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## **Token Gestures – The Impact of Emerging New Technologies on Illegal Betting**

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### **Executive Summary**

Emerging new technologies are changing how betting operators deliver their products and how customers see betting, less as a vice and more as part of the entertainment around racing and other sports. As betting operators package their products to appeal to their customers' desire for enhanced entertainment, the nature of betting is likely to change. As a consequence, gambling regulators will need to keep pace to understand how racing and other sports entertainment games may be in fact be betting. Many emerging new technologies are also likely to be utilised first by 'start up' illegal betting operators as they seek to capture customers before legal licensed operators can catch up with the pace of development.

Emerging new technologies that could be used for betting, or construed as betting, take varied forms. These include Web3, which includes growing new technology areas such as NFTs, the Metaverse, and GameFi.

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Web3 is hailed as anything from the next generation of the internet to the digital future of society – sceptics argue this is hype. This article examines how Web3 is impacting racing & other sports, and the blurring of boundaries between aspects of Web3 and illegal betting. Web3 loosely refers to the internet's next stage, typically involving decentralisation and blockchain technology.<sup>[1]</sup> It is a reaction to Web 2.0 (the current internet) in which, Web3 advocates argue, power has centralised into Big Tech's<sup>[2]</sup> hands. Advocates believe Web3 will give power and privacy back to users.<sup>[3]</sup> Critics argue Web3 is just a marketing buzzword.<sup>[4]</sup>

## NFTs

NFTs (non-fungible tokens) are digital assets (pictures, videos, songs, anything represented by code) whose ownership and provenance is recorded on a blockchain, which is an (in theory) unchangeable record of who owns the asset, how much they bought it for, and from whom.<sup>[5]</sup>

“Fungible” means interchangeable with other representatives of that asset:<sup>[6]</sup> a dollar bill is fungible with all dollar bills, but thoroughbred racehorses or the Mona Lisa are non-fungible assets. Cryptocurrencies like Bitcoin are ‘fungible tokens’.

NFTs rose to prominence during the pandemic, fuelled by social media endorsements from celebrities. ‘Unique’ jpegs of ‘Bored Apes’<sup>[7]</sup> traded for as much as USD 3.4 million in cryptocurrency, as bemused sceptics pointed out that these could be copied with a mouse-click, regardless of who the ‘true’ owner was.





















At its height, the market was estimated at USD 41 billion according to one estimate.<sup>[8]</sup> But as of late 2022, there was debate over whether the market has completely collapsed along with a wider decline in crypto and other assets, or is primed for a more sustainable long-term comeback.<sup>[9]</sup>

NFT adoption is particularly high in ARF jurisdictions according to research from September 2021, with the table below showing that six of the top 10 jurisdictions have ARF members. One reason for this is NFT-based ‘play-to-earn’ games, explained below.

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# NFT adoption by country in 2021

The percentage of adults who own NFTs

Countries and regions	% have NFT	% Planning to buy	Forecast adoption
 Philippines	32.0%	9.5%	41.5%
 Thailand	26.6%	7.9%	34.5%
 Malaysia	23.9%	10.5%	34.4%
 United Arab Emirates	23.4%	11.5%	34.9%
 Vietnam	17.4%	11.6%	29.1%
 Nigeria	13.7%	21.7%	35.4%
 Brazil	12.1%	9.9%	22.0%
 Hong Kong	10.7%	10.4%	21.1%
 Venezuela	10.6%	13.5%	24.1%
 Peru	9.9%	14.5%	24.4%
 Colombia	8.4%	11.9%	20.3%
 South Africa	8.3%	9.4%	17.7%
 Argentina	7.4%	8.7%	16.1%
 Singapore	6.8%	11.0%	17.8%
 Canada	5.6%	6.2%	11.8%
 Australia	4.6%	7.1%	11.7%
 Germany	4.0%	3.4%	7.4%
 United States	2.8%	3.9%	6.7%
 United Kingdom	2.5%	3.3%	5.8%
 Japan	2.2%	2.4%	4.6%
<b>Average</b>	<b>11.6%</b>	<b>9.4%</b>	<b>20.9%</b>

Source: Finder's survey of 28,723 adults was conducted in September 2021



## The Metaverse

The metaverse is typically associated with Web3 as something of a catch-all for applications involving virtual reality<sup>[10]</sup> and/or augmented reality,<sup>[11]</sup> often involving blockchain. A leading advocate is Mark Zuckerberg, who in October 2021 rebranded Facebook as Meta to focus on such technologies.<sup>[12]</sup>

But the term is very loosely applied, and in the case of several 'metaverse' horse racing products described below, it is essentially a buzzword for 'video game with crypto elements'.

Advocates argue that the metaverse will transform everyday life, with, for example, one forecast that 30% of business meetings will take place in the metaverse by 2026.<sup>[13]</sup> Sceptics argue that real-world applications are limited and that there are many barriers to widespread adoption.

## **'GameFi': Play to Earn NFT and 'metaverse' gaming**

GameFi (gaming + finance), describes video games typically involving blockchain, NFTs and/or the metaverse. They are also, crucially in the context of betting, 'play to earn'.<sup>[14]</sup>

Play to earn (P2E) means users are rewarded for playing, with cryptocurrency issued by the game and/or with in-game items (weapons, costumes, etc) which are themselves NFTs.<sup>[15]</sup> A fee, in the form of NFT purchases, is required to play, which as explained below means P2E may constitute gambling.

