies and apps e.g. virtual and augmented reality betting products
- Enhances live-streaming, in turn increasing betting and in-play betting demand
- May impact young people more since they will switch to 5G sooner

48% surveyed U.S., German, U.K. consumers said they would be more likely to place a bet through a mobile app if they were at a game with 5G cell service

Sources: Paysafe (2020); Ericsson (2017)
PRICE AND PRODUCT ARE KEY REASONS DRIVING BETTORS TO THE ILLEGAL MARKET

Illegal operators do not pay tax and have none of the overheads of legal operators so can offer more attractive prices (odds) and rebates.

<table>
<thead>
<tr>
<th>Main reasons bettors bet on illegal websites</th>
<th>UK</th>
<th>US</th>
<th>HK</th>
<th>Canada</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Better prices (odds/rebates/ higher limits)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>2 Wide product range</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>3 Credit betting</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>4 Superior technology - ease/speed/anonymity</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Loyalty programs/ promotions</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC report commissioned by the Betting and Gaming Council (2021); Betting USA; CBC Canada
ILLEGAL BETTING WEBSITES OFFER A VAST RANGE OF BETTING PRODUCTS

More than a third of illegal betting websites offer one or more of the below betting products and a vast range of sports wagering.

Typically 20-50+ different sports available at every site.

- Live-dealer casino: 88%
- Sports betting (including racing): 78%
- Illegal lottery: 75%
- Slots and other digital games: 68%
- Online Bridge: 68%
- E-sports*: 46%
- Online Baccarat: 39%
- Online Poker: 30%
- Other: 8%

* E-sports not classified as sports betting here

IT IS EASIER THAN EVER TO BECOME AN ILLEGAL BETTOR

Hong Kong
87% of illegal bettors used illegal betting websites in 2022

Australia
Traffic to an online illegal casino doubled to 1.2 million visits in just 2 months in 2020

United States
2022 survey: 48% players who bet online bet illegally

India
2021 survey: roughly half of gambling market (US$60 billion) was spent on unregulated betting

Agent-led social media advertising a factor → Notable increase in illegal betting through agents/bookmakers and usage of apps and social media to attract bettors

Source: IPSOS Market Survey 2022, Base: Those who bet with illegal channels in P12M (exclude refused) (n=679); Sydney Morning Herald; American Gaming Association; Obserwator Finansowy; Gamblers Digest Daily
Most illegal betting websites use business-to-business third-party software to power all their gambling products – no expertise required

- Built-in betting and payments platforms save operators time and costs of developing own, running back-end operations, customer service
- No in-house odds trading team needed or payments system, which are expensive to set up
- Can focus resources on building agent network, customer acquisition and marketing

Illegal bettors can bet through cryptocurrency betting sites or decentralised gambling apps to circumvent local restrictions and stay pseudonymous.

63% of illegal betting websites globally that accept cryptocurrency.

Crypto is also used by illegal bookmakers to...

- Offshore profits, particularly out of China
- Settle customer credit lines
- Pay workers overseas
- Launder criminal proceeds

Popular cryptocurrencies including Tether and Ethereum offered as deposit methods on betting sites for competitive exchange rates.

Source: ARF State of Illegal Betting Report, analysis of 534 sports betting websites, 61% of which are under-regulated/unregulated.
ILLEGAL BETTING IS INCREASINGLY LESS DISTINCT FROM LEGAL BETTING ONLINE

Three jurisdictions are responsible for 62% of the licences for online betting operators that are Under-regulated.

Curacao 31%
Malta 18%
Philippines 13%

Illegal Betting funds organised crime
ILLEGAL BETTING IS CLOSELY LINKED TO MANY TYPES OF ORGANISED CRIMINAL ACTIVITY

Provision of credit leads to other debt-enforcement related crimes
- Assault
- Kidnapping
- Robbery
- Fraud
- Usury

Related money-laundering offences
- Render legal entities complicit in criminal activity by layering illegal betting (& other criminal) proceeds within legal betting business operations

Provide revenue streams for other organised criminal activity
- Robbery
- Terrorist Activities
- Drug/Human Trafficking

Fix sports matches & events to increase revenue
- Match-fixing and associated illegal betting
- Bribery
- Intimidation

These can take place as debtors look to relieve their debt burdens or as they are coerced to commit criminal acts by illegal bookmakers to pay off their debt.
ORGANISED CRIME-LINKED MACAU JUNKET OPERATORS NOW OF TRANSNATIONAL CONCERN

Macau (pre-pandemic) world’s largest casino gambling market

“Junket operators” bring high-rollers from Mainland China to Macau

Close ties to organised crime (triads) to illicitly move money, enforce debt collection

Expanded political influence and rising competitive tensions

Junkets will be even more aggressive now amid China crackdown

Diversified into other countries and industries esp. non-gambling businesses to mask criminal roots
The convenience of digital payments and virtual banking pose new and emerging threats and typologies for illegal betting:

- Use of money mules and virtual bank mule accounts
- Difficulty tracking down suspects, which frequently change their personal particulars
- Use of cryptocurrency payments in betting
- Laundering of money through cryptocurrency exchanges

USD 800 billion – 2 trillion
Amount laundered globally each year

USD 140 billion
Amount laundered through sports bets each year

USD 23.8 billion
Worth of cryptocurrency laundered globally in 2022

Source: UNODC, International Centre for Sport Security, Chainalysis
Illegal betting undermines the integrity of racing and other sports
ILLEGAL BETTING HELPS FEED THE VICIOUS CYCLE OF SPORTS CORRUPTION

Many illegal bookmakers are linked to organised crime and will induce players to fix a match.

Unregulated betting operators do not pay product fees/commissions to sports bodies.

Lack of effective penalty does not deter other sports players from match-fixing.

Fixer is sanctioned by sports governing body but not criminally convicted.

Weight of evidence to convict is too high.

This reduces funds available to maintain integrity of the sport.

Match-fix identified.

If not stamped out quickly, funds can drain from the sport to organised criminal groups: reducing the amount left to maintain integrity in that sport.
Match-fixer will corrupt low-paid athletes with bribes, then make huge profits by betting on the matches they have fixed at illegal betting sites.
ILLEGAL BETTING –RELATED CORRUPTION, IF NOT TACKLED, SIGNIFICANTLY HARM THE REPUTATION OF SPORT

Illegal betting related corruption

- Withdrawal of sponsorship
- Decrease in TV broadcast revenues
- Negative media coverage
- Decrease in Govt. grants and funding
- Decrease in public trust
- Decrease in public attendance revenues
- Decrease in public trust

All of which significantly harm the reputation of the sport
THE SUPPLY OF SPORTS DATA IS FUELING ILLEGAL BETTING

Betting software, sports and integrity data companies

Supply sports and betting data to

Legal and illegal betting operators

• driving illegal betting expansion
• causing more corruption in sports
Illegal betting has a highly negative social impact
ILLEGAL BETTING IS AMONG THE FORMS OF BETTING MOST STRONGLY ASSOCIATED WITH PROBLEM GAMBLING

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Non-problem gamblers %</th>
<th>At-risk, moderate-risk or problem gamblers %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Legal</td>
<td>Illegal/offshore</td>
</tr>
<tr>
<td>Australia</td>
<td>40.3</td>
<td>21.5</td>
</tr>
<tr>
<td>New Zealand</td>
<td>76.8</td>
<td>68.8</td>
</tr>
<tr>
<td>South Korea</td>
<td>83.7</td>
<td>64.7</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>62</td>
<td>28</td>
</tr>
</tbody>
</table>

20% more bettors likely to be at risk of problem gambling among the four jurisdictions studied

The NGB’s Socio-Economic Impact of Illegal and Online Gambling in South Africa, 2016
DSM-IV based scale (6-NODS), from Chongbuk University 2016 op cit.
# ILLEGAL BETTING HAS NO CONSUMER SAFEGUARDS

<table>
<thead>
<tr>
<th>Legal operators</th>
<th>VS</th>
<th>Illegal/offshore operators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responsible-gambling initiatives</td>
<td></td>
<td>No such safeguards in place</td>
</tr>
<tr>
<td>Subject to regulatory oversight</td>
<td></td>
<td>Actively entice customers to gamble to excess to maximise profit</td>
</tr>
<tr>
<td>Ban credit betting (e.g. HK, Australia, UK)</td>
<td></td>
<td>Allows credit betting</td>
</tr>
<tr>
<td>Bans betting advertising (e.g. Italy, Belgium, Netherlands, Spain)</td>
<td></td>
<td>No constraint as to permissible betting product types, max bet limits and advertising/marketing restrictions</td>
</tr>
</tbody>
</table>

### Diagram

- **Credit**
- **Inducements**
- **Hard-sell**
- **No self-exclusion**

**Legend:**
- Inducements: Legal operators offer various incentives, while illegal operators are less regulated.
- Hard-sell: Legal operators use aggressive marketing techniques, whereas illegal operators rely more on direct sales methods.
- Credit: Legal operators have restrictions on credit betting, whereas illegal operators may allow it.
- No self-exclusion: Legal operators have mechanisms to prevent repeat offenders, whereas illegal operators do not.
... AND THE TARGETS OF ILLEGAL BETTING INCREASINGLY YOUNG

Worldwide Age Distribution to Illegal Betting Websites
(Apr 2021 – Mar 2023)

Most popular age groups

Source: SimilarWeb April 2021 – March 2023 worldwide demographic analysis of 227 illegal/unregulated betting websites
Illegal bookmakers in theory, **widen income gaps** because they act as **concentrators of wealth, not redistributors**;

Anecdotally this has been borne out in Hong Kong from H2 2021 data:

<table>
<thead>
<tr>
<th></th>
<th>Illegal betting customers</th>
<th>Legal betting customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average spend of monthly income</td>
<td>&gt;50%</td>
<td>8%</td>
</tr>
<tr>
<td>Use credit to bet</td>
<td>65%</td>
<td>4%</td>
</tr>
</tbody>
</table>

All of which illegal bookmakers look to amplify through the various methods previously discussed.

