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How Illegal Betting and Related Money Laundering Flourished Despite ‘Crypto Winter’

By James Porteous, Research Head, ARF Council on Anti-Illegal Betting and Related Financial Crime

The “Crypto Winter” (a decline in the value of cryptocurrency assets and trading volume) hit blockchain speculators hard, but one cryptocurrency-linked industry has been basking in perpetual summer – illegal betting.

In May 2021, the ARF Council on Anti-Illegal Betting & Related Financial Crime warned that increasing use of cryptocurrencies by illegal betting operators posed a major threat to both legal betting operations and to the integrity of horse racing and other sports.

Now, the situation is worse than ever.

The resilience of cryptocurrency crime

Cryptocurrency markets plummeted not long after the ARF published that report, with the World Economic Forum¹ estimating that USD 2 trillion in cryptocurrency assets were wiped out in 2022 (although in late 2023 and early 2024 prices were beginning to surge again).

Some of the most high-profile operators of cryptocurrency trading have been convicted or pled guilty to fraud and money-laundering, such as Sam Bankman-Fried and Changpeng Zhao, founders of two of the biggest cryptocurrency exchanges (FTX and Binance). Others have simply absconded from the law (such as Do Kwon, CEO of collapsed cryptocurrency token Terra Luna).²

But at the same time, cryptocurrency crime has hit all-time highs, according to several blockchain compliance and analysis firms.³

TRM Labs puts the amount of cryptocurrency *directly* linked to crime at USD 20.6 billion in 2022, but points out that this is only a fraction of the actual total because it does not include proceeds of non-cryptocurrency native crime laundered into cryptocurrency – such as profits from drug trafficking, scams and of course illegal betting.

The scale of profits moved in cryptocurrencies from other illegal activity is at least an order of magnitude larger, in the hundreds of billions. For example, Bitrace, a Chinese blockchain analytics firm, tracked the equivalent of USD 115 billion in the cryptocurrency Tether to addresses linked to Southeast Asia-based illegal betting operations of the type highlighted by the ARF Council in its report *How Organised Crime Operates Illegal Betting, Cyber Scams & Modern Slavery in Southeast Asia*.⁴ Bitrace found that approximately 37 billion of this was illegal betting profits, 70 billion money laundering, and 460 million fraud.⁵

In 2021, the ARF Council warned that cryptocurrencies had become increasingly prevalent because of their lack of regulation and decentralisation made them attractive for illegal betting operators and bettors alike, both to fund accounts but also move profits across borders and pay the hundreds of thousands of recruitment and customer support agents.

As we enter 2024, the use of cryptocurrencies – particularly Tether – is now increasingly the norm in illegal betting markets.

Cryptocurrency in illegal betting markets

ARF Council analysis indicates that a quarter of offshore licensed betting websites which take bets in countries where they *do not* possess a licence accept cryptocurrencies in 2023,⁶ including two of the most popular brands in the world.

The number of these licensed but under-regulated illegal betting websites accepting cryptocurrencies has increased by 26% since 2020 (the last time the ARF Council examined this data) as shown in the table below. The table shows the five largest cryptocurrencies by market capitalisation, and the number of betting websites which accept each cryptocurrency.

Notably, almost four times as many websites now accept Tether, which is the cryptocurrency of choice for organised crime (discussed below).

Cryptocurrency (sorted by market cap.)	No. of licensed betting websites accepting this token (2020)	No. of licensed betting websites accepting this token (2024)	Change
Bitcoin	493	515	+4%
Ethereum	127	195	+54%
Tether	28	101	+261%
Binance Coin	N/A*	24	N/A
Solana	N/A*	N/A	N/A
Total (top 3 coins)	648	811	+25%

Table 1 - number of betting websites accepting the largest cryptocurrencies. Source: casinocity.com; coinmarketcap.com

** Binance Coin and Solana were not examined in 2020 as they are not among the largest coins by market cap at that time.*

The most popular licensed cryptocurrency betting websites are licensed in Curacao, a jurisdiction criticised for its lax regulatory oversight which has positioned itself as cryptocurrency-friendly to capture this business (other betting licensing havens such as Malta and Isle of Man have done so too).

Some leading brands *also* have licences in better-regulated jurisdictions, where their local websites do *not* accept cryptocurrencies, but their critics argue that this is a means only to redirect customers to their other URLs which do accept cryptocurrency.

Cryptocurrency is even more popular with unlicensed illegal betting websites often run by organised crime. These typically not only *accept* deposits in cryptocurrency but actively *encourage them* by providing attractive bonuses and rebates.

The main reason for this is obvious – cryptocurrency is much more convenient for the moving, processing, and mixing of funds from illicit activity than fiat (traditional) currency.

Notably, users of unlicensed illegal betting websites are typically *not* given a choice of cryptocurrencies with which they can deposit, but *only* permitted to deposit Tether (USDT), discussed below.