Leading GameFi examples include Axie Infinity, The Sandbox and Decentraland.

Axie Infinity users earn cryptocurrency by breeding and battling NFT 'pets'. At its height in mid-2021, the game was some people in Asia's primary income,<sup>[16]</sup> despite entry NFTs costing USD 1,000 or more.<sup>[17]</sup> Axie had more than 2 million users and USD 1.2 billion in revenue.<sup>[18]</sup> Since then, one of its cryptocurrency tokens has lost 99% of peak value, leading to an exodus of users and criticisms of Ponzi-like economic dynamics.<sup>[19]</sup>

The Sandbox and Decentraland are virtual reality metaverses in which players can buy land, build properties and start businesses to earn cryptocurrencies. Parcels of 'land' have sold for millions of dollars,<sup>[20]</sup> and users can take out crypto mortgages. The platforms' developers make money via transaction fees.

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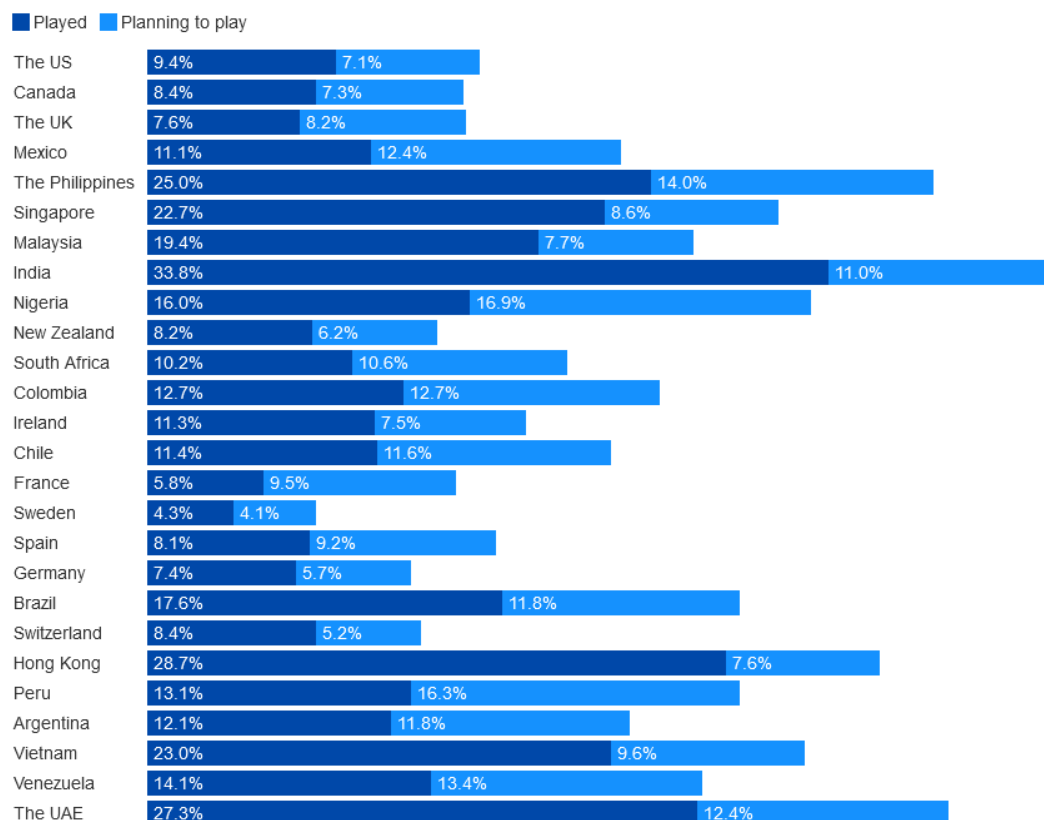
The table below shows the largest ‘GameFi’ cryptocurrencies as of late 2022. Given cryptocurrency’s volatility, the numbers may have changed significantly since; the purpose of the table is to show that the market is large, with the five biggest GameFi cryptocurrencies among the top 100 of *all* cryptocurrencies. (Chiliz is a cryptocurrency required to purchase Socios, a sports ‘fan token’ discussed below; Enjin is a platform for various projects not discussed.)

Table 1 - top five GameFi tokens as of October 2022. Source: [crypto.com](https://crypto.com)

Project / token	Token’s Market Cap (USD)	Token’s 24 hour trading volume (USD)	Rank among ALL cryptocurrencies
Decentraland / MANA	1.16 billion	163.36 million	49
The Sandbox / SAND	1.16 billion	228.73 million	50
Chiliz / CHZ	1.15 billion	288.37 million	53
Axie Infinity / AXS	858 million	134.37 million	63
Enjin / ENJ	436 million	36.17 million	93

Asia is a key region for NFT gaming adoption. The top five markets are India (34% have played such games), Hong Kong (29%), The UAE (27%), The Philippines (25%), and Vietnam (23%), according to a May 2022 report.<sup>[21]</sup>

#### Current and future NFT gamers around the globe



## GameFi horseracing projects

Several projects, realised to various degrees, combine horse-racing, NFTs and the metaverse. Examples are *Zed Run*, *DeRace*, *Metarace*, *Cyber Gallops*, and *DeFi Horse*.

All of these have similar mechanics: users buy NFT 'horses' and can 'race', 'breed' and trade them to earn crypto. Metaverse elements include (e.g.) the sale of virtual racecourses.

