

Online Gambling as a Game Changer to 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 (Masciandro1999)*
 - 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

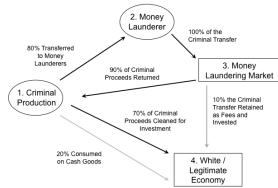
What makes ML different from other crime?

- 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 as the weak link in the chain of organized crime
- The money launderer is modeled as an independently.

Dirty and White dollars

- Crime 'pays' less because a 'dirty dollar' earned in the criminal economy is worth less than a 'clean' one earned in the legitimate economy (Wilson 1992)
 - The reason is that the dirty dollar has to be laundered to become a clean dollar – and money laundering comes with a cost
 - ML as an agent of the producer of crime
- Focus of the paper: increase the costs of money laundering to decrease the amount of crime

The Market for Money Laundering



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

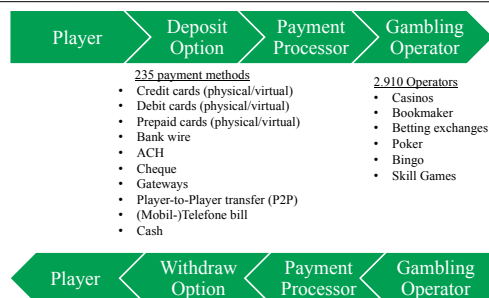
Study	Period	Value (SUS bn)
Schuster	1994	500-800
United Nations	1994	700-1000
IMF/Interpol	1996	500
Kerry	1997	420-1000
the Economist	1997	400
Walker	1998	2850
United Nations	1998	700-1000
United Nations	1998	700-1000
NCIS	1998	1300
NCIS	2001	1900
the Economist	2001	600
CTE	2002	1000-1600
Schneider	2002	640
Agarwal & Agarwal	2002	500-1000
Agarwal & Agarwal	2002	2000-2500
NCIS	2003	2100
Schneider	2003	680
Schneider	2004	720
Schneider	2005	760
Schneider	2006	790
Baker	2007	1000-1600
UNODC	2011	1600
Average	n/a	1107

*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“
- 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



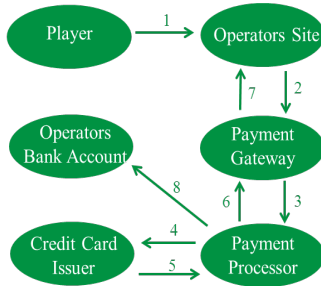
235 payment methods

- 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

2.910 Operators

- Casinos
- Bookmaker
- Betting exchanges
- Poker
- Bingo
- Skill Games

The Complexity of E-cash Flows with payment processors

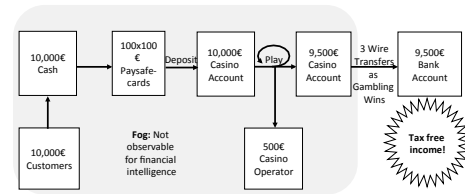


Analyzing different scenarios

Case A: Small cocaine dealer

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

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

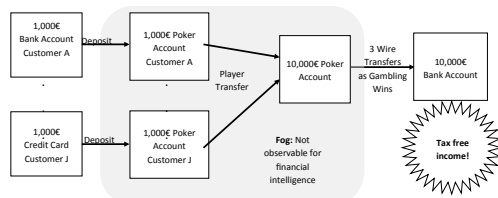


Analyzing different scenarios

Case A: Small cocaine dealer

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

→ Use online gambling as a payment tool

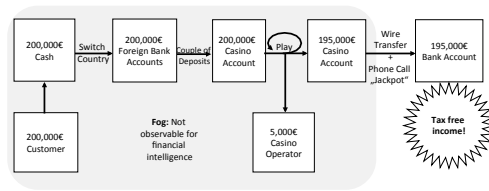


Analyzing different scenarios

Case B: Medium cocaine dealer

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

→ Deposit via offshore accounts



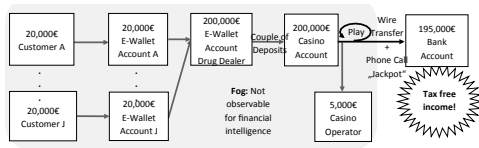
Analyzing different scenarios

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.

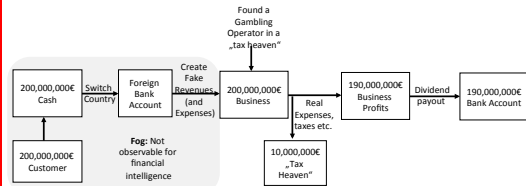


Analyzing different scenarios

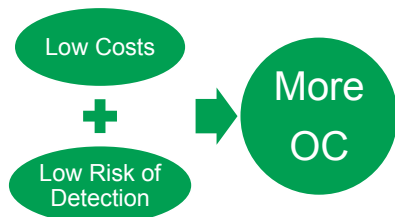
Case C: Huge cocaine dealer

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

→ Found an online casino

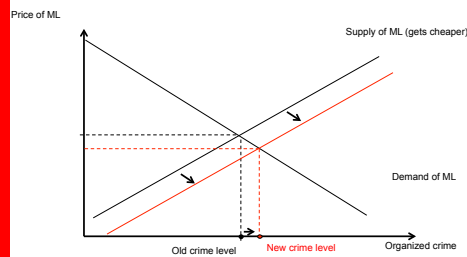


Online Gambling as a „Game-Changer“ to Money Laundering



4. Onlineglücksspiele „Game-Changer“ der Geldwäsche

d) Der „Game-Changer“: sehr geringe Kosten



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

Recommendations

- Taxing Gambling Wins
 - Increases costs of money laundering
 - Decreases profits from crime
 - Decreases crime
- Law enforcement
 - Tackling illegal gambling = Tackling money laundering
 - Precondition for any regulation: No illegal gambling

Thank you for your kind attention!

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