These websites typically have well-produced video tutorials explaining to users how to open accounts on cryptocurrency exchanges and fund their betting accounts. Unlicensed illegal betting operators typically offer bonuses of 2-3% for deposits in Tether rather than fiat currencies.

For the illegal bookmaker, cryptocurrency makes life considerably simpler as they do not have to explain to traditional banks or other authorities where and for what purpose fiat currency deposits are being transferred to their accounts. Cryptocurrency exchanges and blockchains popular with illegal actors do not ask any such questions.

According to ARF Council analysis of website traffic of 20 of the world's most popular licensed cryptocurrency betting operators from January 2021 to November 2023,⁷ there were on average 187 million visits to these sites per month from about 57 million people.

It should be noted that this popularity analysis does not capture the unlicensed market, which cannot be measured in the same fashion as it is fractured over literally thousands of mirror website URLs, apps, and offline agent-to-customer transactions.

Virtually all of the traffic to licenced cryptocurrency bookmakers is from jurisdictions in which the bookmakers are unlicensed, such as the United States, Brazil, and India.

It includes multiple ARF member jurisdictions where these websites are not legal, including Hong Kong, Japan, China, South Korea, Malaysia and New Zealand. India in particular is a massive target market, with visits from India to these operators increasing by almost 3000% from January 2021 to November 2023. Customers are overwhelmingly young, with 50% under 34.

The website traffic analysis clearly shows that the majority – perhaps all – of leading licensed cryptocurrency bookmakers’ revenue comes from customers in jurisdictions *in which they are not licensed to operate*. In other words, illegal betting.

The purpose of accepting cryptocurrency as payment for betting thus cannot be seen as anything but a means to enable customers to bet illegally.



Figure 2 - a typical Tether promotion from an unlicensed betting website targeting Chinese customers offering a 3% rebate over other payment means

Why Tether is ubiquitous in unlicensed illegal betting markets

Tether is a “stablecoin” – a digital currency that aims to be pegged to traditional currencies like the US dollar. Each Tether token is supposed to be worth USD 1 at all times and not fluctuate wildly like other cryptocurrency.

This eliminates currency volatility, which means it is easier for illegal betting operators to manage their accounting. Other attractions include the fact that Tether is by far the most actively traded cryptocurrency token (double that of Bitcoin)⁸ with billions of liquidity in daily trading volume on all major cryptocurrency exchanges, allowing for easy transferring and commingling of funds, and easy cashing out into fiat currencies with minimal price impact.

Tether and its sister company Bitfinex, a cryptocurrency exchange, have been subject to many reports of questionable behaviour, such as long-standing failure to allow an independent audit to prove that each Tether is indeed backed 1:1 by US dollars or equivalents, claims of market manipulation, and falsification of documents to access the traditional banking system.^{9 10}

Several key principals have “brushed shoulders with crime since its inception”, Tether’s critics claim, although the company would argue that these links are tangential.¹¹

Tether has consistently labelled all such allegations and insinuations as ‘FUD’ (Fear, Uncertainty and Doubt, a cryptocurrency term meant to disparage non-believers).¹² It insists it will release a full audit of its reserves “eventually”.¹³

Tether did settle a lawsuit from the New York Attorney General's office over claims that it covered up the apparent loss of USD 850 million of commingled client and corporate funds. It reportedly is under investigation by the US Department of Justice.¹⁴

Case study: Zhao Dong

A highly relevant individual to the discussion of Tether's alleged links to individuals is Zhao Dong, who ran a cryptocurrency exchange and lending platform and was labelled as China's "crypto king" and a Bitcoin billionaire until being arrested and pleading guilty in 2021 for laundering USD 480 million for illegal betting operators¹⁵.

Details of Zhao's case released by China's prosecution body in late 2023 revealed that he and his associates recruited over 100,000 individuals to provide their personal WeChat, Alipay, and bank account details to facilitating payments for illegal betting sites and scams. Their platform processed RMB 3.19 billion in a single month in 2020 (~USD 449 million). Money was moved via Dirhams in Dubai, into Tether, then back to Renminbi in China. He was sentenced to seven years in jail¹⁶

Zhao's link to Tether is that he was also a shareholder in Bitfinex, Tether's sister company.¹⁷

Most of the Tether transacted on illegal betting websites is via a blockchain called Tron. The primary reason for this is that it is quicker and cheaper than the primary competitor network. Tron currently hosts more than half of the Tether in circulation and¹⁸ most of the billions in Tether transactions each day take place on Tron.

Tron's founder, Justin Sun (孙宇晨) has also been subject of several controversies.

According to a 2022 investigative report, he fled China to the US in 2017 in fear of authorities after he had pushed through Tron's 'initial coin offering' (the issuing of cryptocurrency tokens, ICO) just days before ICOs were banned in China.

Sun allegedly had been told by his associate, Changpeng Zhao (the founder of Binance currently awaiting sentencing after pleading guilty to fraud and money laundering in the US), that the ban was coming. The ICO raised USD 70 million.