Most have some association with real-world racing. Zed Run hosted a 'metaverse' Melbourne Cup event; ex-footballer and racehorse owner Michael Owen promotes DeRace; UK trainer Oliver Cole is a Metarace partner; two Singapore trainers (Desmond Koh and Takaoka Hideyuki) are Cyber Gallops partners.

*A Budweiser branded Zed Run NFT horse*



Zed Run is the most mature, with high-profile media coverage and marketing partnerships with major brands such as Budweiser, NASCAR, Atari and Netflix. DeRace has a following, but the others are less advanced and it is not clear how/if they earn revenue, or have a viable product.

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Two other horseracing GameFi projects, *Omnihorse* and *Game of Silks*, both employ fantasy sports elements. *Omnihorse*<sup>[22]</sup> aims to “bridge traditional sports and the metaverse” according to its founder Kia Joorabchian, a football agent and racehorse owner.<sup>[23]</sup>

*Omnihorse* NFTs are based on real-life horses owned by Joorabchian’s stable. NFT owners earn crypto tokens based on the horses’ real-world success, and “exclusive benefits” such as VIP entrance at racecourses where the real horse competes.

*Game of Silks* is similar, but NFTs are based on the ~20,000 yearlings born in the United States every year. NFT owners earn crypto tokens when/if the real-world horses achieve racing or breeding success.<sup>[24]</sup> A pre-requisite to earn prizes is to own a ‘Silks Avatar’ NFT – a digital picture of a robot jockey selling for (at the time of writing) around 0.15 Ethereum, ~USD 222. *Silks* does not appear to have any agreements with the real-life yearling owners.

The table below collates several metrics, such as NFT transactions and social media followers, to try to assess the popularity of these products – although given cryptocurrency volatility, social media bots, and NFT ‘wash trading’, such metrics are not perfect.

*Table 2 - comparative popularity of horse racing Game Fi products. Sources: opensea.io, cryptoslam.io, Discord, Twitter, Instagram. Information recorded 1 November 2022. (Open Sea is the largest NFT marketplace, Discord is a chat app ubiquitous in crypto).*

<b>Metric</b>	<b>Zed run</b>	<b>DeRace</b>	<b>Silks</b>	<b>Metarace</b>	<b>Omnihorse</b>
<b>NFT owners on Opensea.io</b>	67,104	3,215	3,798	N/A	524
<b>All time Sales (USD)</b>	193 million	14.8 million	3.8 million	N/A	N/A
<b>All-time Transactions</b>	693,509	5,387	6,700	N/A	N/A
<b>Social media followers</b>	128,851	336,812	40,644	97,710	10,546

The table shows that Zed Run has been most successful. DeRace and Silks appear to have some level of interest, but Metarace and *Omnihorse* appear to have little; Gallops and DeFi Horse were not examined as it did not seem they yet had a viable product.

There are also GameFi projects in other sports. Socios are so-called “fan engagement tokens” promoted by some of the world’s biggest football teams (Barcelona, Juventus, Arsenal, Manchester City are among 120+ partners). Fan tokens must be bought with an associated cryptocurrency, ‘Chiliz’. Socios owners can take part in polls and competitions associated with their team.<sup>[25]</sup> Lionel Messi, one of the best footballers of all time, promotes Socios in a deal worth USD 20 million.<sup>[26]</sup>

Another, Sorare, sees players buy NFT ‘trading cards’ representing real-life players, then use these to compete for prizes based on the players’ real-life performance. It is a licensed partner of eight football leagues, the NBA, and Major League Baseball.<sup>[27]</sup> In February 2022, an NFT of Erling Haaland sold for more than USD 600,000.<sup>[28]</sup> Sorare has been valued at more than USD 4 billion and was publicly praised by President Emmanuel Macron as an example of French tech innovation.<sup>[29]</sup>

NBA Top Shots are NFT ‘moments’ – video highlights – from NBA games similar to trading cards. A Top Shot of LeBron James dunking sold for USD 208,000 in February 2021.<sup>[30]</sup> In September 2021 Top Shot reportedly had more than 1.1 million users and developer Dapper Labs was valued at more than USD 7.6 billion.<sup>[31]</sup>

## Web3 and illegal betting

Web3 may facilitate or blur boundaries with betting, as the following quote highlights:

*“Emerging products ... such as non-fungible tokens – or NFTs – ‘synthetic shares’ and cryptocurrency ... are becoming increasingly widespread and **the boundaries between products which can be defined and regulated as gambling are becoming increasingly blurred.***

*“We are likely to see more and more integration of these types of products into sport and other areas of lifestyle, as well as the legitimate gambling industry. These are lucrative growth areas, and we ignore them at our peril.”*

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- UK Gambling Commission chief executive to International Association of Gambling Regulators, October 2022 (emphasis added).<sup>[32]</sup>

Aspects of these blurring of the lines include the fact that GameFi may constitute gambling, the potential to bet on GameFi, the crossover between crypto and gambling enthusiasts, and new Web3 betting platforms and mechanics.

Play to Earn / GameFi typically requires payment for entry by purchasing NFTs. An algorithm typically depending on random number generation results in a financial loss or gain for the user: purchasing an NFT horse and earning cryptocurrency by winning a virtual race with it for example.