Typical illegal betting customer in Hong Kong:

“**share many of the characteristics of excessive gambling identified in international literature – an avid interest in gambling, high frequency gambling and a thrill-seeking nature**”
Preventing illegal betting requires a multi-stakeholder approach
Organised crime syndicate in one part of Asia uses criminal proceeds to fund website servers and technology staff in other part(s) of Asia. Licence, business registration and call centre staff in other part(s) of Asia. Where did the crime take place?

Customers from Asia (and beyond)

Servers and technology staff in other part(s) of Asia

IT IS DIFFICULT TO FIND AND PROSECUTE ILLEGAL BETTING OPERATIONS
STAKEHOLDERS MUST FIGHT ILLEGAL BETTING TOGETHER

1. **Police and other govt. organizations**
   - Police
   - Security Services
   - Betting & Sports regulators

2. **Influencer**
   - Media
     - Newspapers
     - TVs
     - Radios

3. **Opinion shapers**
   - Academics/opinion leaders
   - Think-tanks
   - NGOs

4. **Financial institutions**
   - Banks
   - Card companies
   - E-payment platforms

5. **Telcos/ISPs & online-related organizations**
   - Telcos/ISPs
   - Ad. platforms
   - Sports websites
   - Search engines

6. **Legal betting operator & Sports Governing Bodies**
Awareness of the problem has increased, but action is needed at the national level
1. Gambling regulators should adopt the Macolin Convention definition in national gambling regulation;

2. Betting operators should be licensed and approved by the specific jurisdiction in which they operate, rather than by offshore jurisdictions;

3. Taxation authorities should prevent betting and gambling being used to shelter tax evasion;

4. Internet Service Providers (ISPs) should be required to block access to illegal betting websites;

5. Financial institutions should lobby operators to block transactions to and from illegal betting merchants;

6. Licensed betting operators should commit to 100% of their revenues to come from regulated markets, and to exit markets in which there are no viable paths to regulation.
Council of Europe Convention on the Manipulation of Sports Competitions Article 3,5,a states:

“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.

***Betting operators must be licensed in the jurisdiction where they accept a bet from the consumer***
Law enforcement agencies should take prosecution action against betting and gambling operators that breach local laws by operating without a local national license.

Gambling regulators should publicly state which betting and gambling operators are accepting wagers in breach of local national laws and warn consumers that such operators should not be utilised for wagering.
3. TAXATION AUTHORITIES SHOULD PREVENT BETTING AND GAMBLING BEING USED TO SHELTER TAX EVASION

The vast profits either go offshore or directly fund criminality, rather than supporting society through taxation in the jurisdictions in which consumers are based.

• Taxation laws relating to profits tax as well as betting duty (i.e. on wagers) should be strictly enforced.
• Sales taxes on wagering transactions by national residents should be strictly enforced and collected.

Taxation authorities should require that people with betting or gambling income should be required to keep records of wagers and winnings.
4. Internet service providers should be required to block offshore sites that are offering illegal wagering services to residents.

- **Gambling regulators** should prevent regulated gambling operators from accepting bets sourced from unregulated operators.
- **National law enforcement agencies** should exchange information about unregulated gambling with their international counterparts.
5. FINANCIAL INSTITUTIONS SHOULD BLOCK TRANSACTIONS TO AND FROM ILLEGAL BETTING MERCHANTS

National banking and financial sector regulators should issue clear written guidance to licensed banks in their national jurisdiction that they should **NOT** process payments or facilitate business for unlicensed betting and gambling operators as this would facilitate financial crime.
Licensed betting operators should commit – as part of their license application process –

- To take all reasonable steps to NOT accept wagers from customers in jurisdictions where they do not hold a local license
- Implement responsible gambling programmes and have self-exclusion policies in place
- Be seen to act in a responsible fashion to distinguish themselves from illegal operators
- Contributing financially to research, education and treatment of problem gamblers
- Taking active steps to ban minors and vulnerable people
- Globally, sports, racing and the legal betting industry must work together to bring pressure to bear on betting tax havens and jurisdictions which act irresponsibly and enable illegal and grey-area betting

6. LICENSED BETTING OPERATORS SHOULD COMMIT TO 100% OF THEIR REVENUES TO COME FROM REGULATED MARKETS, AND TO EXIT MARKETS IN WHICH THERE ARE NO VIVABLE PATHS TO REGULATION
Download ‘The State of Illegal Betting’

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