That report makes a wide range of other accusations against Sun, including insider trading, ordering staff at his cryptocurrency exchange to "fake the KYC" (know your customer) requirements to on-board more customers, and pocketing blocked customer deposits for himself. Sun's lawyers stated they would not dignify such allegations with a response.

The US Securities and Exchange Commission is currently suing Sun and Tron for fraud and for selling unregistered securities in relation to Tron's ICO.¹⁹ Sun says the charges are without merit.

There are increasingly examples of Tether, as a currency, and Tron, as a means to move that currency, being used extensively by criminals to fund their operations and launder the proceeds of crime.

In December 2022, Chinese police arrested 63 people accused of running a syndicate helping criminals launder the equivalent of USD 1.7 billion from pyramid schemes, fraud and illegal betting via Tether.²⁰

Bloomberg journalist Zeke Faux in his 2023 bestselling book about cryptocurrency, *Number Go Up*, details extensively the murky background of Tether and key principals, albeit without ever finding a ‘smoking gun’. He follows the trail of a Tether deposit he makes to a cryptocurrency exchange in response to a random spam message all the way to a Cambodian casino compound. He and others have pointed out that Tether is the cryptocurrency of choice for the organised crime groups running these slavery operations – which have evolved from the illegal betting industry, as detailed in the ARF Council’s report, *How Organised Crime Operates Illegal Betting, Cyber Scams & Modern Slavery in Southeast Asia*.²¹

In Cambodia, Tether is banned but still ubiquitous in areas of Phnom Penh and Sihanoukville frequented by Chinese expatriates, many of whom work in the illegal betting and cyber-scam industry.²²

Tether has been widely criticised for its failure to support investigators²³ and victims of scams and fraud.²⁴ That seemed to change in November 2023 when it announced that it had frozen USDT 225 million linked to a human trafficking group in Southeast Asia at the request of the US Secret Service.²⁵

Case study – Singapore

In August 2023, 10 people were arrested by Singapore police in the city-state’s largest ever money laundering case.

The individuals all have origins in Mainland China, particularly Fujian province, but with multiple citizenships from jurisdictions which allow their passports to be purchased, such as Cambodia, Vanuatu, St Kitts and Nevis and elsewhere. They are currently on trial on a range of charges.

Cash and assets worth close to the equivalent of USD 2.4 billion were seized, around half in cash, cryptocurrency and luxury items.

The newsletter *Cyberscam Monitor* has analysed the business activities and assets seized of these individuals in exhaustive detail with reference to affidavits, court documents and other reporting in Singapore, China and elsewhere.

Highlights include:

- links to multiple illegal betting platforms operating out of Cambodia and the Philippines;
- hundreds of millions in assets held per person including USD 30 million in cryptocurrency alone held by one individual;
- companies, bank accounts and properties all over the globe including in London and Australia; and
- later reporting shows further links to further illegal betting sites operating out of Myanmar, with the alleged mastermind paid millions in cryptocurrency.²⁶



Figure 3 The Hongli International gambling site captured in 2014. Source: People's Procuratorate of Tongshan District, Xuzhou City.

In summary, incredibly large amounts of illicit funds allegedly have been mingled with licit funds and properties around the world, facilitated by cryptocurrency, and almost certainly enabled by slavery.

The Singapore case is ongoing and the suspects have not been convicted.

What is perhaps most notable in terms of illegal betting, is that this alleged MO is *far from unusual* – the specific betting platforms mentioned are standard and typical -- and hundreds of equivalents are active.

Conclusion

Cryptocurrency use has expanded significantly in illegal betting since the ARF Council highlighted the issue in 2021. For illegal betting operators, cryptocurrencies are highly attractive to avoid anti-money laundering laws and regulations and also to commingle the proceeds of other crimes such as drug trafficking.

Regulators and law enforcement agencies around the world should be aware of the use of cryptocurrencies by illegal betting operators and strengthen their focus on ensuring that illegal betting markets do not become cryptocurrency exchange markets for criminals. There is now a significant risk that illegal betting markets have reached such a huge scale and volume that they are becoming a growth driver for the use of cryptocurrencies by organised crime groups.

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New Research Shows the Massive Scale of Illegal Betting in South Korea

Introduction

By Tak Sung Hyun, General Manager, Responsible Betting Department, Korea Racing Authority; Member, ARF Council on Anti-Illegal Betting and Related Financial Crime

Since its establishment in 2008, The National Gambling Control Commission of Korea (NGCC) has consistently focused on regulating legal gambling industries.

Legal gambling industries that can be controlled directly are subject to intensive regulations such as restrictions on online betting and the CAP system (under which for a certain period the maximum number of business premises is controlled and the rate of sales increase of in the legal gambling industry is kept at an appropriate level).