Paying money in the hope of a greater reward based on a contingency is essentially gambling as often defined, so some NFT projects have attracted regulatory attention. Sorare<sup>[33]</sup> has been examined by regulators in France<sup>[34]</sup> and the UK<sup>[35]</sup>, and has been banned in Switzerland.<sup>[36]</sup> Sorare insists it does not constitute gambling in jurisdictions in which it operates and agreed to make changes to its platform to address concerns by the French regulator regarding “prevention of excessive gambling and protection of minors, integrity and transparency of gambling operations and the fight against fraud and money laundering.”<sup>[37]</sup>

The P2E racing products mentioned have not yet attracted such regulatory attention. Zed Run states that its product does not constitute gambling, because “choosing virtual thoroughbreds is a game of skill”, but says the onus is on users to make a decision regarding regulations in their jurisdiction.<sup>[38]</sup>

Play to Earn has also been criticised by addiction researchers for blurring the boundaries between gaming and speculative trading, with risks including the “deflationary nature of reward currencies and the asymmetric reward structures that heavily favour early investors and exploit late adopters”.<sup>[39]</sup>

Despite the popularity of GameFi in Asia, South Korea and Japan have banned play to earn as gambling, China has warned against it and has a blanket ban on crypto trading, and in India the government has been asked to clarify its stance on the matter.<sup>[40]</sup>

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Naturally, products which emulate sports popular with bettors such as racing may lead to betting demand.

Zed Run intends or intended to include wagering, with its co-founder stating in 2021: “We have spoken to the majority of major wagering operators from around the globe and we’re going to work with them in the future once we have the framework and legalities in place around being able to deliver that.”<sup>[41]</sup>

The status of such plans is unknown, although it is noted that this co-founder previously was a consultant for an Australian bookmaking technology company.<sup>[42]</sup>

Wagerr, a blockchain-based Web3 sports betting platform not known to be licensed, announced a partnership with Zed Run in January 2021 whereby Zed Run users would have Wagerr’s betting crypto-tokens deposited into their cryptocurrency wallets, enabling them to bet on Wagerr. <sup>[43]</sup> Wagerr said it hoped the partnership would enable it to develop expertise in new sports betting markets,<sup>[44]</sup> although it does not offer racing, real or virtual.

DeRace plans to include wagering and offer its races to bookmakers to stream for betting:

*“DeRace’s ecosystem will be enriched with 3rd party betting solution. We will integrate a betting provider (one or multiple) for the execution of bets.*

*“Also, we will create an API for horse racing streaming platforms, online casinos and betting venues to integrate DeRace horse races in their existing solutions.*

*“The betting solution completes the whole DeRace NFT horse racing ecosystem.”<sup>[45]</sup>*

An emerging area of academic research indicates crossover of interests and behaviours between those interested in blockchain technology and those interested in gambling.<sup>[46]</sup> Studies show that cryptocurrency trading is associated with problem gambling.<sup>[47]</sup> Such crossover is not inherently wrong. But given the unregulated nature of many crypto / NFT projects, it is something for racing & other sports to note.

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As detailed in the ARF's *State of Illegal Betting* report, crypto is increasingly common for payment at Unregulated and Under-regulated betting operators. Stake.com, an Australia-based, Curacao-licensed sports betting and casino site whose customers reportedly wager AUD 590 million a day in cryptocurrency,<sup>[48]</sup> is a leading example. FunToken is a similar operator in the online casino space, where gamblers can only gamble with the site's crypto tokens.

Now, NFTs are being accepted as payments for illegal betting. At least one Licensed but Under-regulated operator accepts Socios tokens among its 42 cryptocurrency payment options. Given that this operator also sponsors various teams and leagues for which Socios tokens are available, there is an obvious off-ramp / cross-promotional avenue for Socios holders to transition to betting at this operator (which offers racing from many ARF jurisdictions).

Many other platforms are trying to capitalise in novel ways on the intersection between gambling and crypto.

'Gambling Apes' is a Curacao Licensed but Under-regulated betting website which claims to offer holders of its NFTs a share of the site's profits. Almost 400 Ethereum-worth of gambling apes NFTs have been sold, likely equivalent to ~USD 1 million.<sup>[49]</sup>

Somewhat similar are 'Slotie' NFTs,<sup>[50]</sup> digital pictures of slot machines which supposedly give owners a cut of the profits of an online casino.<sup>[51]</sup> It was hit with a multi-state cease-and-desist order for encouraging illegal betting in the US.<sup>[52]</sup>

Bet U, Australia-founded<sup>[53]</sup> but Curacao-licensed, throws several buzzwords together in plans to incorporate "crypto betting, Play-to-earn sports & esports prediction games, and a licensed metaverse resort and casino". It issues cryptocurrency tokens essentially equivalent to a rebate on bets.<sup>[54]</sup>

Still another model is playwithstakes.com (not associated with stake.com), where users compete against each other to earn NFTs for predicting sports results. Its CEO insists this is not betting, but also states: "we are creating a new category of sports wagering platform that is Web3 native."<sup>[55]</sup>

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While it seems many such examples are merely seeking to exploit NFT/crypto hype – and others not mentioned appear to be outright scams – there is clearly a burgeoning supply and demand for new Web3 betting products which may affect betting on racing & other sports in unforeseen ways.