Since 2008, the size of the South Korean illegal gambling market has grown to KRW 49.0 trillion (~USD 37 billion), an increase of 91%, and expanded to an uncontrollable level. In contrast, the legal gambling market, where regulations were concentrated during the same period, grew by only 46%, to KRW 6.9 trillion (~USD 5.2 billion).

The NGCC introduces its National Master Plan for Gambling Control every five years and the new plan takes effect from 2024. To ensure that the new policy of NGCC is focused on controlling illegal gambling, the Korea Racing Authority (KRA) commissioned the Korean Institute of Criminology and Justice (KICJ) to conduct research regarding the State of the Illegal Gambling Industry and Countermeasures.

In 2023, KICJ published this paper and submitted it to the NGCC. The KRA have very positive expectation that the confirmed facts of the KICJ research will provide important information in establishing the NGCC's policy for effective countermeasures against illegal gambling.

What follows is a summary of the research (translated into English), prepared by the Korean Institute of Criminology and Justice.

Summary of research by Korean Institute of Criminology and Justice, October 2023

Since the outbreak of COVID-19, online illegal gambling has become increasingly sophisticated and widespread, and its negative effects have also grown due to its association with other crimes. Given the scale and adverse effects of illegal gambling, it is time to change our recognition of this topic. Rather than focusing on the social costs of illegal gambling, the Korean government should consider the ways to promote legal gambling industry, as major developed countries do, to generate tax revenues and implement various social welfare programs with the tax revenues produced to improve the quality of life of the people. The National Gaming Control Commission (NGCC) has so far promoted various policies to eradicate illegal gambling through three rounds of sound development plans for the gambling industry, but there are limitations in cracking down on it due to the nature of online illegal gambling, and the illegal gambling market continues to expand. Therefore, in light of the continued rise in illegal gambling (including online gambling and new/variant gambling) and the social harm it causes, this research aims to explore effective policy measures and how to improve government policies.

This study analyses the environment of the overseas gambling industry, specifically in the United States, a representative country that regulates illegal gambling, and major countries in the European Union, that open their markets with legal gambling. Official statistics have been studied and analysed to understand the conditions and size of the illegal gambling market. A survey was conducted to identify the basic factors to help us analyse the environment of the domestic gambling industry and understand its situation and public awareness. In-depth interviews with practitioners from relevant organizations such as the police were also carried out to analyse government policies to deal with domestic illegal gambling and draw implications from the analysis results.

The scale of revenue and market of global gambling industry were estimated. The net sales of the global legal gambling industry were estimated to be approximately USD 414.7 billion. Korea is ranked 13th in terms of net sales. The global illegal gambling market is estimated to be from USD 340 billion up to USD 1.7 trillion. Even though the COVID-19 pandemic dealt a blow to the net revenue of the gambling industry, it is recovering, and at the same time, the rate of the net revenue of the online gambling industry has been on a steep rise. The domestic online illegal gambling industry is estimated to be KRW 19.6 trillion in 2016, KRW 24 trillion in 2019, and KRW 37.5 trillion in 2022. The number of crackdown cases of online illegal gambling were 25,521 in 2018, 16,476 in 2019, 20,928 in 2020, and 18,942 in 2021. In Korea, the NGCC has established and run the Illegal Gambling Industry Monitoring and Reporting Center in 2012 and big data-based Illegal Online Gambling Monitoring System in 2019. In terms of their response and regulatory approaches, foreign countries have recently allowed online gambling, but at the same time have controlled and regulated it. Nevertheless, the online illegal gambling market continues to grow.

[...]

[...]

In addition, gambling experience of adolescents and its association with crimes were studied. As the barriers to entry for illegal gambling online have fallen, and gambling has become more accessible to youth through a variety of channels, the age of first exposure to gambling has continued to fall. Illegal gambling has become a serious social problem among youth, but they perceive it as a "game" rather than "gambling".

Considering the growth of the domestic illegal gambling industry and the integration of new IT technologies into the industry, different policy measures are required. It is necessary to promote the aspect of user protection of the legal gambling industry and educate people on the realities and dangers of online illegal gambling. Additionally, there is a need to prevent people from using illegal gambling and bring them into the realm of the legal gambling industry by easing regulations on the industry and providing it with competitiveness.

The real conditions and issues of illegal gambling that we have identified are as follows: no use of illegal gambling-related virtual accounts and cryptocurrencies was found, but if they are used in the future, it would be difficult to detect it; different types of illegal gambling on the Internet, such as sports betting and illegal bookmaking, have spread on the Internet, and are mostly used by young people; regarding crackdown and investigative procedures, relevant legal provisions are scattered around different laws, so it is necessary to integrate relevant laws and also develop laws that fit the current situation. As illicit funds are often traded with borrowed-name bank account and burner phone, the chances of confiscating illegal proceeds are very low.