A project with greater credibility because of its founders' experience is BetDex, a blockchain-based betting exchange licensed in the Isle of Man, created by former executives of leading US sports betting operator FanDuel.<sup>[56]</sup>

Its CEO states that BetDex will target the crypto/gambling crossover demographic, saying **“We think there is 30/40% overlap of crypto natives and people who bet on sports.”**<sup>[57]</sup>

BetDex is targeting international markets including Asia. Currently it only offers football but plans to expand into other sports.<sup>[58]</sup>

The metaverse also provides unregulated gambling: Decentraland has a 'district' named Vegas City which reportedly offers casinos and sportsbooks including the racing of NFT horses.<sup>[59]</sup> It is not clear how the latter works, though Zed Run has a virtual 'HQ' there.<sup>[60]</sup>

ICE Poker in Vegas City, a poker room which requires users to purchase expensive NFTs to access, reportedly attracts more than 100,000 monthly players and revenue of USD 3.2 million.<sup>[61]</sup>

It is easy to envisage a future where virtual reality racing and associated unregulated wagering could compete with the real equivalent, particularly among young people.

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A screenshot inside Decentral Games' virtual casino. Source: <https://www.coindesk.com/tech/2022/02/03/whos-using-the-metaverse-poker-players-in-decentraland/>



## Final Thoughts

There are many opportunities for racing and other sports, and Licensed and Regulated betting, from Web3 – but also risks involved.

Blockchain and NFT technology could be used in racing, for example, to track and record provenance of bloodstock; to open new revenue streams from licensing image rights and intellectual property for NFT projects; and to possibly attract a new, younger, audience to the sport.

Crypto projects have already provided a financial boon to teams via sponsorship and naming rights (although some high-profile sponsors have since gone bankrupt). In 2021 it was reported that four English Premier League clubs had earned GBP 150 million through Socios,<sup>[62]</sup> while Sorare in late 2022 was reportedly close to agreeing a GBP 30 million-a-year partnership with the EPL.<sup>[63]</sup>

But as with any new technology, stakeholders need to understand risks. This is particularly important given the crossover between crypto and gambling, the lack of regulation, and the prevalence of fraud and bad actors. There are reputational and even financial crime risks to racing and other sports from this.

In football, teams have been criticised for exploiting supporters via NFT promotions – and even encouraging gambling-like speculative trading.<sup>[64]</sup>

Even prominent products such as Socios<sup>[65]</sup> and Sorare<sup>[66]</sup> have been accused by media of price manipulation and insider trading, (the companies deny these claims), while lesser-known ones have been outright scams.<sup>[67]</sup>

Football team Manchester City illustrates both ends of this spectrum: it reportedly receives USD 20 million a year in sponsorship from Chinese cryptocurrency exchange OKX, but also ended a partnership with a crypto finance scheme which promised 150% annual returns to investors, after reports that the company did not appear to exist.<sup>[68]</sup> (And OKX, despite being the more ‘reputable’ of these two crypto entities, has been banned in China, its founder subject of police interest, and is under investigation for alleged securities violations in Canada).<sup>[69]</sup>

The spectacular demise of FTX, a very high-profile cryptocurrency exchange which filed for bankruptcy in November amid allegations of governance failings even worse than Enron,<sup>[70]</sup> further illustrates the risks. FTX had many sports sponsorship deals including: “the official crypto exchange of Major League Baseball, official crypto partner of the Mercedes Formula One team, official crypto and NFT partner for the Washington Wizards (NBA) and Capitals (NHL) ... an international rights deal with the Golden State Warriors”<sup>[71]</sup> and a 19-year naming rights deal for the Miami Heat basketball arena. It also had several individual deals with some of the biggest American sports stars.

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A February 2022 quote from Miami Heat's marketing director (emphasis added) illustrates – in hindsight – both why such firms want to be associated with sports, and the flip-side potential reputational risk to sports of such association should things go wrong:

*“I think when people saw the Heat were willing to get in bed with FTX, **it gave them a check of legitimacy** ... People were calling and asking about it. We have a certain level of respect in our league and around professional sports that **when we aligned with them, people saw them as legit.**”<sup>[72]</sup>*

The Miami Heat have since dropped the FTX name from their arena and it is not known how much, if any, of the reported USD 135 million deal's value the team (and the local government which stood to benefit) actually received.<sup>[73]</sup>

(Coincidentally, FTX was an investor in BetDex, the blockchain betting exchange mentioned above.)<sup>[74]</sup>

Because of such collapses, many have fundamental doubts about NFTs and blockchain technology in general. NFT marketplaces have been rife with counterfeit intellectual property, scams and wash trading.<sup>[75]</sup> Fraud, hacks and ‘rug pulls’ – where founders disappear with crypto investors' money – are prevalent in the crypto space, including in GameFi. <sup>[76]</sup> In March 2022, hackers linked to North Korea stole ~USD 620 million of cryptocurrency from Axie Infinity's blockchain, the largest ever crypto heist.<sup>[77]</sup>

Cybercriminals, including illegal betting operators, are finding ways to exploit the metaverse to launder money. INTERPOL has warned the metaverse will open a new world of cybercrime,<sup>[78]</sup> while an upcoming EU anti-money laundering law will reportedly include language highlighting such threats.<sup>[79]</sup> Separately, the European Commission's 2022 Supranational Risk Assessment Report in November 2022 rated online betting as a maximum risk of money laundering and terrorist financing for reasons including virtual currencies, gaming tokens that qualify as crypto assets, and the proliferation of unlicensed websites.<sup>[80]</sup>

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Also, as detailed in previous ARF Council publications, individuals linked to organised crime, illegal betting and money laundering, such as convicted triad gangster 'Broken Tooth' Wan Kuok Koi, have been heavily active in crypto and gambling schemes.<sup>[81]</sup>

Finally, stakeholders in the Licensed and Regulated betting industry need to be aware of the potential for unregulated Web3 / metaverse gambling and gambling-like products to both cause harm to consumers and potentially to attract people, particularly young people, away from well-regulated responsible sports wagering to unregulated alternatives.