Regarding the policies to regulate illegal gambling, the following observations and recommendations are made: when it comes to the role of the NGCC, education on and prevention of gambling addiction as well as addiction treatment centres need to be strengthened; for illegal online gambling, a combination of arrest and treatment should be applied; policies such as imposing fines on illegal gambling users are not effective, but policies such as suspending the operation of illegal gambling houses are believed to be highly effective; it would be more effective if the NGCC and the KRA (Korea Racing Authority) join a consultative body on illegal gambling; and there are challenges in cracking down on those who go abroad for gambling, and its effectiveness is low for now.

*The following policies to support legal gambling industry are proposed: promotion and education on the difference between legal and illegal gambling as well as addiction treatment are required; it is also necessary to find ways to enhance the competitiveness of the legal industry, and to encourage illegal gamblers to use the legal gambling industry through advertising and promotion. Hold'em pub business should be transformed into legal gambling business. Even business owners of hold'em pub want to work in a legalized area. It is self-evident that reckless controls will never eradicate illegal gambling, but rather they will push the industry into the dark rapidly. Hold'em pub business should be promoted to a legalized industry that can be controlled by the NGCC and relevant organizations. It is important to note that regulation on the legal gambling industry was launched in response to the scandal of Sea Story (*note: A Korean giant gambling-like video arcade chain) in the past, and this never should be repeated, in other words, the crackdown on hold'em pubs should not be extended to regulate legal gambling business.*

The government is required to review youth-focused illegal gambling regulations and prevention policies.

More than 40% of adults who engage in illegal gambling used to belong to the group at risk for gambling addiction in their adolescence. The following are the results of our survey on the respondents' experience of illegal gambling in adolescence: 76.8% of respondents say that illegal gambling increases the likelihood of gambling addiction; 71.2% of respondents believe that it raises the possibility of using loan sharks and experiencing illegal collections; and 60.7% of respondents think that it makes them more likely to commit fraud and theft.

The following results show that the government has to look into new policies in light of changes in the illegal gambling market: 84.6% of respondents say that illegal gambling is becoming more prevalent; 91.5% of respondents believe that the use of cryptocurrencies for illegal gambling is growing; 43.5% of respondents see that cryptocurrency is actually being used for illegal gambling; and 68.7% and 72.6% of respondents say that hold'em pubs and avatar casinos are proliferating, respectively.

The following outcomes display that the government agencies' responses to illegal gambling need be changed: 47.9% of respondents show negative response to the effectiveness of addiction counseling treatment; 67.0% of respondents answer positively to the establishment of a dedicated illegal gambling unit at the NGCC; 66.1% of respondents display positive perception about the effectiveness of the policy to offer monetary incentive to those who report illegal gambling; and 66.9% of respondents give positive response to the government's supervision of illegal gambling in collaboration with private sector.

The following responses indicate that new policies to address illegal gambling's association with other crimes should be developed: 65.6% of respondents say that illegal gambling is engaged with drug-related international crimes; 59.2% of respondents believe that illegal gambling is linked to transnational crimes involving human trafficking; and 53.3% of respondents find that illegal gambling is connected to terrorism-related transnational crimes.

The following results present that the strategies to regulate illegal gambling should be reinforced: 71.0% of respondents believe that imposing fines on illegal gambling users would be effective; 71.9% of respondents reckon that restricting or suspending the licenses of illegal gambling venues would be effective; 70.5% of respondents suppose that training professional reporters would be effective; and 67.9% of respondents say that a government-led consultative body would be effective.

The following responses show that the strategies to prevent the number of people from being drawn into illegal gambling should be examined (i.e., strategy to support the legal gambling industry): 63.5% of respondents respond positively to the idea of licensing the private gambling industry; 56.2% of respondents are positive about the idea of supporting the legal gambling industry as a leisure sport; 59.3% of respondents show positive reaction about strategies to improve the image of the legal gambling industry; 64.4% of respondents respond positively to the government's active support for promotion; 59.4% of respondents display affirmative response to the idea of increasing purchase limits; 57.3% of respondents believe it is necessary to reconsider restrictions on inter-racecourse betting; and 63.3% of respondents are positive about the idea of raising the rates of return to customers.

The following responses reflect the respondents' perception about the appropriateness of the current strategies to encourage illegal gamblers to move to legal gambling: 52.1% of respondents show positive response to the idea of increasing the payout rate, for example, by excluding taxes from refund to be paid out.

The recommendations for regulatory policies for online illegal gambling are as follows: regulatory policies for online illegal gambling are required to dissuade illegal gambling users by enhancing the competitiveness of the legal gambling industry and thus reduce demand for the business; to this end, there is an urgent need to ease regulatory policies that currently aim at the legal gambling industry, such as raising the rates of return to customers, allowing online access and improving convenience of purchasing, etc.; and at the same time, it is necessary to increase the promotion on the legal gambling industry's compliance with social responsibility, such as education for addiction prevention and treatment, user protection policies, and ensuring of fairness.