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# The Displacement of Illegal Betting and Transnational Organised Crime

*Martin Purbrick, Chairperson of ARF Council on Anti-Illegal Betting & Related Financial Crime*

Illegal betting in Asia has been a core business of transnational organised crime groups in the region for decades as the profit margin and relatively low operational risks involved in the business have made this an attractive means of revenue generation for criminals. There is a distinct evolution of the displacement of illegal betting (and gambling) by organised crime groups across Asia that provides lessons for stakeholders regarding how to tackle the problem.

This displacement of illegal betting and gambling has partly been related to two major factors. Firstly, local illegal operators expanded during the 1990s in parallel with the growth of the Internet, mobile telecommunications, and televised sports (especially football), with many of them progressing from being national criminal groups to be transnational groups. Secondly, changing patterns of national law enforcement, sometimes with an international impact, have forced the expanded transnational illegal betting operators to move their bases of operations to countries where laws are less enforced.

Up to the 1990s, there were large illegal betting groups that dominated their local markets in Hong Kong, Macau, Malaysia, Thailand, and Singapore. Mainland China illegal betting markets were less developed as the impact of the economic opening up through the 1980s had not yet had the effect of creating a very large consumer market for gambling with sufficient disposable income.

For instance, GDP per capita in China in 1980 was USD194, in 1990 was USD317, in 2000 was USD959, and by 2021 was USD12,556.<sup>[1]</sup> In addition, the percentage of the population in China using the Internet was effectively 0% in 1990, only around 2% in 2000, but had grown to 70% in 2020.<sup>[2]</sup> Television viewing figures for sports have also grown, illustrated by the Asian Women's Cup final in February 2022 which was watched in China by at least 31 million live viewers on the national CCTV channel, whilst at least 22 million people in Vietnam watched their team compete in the tournament.<sup>[3]</sup>

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Increased wealth, access to the Internet, and interest in sports such as football have fuelled a parallel interest in betting on racing and other sports in huge population areas of Asia. As many countries in Asia have strict limitations on legal betting, there is a continually growing illegal betting market across the region. The illegal betting market has not only included the expanding national illegal bookmakers whose business grew to become international from the 1990s but also international operators, some linked to organised crime groups.

Key customer markets in Asia for illegal betting are China (where legal market limited to the Welfare and Sports Lotteries), including Hong Kong (which in itself has a significant illegal betting market of up to USD2 billion in turnover), Cambodia (where online sports betting is illegal), Indonesia and Malaysia (where in both countries gambling is illegal under Sharia Law), and Thailand (where only state lotteries and horse racing betting is legal). The illegal betting market dominates Asia, and provides a huge revenue stream for Asian organised crime groups in these countries as well as a channel for money laundering across the region.

Organised crime groups active in illegal betting and gambling operations have been displaced in the past several decades. Chinese organised crime groups in particular have been displaced from their home country to other parts of Asia. This is a continual process that will change as national law enforcement agencies understand new threats and take local enforcement action, which in turn displaces the criminal groups elsewhere. In the gambling sector in the past two decades, Asian organised crime groups involved in gambling have evolved and been displaced through the following transitions.

From 1998 to 2004, Chinese criminal groups have been displaced from Hong Kong to Macau and Guangdong Province. This displacement came from firstly more effective policing in Hong Kong during the 1990s, and secondly an opportunity from the Triad conflict in Macau in the mid-1990s for Hong Kong based major Triad factions to take over casino VIP rooms as well as multiple casino junkets. Major Hong Kong illegal bookmakers also expanded their markets to Guangdong Province and shifted their operations across the border, partly due to policing in Hong Kong in the 1990s, but also to capture the emerging new consumer market in the mainland.

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From the early 2000s to 2017, Chinese organised crime groups from Mainland China and South East Asia (Singapore and Malaysia) were displaced to the Philippines, where they operated online gambling with licenses in the Cagayan Economic Zone Authority, the Aurora Pacific Economic Zone & Freeport Authority, and the Authority of the Freeport Area of Bataan. The US Navy base at Subic Bay and the US Air Force Clark Air Base at nearby Angeles City both became Freeport Zones after the departure of US military in the early 1990s, but both retained a thriving prostitution industry controlled by criminal groups with international links to bring in customers as tourists. The criminal groups in the Freeport Zones also gravitated to operating casino gambling as well as later online gambling as a new revenue stream in the 1990s and 2000s.

From 2016 onwards, Chinese and South East Asian organised crime groups were displaced from special economic zones in the Philippines to national licensing under the Philippine Amusement and Gaming Corporation (PAGCOR) as 'Philippine Offshore Gaming Operators' (POGO), following President Duterte's instruction that licensing be centralized. Whilst this action by the national authorities improved the administration of gambling licensing, it did not yet displace transnational organised crime groups from the Philippines.

From 2018 onwards, Chinese and South East Asian organised crime groups were displaced from the Philippines to Cambodia (especially Sihanoukville) as well as Vietnam (to a lesser extent) to operate casinos and online gambling, following pressure by the PRC government on the Philippines authorities to take action against Chinese criminal groups operating POGOs.

From 2022 onwards, Chinese and South East Asian organised crime groups have been displaced from Cambodia to Myanmar to operate casinos, online gambling, and other criminal activities (people trafficking, online fraud, etc), following pressure by the PRC government on Cambodian authorities to take action against Chinese criminal groups operating in the country.

The pursuit of illegal betting and gambling operators displaced to South East Asia continues. By October 2022, it was reported that 90% of illegal gambling operations in Cambodia had been shut down following the enforcement action taken by the authorities.<sup>[4]</sup> This is a substantial claim, but it is questionable how the authorities can ensure that the criminal activity does not return after the initial crackdown and also if the large scale illegal operators have been affected.

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The criminal groups in Myanmar are also not completely out of reach of law enforcement. In August 2022, Chinese businessman She Zhijiang was arrested in Thailand for allegedly running illegal online gambling. Mr She has allegedly been involved in a USD15 billion project called Yatai City in a Myanmar border village that was intended to become a Singapore-like business hub. Mr She was reportedly arrested by the Thai authorities on the basis of an INTERPOL Red Notice issued by China, illustrating the importance of cross border cooperation to combat illegal betting.<sup>[5]</sup>

The displacement of illegal betting and gambling, as well as the organised crime groups operating these businesses, has illustrated the scale and prolonged nature of the crackdown by the Chinese authorities, which was reported by the ARF Council in 2021. The ARF Council reported that “The focus of this crackdown is on cross-border illegal betting encompassing both illegal betting websites hosted offshore, and overseas land-based casinos. It incorporates illegal betting on racing and other sports as well as online casinos, illegal lotteries, and other forms of illegal betting. The crackdown was launched because cross-border illegal betting causes CNY 1 trillion (USD 145 billion) to flow out of China to offshore websites and casinos every year, threatening economic security and social stability.”<sup>[6]</sup>

Indications are that the crackdown by the Chinese authorities on illegal gambling, other transnational organised crime, and the related capital flight, is likely to continue indefinitely as part of the efforts by the government to combat corruption and criminality. An outcome of this is the sophisticated network of facilitator businesses in Asia to launder money from illegal betting and gambling.

Given that there remain large parts of Asia where betting on racing and other sports, as well as gambling, remain largely illegal, and efforts such as those by the Chinese authorities will continue, it is certain that Asian organised crime groups will continue to prosper from this illegal business and adapt to continual displacement to new relatively safer havens for their operations. Based on the displacement seen from the 1990s to the present day, we should ask where to next?

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The ARF Council has started to answer this question by highlighting the use of new, and evolving technologies by illegal betting operators. The use of Web3 'play to earn' games developing betting, NFT products related to betting, and betting in the Metaverse, all illustrate that very soon a safe haven is not needed for organised crime groups to operate illegal betting and gambling as their IT resources for these new technologies can be located anywhere on the planet with no scrutiny from the authorities and law enforcement agencies.

Displacement of Chinese and South East Asian organised crime groups involved in illegal betting and gambling from Asia to new regional hubs will continue to diversify as they utilise continued technology improvements to operate and deliver remote gambling as well as related money laundering. In the past two decades, organised crime groups clustered in jurisdictions where at the time there was limited or no law enforcement interdiction, such as the Philippines, Cambodia, Vietnam, and Myanmar.

In the future, these groups are likely to use technology on a far more international basis with operations disguised as IT service providers, which will be more difficult to identify. This will make illegal betting and gambling operators even more transnational than now, with front companies purporting to be involved in sophisticated Web 3.0 online gaming or sports entertainment, corporate entities registered in offshore locations where owner identity is guaranteed, bank accounts utilising established money laundering hubs, and IT servers as well as trading rooms based almost anywhere. Technology development will continue to expand the reach of illegal betting.

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# The Formation of Law Enforcement in Sports Integrity in Victoria

*Graham Ashton, Former Chief Commissioner, Victoria Police*

Victoria, Australia, prides itself as the sports capital of Australia. Each year it hosts and promotes world leading sporting events such as The Australian Open Tennis, Australian Rules Football finals attracting 100,000 people, the Formula 1 Grand Prix and the time honoured Melbourne Cup, a two-mile horse race prized the world over. Melbourne has a reputation for delivering high quality events, and of course strong sports integrity systems are integral to that.

As an Assistant Commissioner of Police in Victoria a decade ago, I headed up the provision of investigative policing services to the community. Victoria Police is an organisation steeped in tradition, being in existence for almost 160 years. Taking on the head of investigations role gave me an opportunity to strengthen and modernise our services. I set about re-introducing some of our former crime investigation squads that had previously been discontinued such as the Homicide Cold Case Unit and took the opportunity to examine what new and emerging areas of crime existed that we were not yet ready to tackle.

It was with this intention I travelled to Paris to attend my first conference in Sports Integrity. I was keen to learn more about this issue and the threats and risks my home state on the other side of the globe might be going to experience in the future. To say I found this conference eye-opening would be an understatement. Clearly there were criminal threats to the integrity of sports that were not emerging but impacting then and there, and I quickly realised it was only distance that had prevented these reaching Australia.

The first significant risk I saw was in the impact of Unregulated betting on racing and sports. The global nature of communications had meant that now hundreds of millions of dollars were being channelled through Unregulated online bookmakers, safe from the eyes of law enforcement or other regulators. This was an invitation to corrupt operators to fix sporting events and obtain gaming revenue as their pay off. It was not possible to see their transactions and unmask them. Further, the sheer sums involved, made it attractive and a lower risk to corrupt less popular sports that were not sufficiently resourced to protect themselves. I was later to find this very thing was happening in Australia.