The following are recommendations for policies to license the private gambling industry: the licensing policy of the private gambling industry has positive implications in terms of a new source of revenue and ensuring of transparency, but the debate on the policy is still continuing. As some of this policy's aspects are not in line with domestic situation and more in-depth review is needed. In the cases of US/Europe, even though they adopted deregulatory approach of permit-based policies, illegal gambling has continued to spread.

In the case of Korea, it is required to improve the competitiveness of the legal gambling industry through deregulation but at the same time regulate illegal gambling. One of the main issues associated with illegal gambling is gambling of adolescents. Their experience with illegal gambling represents a significant risk in that it can lead to gambling addiction and spill over into other crimes. In this regard, it is important to study the mechanisms (pathways) of youth illegal gambling experience and criminal behavior, establish a practical monitoring system in illegal gambling prevention education and promotion strategies, and investigate the experience of crime perpetration and victimization triggered by illegal gambling and develop countermeasures.

Another main issue related to illegal gambling is the emergence of variants of gambling. The spread of illegal gambling using cryptocurrencies has made crackdown and arrest, and confiscating of gambling funds difficult. In order to ensure the enforcement of relevant laws and the responses of the relevant ministries be effective, fundamentally integrated laws should be enacted and relevant existing laws should be revised. The relevant government agencies' approaches should be changed. Strategies for regulating illegal gambling need to be strengthened. In particular, given the limitations of addiction counseling treatment, a transition to medical treatment is required. It is also necessary to establish a dedicated illegal gambling unit, increase monetary incentives for reporting illegal gambling, and refine how to control and supervise illegal gambling in partnership with private sector.

The Korea Communications Standards Commission (KCSC) is required to block illegal gambling sites. The KCSC should expand its manpower, reinforce monitoring activities, and immediately block overseas illegal gambling sites upon recognizing them. The agency is required to monitor all potential sources of illegal gambling such as texts, SMS and pornographic sites, and shut them out without delay if they are linked to illegal gambling sites. Since illegal gambling sites are using data alteration with repeaters and changing their addresses often to confuse investigative agencies ['mirror websites'], the KCSC should cooperate with the Korea Internet & Security Agency or investigative agencies to crack down on and regulate related promotional businesses and monitor relevant domains.

Cryptocurrency regulation by the Financial Services Commission (FSC) and the Financial Intelligence Unit (FIU) is also required. In the case of cryptocurrency exchanges, the Act on the Reporting and Using Specified Financial Transaction Information should be amended and supplemented to impose anti-money laundering obligations such as Customer Due Diligence (CDD), reporting of large cash transactions, and reporting of suspicious transactions, just as it does for general financial institutions. It is also necessary to analyse the blockchain where cryptocurrency transactions are stored, identify the flow of money laundering, train experts in the field, and block cryptocurrency addresses with international organizations such as Interpol. Relevant data such as financial transaction details and taxation data from the Financial Intelligence Unit (FIU) should be shared.

A dedicated joint task force should be established. Illegal gambling is highly organized and evades investigation efforts, making it necessary to crack down on it and confiscate its proceeds. In addition, it is necessary to consider setting up a dedicated joint response team under the National Police Agency, the NGCC, the Prime Minister's Office, and directly under the President (including the National Intelligence Service). This law enforcement unit should be able to mobilize investigative forces based on expertise and experience, and take comprehensive measures by function, from evidence collection to cooperation for investigation, blocking gambling sites, and confiscating illegal funds. International cooperation is essential to arrest and prosecute online gambling operators. A system to facilitate international collaboration with countries that do not regulate online gambling should be developed. Korea is also required to join the Convention on Cybercrime to facilitate international joint investigations and rapid collection of relevant evidence.

New paradigm of the legal gambling industry need be considered. Given the domestic situation and environment, the state and the NGCC should ease the regulations of the legal gambling industry to enhance the competitiveness of the legal industry, and law enforcement agencies and related organizations should curb and strongly regulate the illegal gambling market. The competitiveness of the legal gambling industry should be enhanced to secure a new source of tax revenues, and encourage the illegal market to move into the legitimate area, and prevent youth gambling addiction.

The Model for Combatting Illegal Betting

By Martin Purbrick, Chairperson, ARF Council Anti-Illegal Betting and Related Financial Crime

The ARF Council has talked about the scale and impact of illegal betting for many years and the threat from illegal betting has consequently become better understood. With greater understanding of the threat from illegal betting, stakeholders need a model to combat the problem. This article outlines the components of this model.

There remain strong reasons for the development of national models to combat illegal betting due to the increasing negative impact of the issue. Illegal betting markets are huge and expanding globally from a strong base in Asia. Criminal groups control illegal betting operations in Asia. Illegal betting has consequently become a transnational organised criminal problem that involves diverse financial crime and lost tax revenue due to the scale of this ‘black economy’. Illegal betting is the major threat to racing and sports integrity, and if not combatted can completely undermine public confidence in racing and sports.

Combatting illegal betting requires collaboration between government agencies, private sector entities in the technology and finance sectors, racing and sports operators as well as regulators. This is a diverse set of stakeholders and persuasion is required to bring them together with a model that shows benefit to all of those involved. However, this can be done and there is a national model that is an example to other countries.

The Australia Model

Australia’s national model has been well planned, implemented, and is an example to other countries of a successful approach to combat illegal betting. The strategy in Australia is not focussed on “illegal betting” per se, but the wider national strategy to safeguard the integrity of sport includes recognition of the impact of betting and addresses this to mitigate the threat. The national strategy in Australia has evolved in the past decade and been influenced by several major pieces of research work.

In 2017, Michael Andrew presented the final report of the ‘Black Economy Task Force’ which reported that “Based on the earlier studies and the Taskforce’s consultations with relevant agencies, illegal gambling activity could be between \$1.3 and \$2 billion today, with about 60 per cent relating to the racing industry.”¹ The work of the Black Economy Task Force documented illegal betting and gambling as a major part of the ‘black economy’ that “provides Australian users with higher returns that reflect Australian taxes not paid.”²

In 2018, ‘The Review of Australia’s Sports Integrity Arrangements’, known as the ‘Wood Review’ after the Honourable James Wood AO QC who led the review, reported that “Our inquiries have shown that, at the international level, there has been a huge growth in sports wagering, particularly in Asia, which because it is in a similar time

zone, makes wagering on Australian sports convenient. This has created a low-risk, high-profit environment for the manipulation of sports competitions (match-fixing) at all levels, but particularly at sub-elite levels where there is less monitoring and visibility, and also an attractive avenue for organised crime to engage in money laundering.”³

These reviews positioned Australia as a leading nation with the understanding of why and how to safeguard sports integrity, and in particular highlighted the significant threat from illegal betting on racing and other sports. The ‘Black Economy Task Force’ made the following recommendations⁴ to combat illegal betting and gambling:

1. The government should enforce existing laws.
2. The government should require ISPs to block offshore sites that are offering illegal gambling services to Australians
3. The government should encourage banks to prevent transactions to and from offshore wagering websites.
4. Prevent regulated gambling sites from accepting bets sourced from unregulated sites.
5. Racing regulators should publicly warn off people from attending racetracks and prosecute them if they are found to be using unregulated gambling sites.
6. Australian law enforcement agencies should exchange information about unregulated gambling with their international counterparts.
7. Better use should be made of information contained in stored value cards and betting vouchers should be analysed to seek out potential criminal networks.
8. The government should prevent gambling from being used to shelter tax evasion.

The Wood Review proposed the formation of a single body to address sports integrity matters at a national level (a national sports integrity commission), and also addressed the threat from illegal betting to integrity in sports and made the following recommendation:

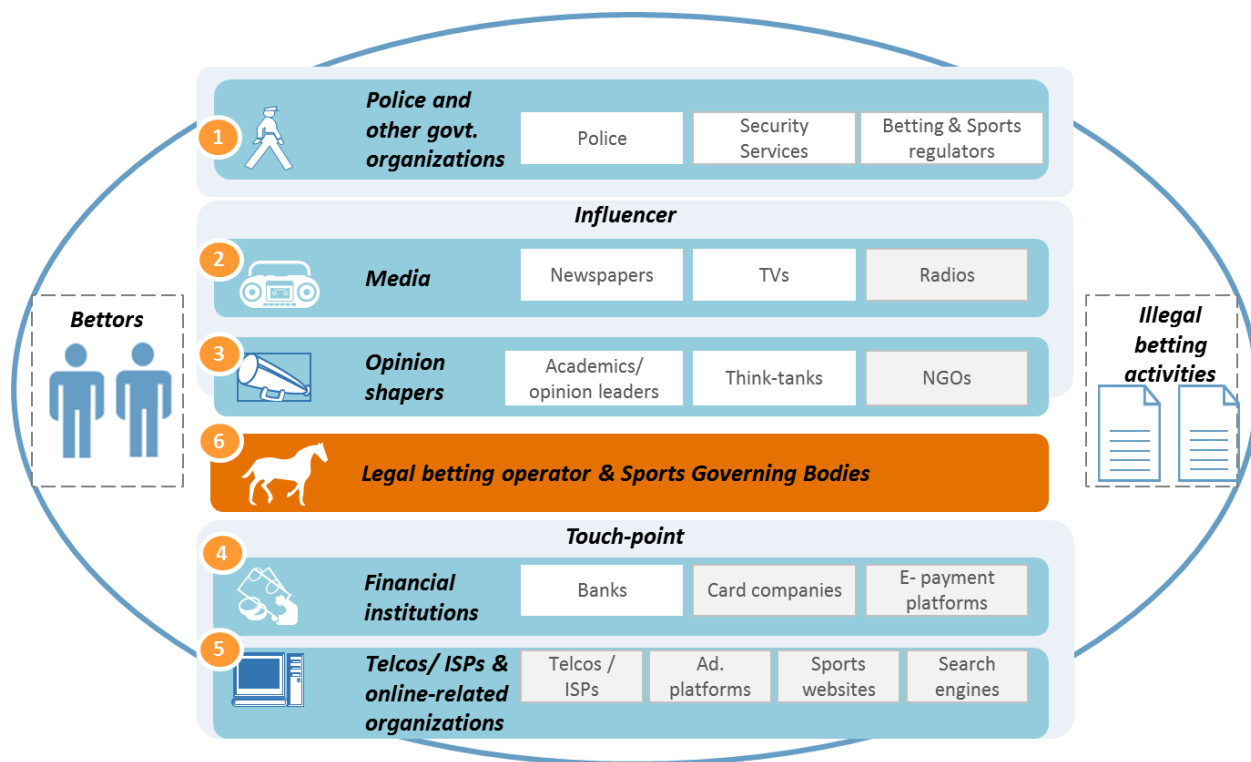
“[That] the Australian Government, as a matter of urgency, formalise and expand the work of the Sports Betting Integrity Unit by establishing a ‘National Platform’ type entity with the powers and capabilities required to address the threat of match-fixing as outlined in Article 13 of the Macolin Convention (including the national regulation of sports wagering, administering the Australian Sports Wagering Scheme, and for information and data sharing).”⁵