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Secondly, I was alarmed at the money laundering potential through unregulated online gambling. Through my investigative career I had been involved in target-hardening various sectors from the threat of money laundering, and I assessed sports betting as the highest-risk area I had encountered. Traditionally the amount of money criminals lose in the laundering process is significant, whereas in online gambling almost all laundered proceeds could be retained by the criminal. I had not seen examples of this actually occurring yet, but given the scale of organised crime figures involved in corrupting sports I concluded it would only be a matter of time before they not only started laundering funds through online betting but actually created Unregulated betting entities themselves.

Upon returning to Australia I was able to brief a meeting of the Australasian Police Commissioners on the threats I had seen overseas and warned it was a matter of time before they emerged in Australia. To my disappointment the nation's most senior police did not show much enthusiasm. Facing the daily challenges of domestic and family violence and rising street crime, one police chief said bluntly, "Why would we be interested in this?" Fortunately, my police chief in Victoria did not take this view and gave me full rein to try to ensure that Victoria's excellent sporting event reputation, worth billions of dollars to the state economy, was as well protected as possible.

I set about establishing the world's first Sporting Integrity Intelligence Unit (SIU) within Victoria Police. With no blueprint to follow, my senior police managers put in place a specialist squad that included intelligence analysts, experts on sports betting, and trained detectives. Their mission was to provide the best intelligence to sports in Victoria to assist them in protecting their sports and to work with sports, and for the first time to work collaboratively with sports to actively search out and rout sports corruption.

It was not long before we encountered a significant case of betting-related corruption in second-tier soccer in Melbourne. Matches were being fixed by gamblers offshore who were betting on known results with Unregulated betting operators. It was bizarre to see how much money was being wagered from the other side of the world on a soccer match being played before 100 people in the Melbourne suburbs. Victoria Police prosecuted this case and it made headlines around the sporting world. It was clear that distance was no longer protecting Australia and that we were not immune from sports corruption. The fact that Victoria Police was able to pro-actively tackle this crime, which was enabled by Unregulated online betting meant that Victoria's reputation on the sporting integrity landscape was greatly enhanced.

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Building on this success, the Unit has since been able to deal with sports corruption cases in a number of sports, including tennis, horse racing and harness racing. The ability to share risk intelligence to sporting bodies is critical to the success of the SIIU. To help achieve this the Unit hosts a key conference on the sports integrity calendar which brings experts from overseas to share intelligence and trends with sporting bodies. This includes the critical area of Unregulated betting. This sharing of intelligence is of particular importance to smaller and emerging sports who do not have the resources to protect themselves to the level of the more established sports who can invest in integrity systems due to their scale. What we learned from the soccer case was that the smaller sports are just as vulnerable as the major sports.

The establishment of the SIIU has led to a number of experienced detectives developing specialist skills in the sports integrity sector. In turn these detectives have moved out of policing and taken their skills to the sporting bodies. In Victoria this has included racing, harness racing, cricket and Australian Rules Football. This is a very positive development for sports integrity as it brings strong investigative and risk management skills into the sports themselves and strengthens the links between sports and law enforcement.

The skills developed within the SIIU were impressive and has accordingly seen numerous staff leave the unit to join sporting organisations. I have seen this as a positive as it shares expertise around the sector. This in turn has created an enhanced stakeholder network for Victoria Police. This development of expertise has also placed Victoria Police in a strong position to tackle money laundering cases into the future.

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## **The Asian Racing Federation Council on Anti-illegal Betting and Related Financial Crime**

The Asian Racing Federation Council on Anti-illegal Betting and Related Financial Crime was established in 2017 as a think tank aimed at combatting illegal betting and related financial crime. The ARF Council now comprises 21 members from organisations engaged in horse racing and sports integrity, law enforcement, the United Nations, and academia.

The ARF Council's purpose is to research and share the scale and negative impacts of illegal betting, particularly as it relates to horse racing and sports integrity, and to foster international collaboration among stakeholders, such as horse racing operators and authorities, gambling regulators, law enforcement agencies, and government policy makers to raise awareness of the threat and to combat the negative impact of illegal betting and other financial crimes to horse racing, other sports, and to society.

## **Members of the Asian Racing Federation Council on Anti-illegal Betting & Related Financial Crime**

Martin Purbrick	(Chairperson), former Director of Security & Integrity, The Hong Kong Jockey Club
Douglas Robinson	(Deputy Chairperson), The Hong Kong Jockey Club
James Porteous	(Research Head), The Hong Kong Jockey Club
Jack Anderson	Racing Victoria
Graham Ashton	Former Chief Commissioner, Victoria Police
Tom Chignell	The Hong Kong Jockey Club
Steve Cornelius	University of Pretoria
Brant Dunshea	British Horseracing Authority
Brent Fisher	Racing Victoria
Sally Gainsbury	The University of Sydney
Neil Grimstone	New Zealand Racing Integrity Unit
Clíodhna Guy	The Irish Horseracing Regulatory Board
John Langdale	Macquarie University
Claudio Marinelli	INTERPOL Financial Crimes and Anti-Corruption Centre
Aahna Mehrotra	TMT Law Practice, AM Sports Law & Management Co.
James Ogilvy	Asian Racing Federation
Ronan O'Laoire	United Nations Office on Drugs and Crime
Catherine Ordway	University of Canberra
Tim Robinson	The Hong Kong Jockey Club
Tak Sung Hyun	Korean Racing Authority
Pim Verschuuren	University of Rennes, France

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