The reviews in Australia paved the way for the creation in 2020 of Sport Integrity Australia, which has led to the creation of the National Integrity Framework, “a world-first process to deal with integrity issues in sport” that is “essentially a set of rules that all members of a sport need to follow when it comes to their behaviour and conduct in sport.”⁶ In addition, in 2019, the Australian government became a party to the Macolin Convention, the Council of Europe multi-lateral treaty aimed at combating match-fixing and other related corruption in sport.

With these reviews and outcomes, Australia has become a leader in sports integrity, including the related combatting of illegal betting on racing and other sports.

The ARF Council Model

The ARF Council advocates the use of stakeholder engagement as a means of aligning key organisations to understand the threat from illegal betting and to act accordingly. The recommended stakeholder engagement model includes the following sectors:



Police and other government organisations, including regulators, are essential for enforcement action against illegal betting operators. Media organisations are necessary to educate the public as well as wider groups of stakeholders of the threat from illegal betting. Similarly, think tanks and NGOs have a strong education role. Financial institutions are essential to help cut off payment methods for illegal betting operators. Telecommunications companies and Internet Service Providers as well as related online services are needed to block illegal betting operators access to online services.

Stakeholder engagement is the step to bring organisations together to understand and combat illegal betting, but a national model requires a clear set of priorities that should be objectives for the national model to address. There has been much good work in this space from international organisations. The Council of Europe (Macolin Convention), INTERPOL, and the United Nations Organisation on Drugs & Crime (UNODC) have all engaged with racing and other sports stakeholders to highlight the threat from illegal betting and related financial crime.

Going beyond stakeholder engagement, the creation of national models, based on appropriate national platforms, is essential for long term success. To that end, some recommended priorities and objectives of a national model to combat illegal betting are as follows:

1. **Gambling regulators should adopt the Macolin Convention definition in national gambling regulation.**

The Council of Europe Convention on the Manipulation of Sports Competitions Article 3,5,a states that *“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.”* It is an essential condition for the effective control of betting that betting operators must be licensed in the jurisdiction where they accept a bet from the consumer (i.e. at the point of sale).

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

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. Law enforcement agencies should take prosecution action against betting and gambling operators that breach local laws by operating without a local national license.

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

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

Legislation is required to allow for blocking of illegal betting websites, which should be enforced by the national telecommunications authority. National law enforcement agencies should exchange information about unregulated gambling with their international counterparts.

5. **Financial institutions should lobby operators to 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.

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.**

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.

Globally, sports, racing and the legal betting industry must work with governments and international organisations to bring pressure to bear on betting tax havens and jurisdictions which act irresponsibly and enable illegal betting. There are havens for illegal betting operators which provide the pretence of legality but are outside of national gambling regulatory systems.

The ARF Council will continue to work with stakeholders in racing and other sports to combat illegal betting, and build the national models that are an essential part of these efforts.

References

¹ Black Economy Task Force, *Final Report*, October 2017, P. 32.

² Ibid.

³ James Wood AO QC, David Howman CNZM, Ray Murrhly, *Report of the Review of Australia's Sports Integrity Arrangements*, 2018, P.7

⁴ Black Economy Task Force, *Final Report*, October 2017, PP.315-319.

⁵ James Wood AO QC, David Howman CNZM, Ray Murrhly, *Report of the Review of Australia's Sports Integrity Arrangements*, 2018, P.14.

⁶ Sport Integrity Australia, National Integrity Framework (<https://www.sportintegrity.gov.au/what-we-do/national-integrity-framework>)