



Dear all,

Welcome to the third ARF Council Bulletin of 2022, in which we highlight and summarise our major new publication *'The State of Illegal Betting'*, which can be downloaded [here](#), as well as articles regarding Macau casino junkets and illegal betting and tote manipulation for illegal market betting.

'The State of Illegal Betting' is a most comprehensive insight into illegal betting as a major threat to the integrity of racing and other sports, as a challenge to the effective regulation of legal betting (which is being obfuscated by countries issuing licences falsely purporting to have international coverage), as a criminal justice problem where organised crime groups profit from illegal betting, and as a social problem causing greater problem gambling. We urge stronger collaboration to continue to combat the problem of illegal betting so that together we can protect the integrity of racing and other sports. I hope this report helps.

We are delighted to welcome three new members with deep experience in international sports integrity to the ARF Council. They are Ms. Aahna Mehotra, Partner TMT Law Practice, India; Professor Steve Cornelius, Head of the Department of Private Law and Director of the Centre for Intellectual Property Law, University of Pretoria; and Mr. Pim Verschuuren, Associate Research Fellow, University of Lausanne.

Martin Purbrick
Chairperson

Asian Racing Federation Council on Anti-Illegal Betting & Related Financial Crime



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The State of Illegal Betting

The State of Illegal Betting report includes analysis of more than 500 betting websites to examine their licensing status, products offered, website traffic, server locations and other data points.

Key findings include that 61% of betting websites examined are effectively illegal in most jurisdictions while only 39% were legal, i.e. by being Licensed and Regulated in the jurisdictions where they accept bets.

Three jurisdictions (Curacao, Malta and the Philippines) are responsible for 62% of the licences for online betting operators that we define as “Licensed but Under-regulated”.

These illegal betting markets are growing rapidly and at a faster rate than the legal market. While traffic to all betting websites analysed (legal and illegal) grew by 37% from 2019/20 to 2020/21, traffic growth was much higher for illegal betting websites (64%) compared with legal betting websites (36%).

Horse racing remains a significant betting product available on approximately 36% of all betting websites, with racing in ARF member countries and regions featuring on 82% of these; football, basketball and tennis remain the most prevalent sports for global betting.

But notably, most (81%) sports betting websites offer many more products than just sports betting. E-sports is now available on 63% of all websites.

Customers of legal and illegal betting websites are mostly young (~60% under 34), male (64%+) and on mobile devices (76%+). Cryptocurrencies are accepted by 24% of all betting websites, with 63% of which are illegal.

Third-party betting software from business-to-business suppliers is used by 73% of websites – this makes it simple to set up an online betting operation with limited technical expertise or capital overhead. Another notable technical point is that 42% of websites have “mirror websites” (exact replicas of the primary betting website under different URLs) used to evade regulatory attention, even in the case of some (4%) legal websites.

Global demand for online betting thus continues to accelerate faster than some stakeholders’ understanding of key issues – and illegal betting is growing in popularity much faster than Licensed and Regulated betting, a fact that should concern both those Licensed and Regulated operators and also authorities in racing and other sports, government regulators and other stakeholders.

As noted above, horse racing, and notably racing in ARF member countries and regions, remains a significant betting product in illegal markets. However, the growth of e-sports is significant, given this product’s particular appeal to younger demographics thus potentially attracting young people to underage and/or illegal betting. The fact that the vast majority of all sports betting websites offer other products such as addictive random-number digital slots and similar products is also of concern, since unlike sports betting there is no skill involved in these products, and they are designed to be addictive.

Technologies such as mirror websites, third-party software and cryptocurrencies mean it has never been easier to be an online bookmaker or bettor, regardless of individual jurisdictions’ gambling laws. These are widespread in illegal betting websites because they respectively enable operators to evade regulatory attention, to set up betting websites with little to no technical expertise or staff overhead, and allow transactions and funds transfers to take place away from regulatory scrutiny.

A distinction has to be made between Licensed and Regulated operators which are focused on their own local market, and those which pursue customers in offshore markets where online betting is illegal/unregulated.

Stakeholders, including customers and regulators, need to be educated to understand this distinction. Most importantly, gambling regulators need to be clear that licences issued by “Under-regulated” jurisdictions which facilitate sales taking place in other jurisdictions are effectively illegal betting.

As well as website analysis, the Report features key commentaries from ARF Council members, drawing on their vast expertise in areas such as betting analysis and monitoring, racing investigations, problem gambling research, sports integrity and sports law and law enforcement.

Key findings include the fact that so-called ‘white-label’ licensing is a key weak spot in even some well-regulated markets, enabling illegal betting operators to, in effect, portray themselves – typically to customers in areas where online betting is illegal or heavily restricted - as licensed operators in respected regulatory regimes such as the United Kingdom.

This is one reason why the report describes the online betting market as increasingly ‘hybridised’ between legal and illegal markets – i.e. that what should be clear distinctions are increasingly blurred, particularly in the eyes of the target users of such websites but even also to sports, governments and other key stakeholders.

This blurring of the lines has significant impact on consumers, who cannot tell what is legal or illegal in their jurisdictions. This is not only a fine legal distinction but has damaging impacts on users and wider society, since illegal websites are associated with greater gambling harm than legal.

The report’s examination of key corruption and racing integrity developments underlines the fact that betting-related doping and other corruption remain major threats to the integrity of racing and other sports.

This globalised growth of illegal betting results in major threats to the integrity of racing and other sports, the growth of transnational organised crime, and gambling harm to customers. It is clearer than ever that illegal betting is a major global social problem that requires continued attention.

Macau Casino Junkets, Illegal Betting and Organised Crime

By Martin Purbrick, Chairperson, Asian Racing Federation Council on Anti-Illegal Betting and Related Financial Crime

In November 2021 and in January 2022, the Macau Special Administrative Region (SAR) Judiciary Police arrested people involved in operating two separate casino VIP customer “junkets” for engaging in illegal gambling activities, running a criminal syndicate, and money laundering. The criminal groups are alleged to have used their VIP junket business in Macau casinos to recruit Mainland Chinese residents to engage in illegal online gambling on overseas platforms and illegal side-betting, with the proceeds of the syndicate then laundered and transferred through the junket accounts of the casinos using underground banks. It has become clear that the Macau casino junkets have continued to be used by organised crime groups and also been a key part of the growth of online illegal betting and gambling in Asia.

The arrests in Macau followed warrants issued in November 2021 by the Wenzhou Public Security Bureau, Zhejiang Province, for the chairman of the Suncity junket (the largest in Macau) relating to the operation of cross border gambling on behalf of the Suncity Gaming Promotion Company. He was arrested in Macau in the following week.

There had seemed to be advance warning to the junket operators. In July 2019, a state-run news report denounced Suncity, the biggest Macau junket operator, for facilitating illegal online gambling in which Suncity denied the accusation. The report said that the practice had caused “great harm to China’s social-economic order”, and claimed that the annual amount wagered online by Suncity mainland clients was over 1 trillion yuan, equivalent to a staggering USD 150 billion ([Economic Information Daily](#), July 8, 2019), greater than the typical annual turnover of the online legal betting product in Mainland China, the state lotteries.

The crackdown by the PRC authorities started several years ago, and has now reached Macau casino junkets. In July 2019, ZHAO Kezhi, State Councilor and Minister of Public Security, announced that appropriate departments should take special action to crack down and destroy criminal organisations involved in illegal online gambling, underground banks, and network payment platforms ([State Council](#), July 13, 2019). The actions were swift and international in scope. In January 2021, the Ministry of Public Security announced that during 2020, over 600 suspects were repatriated by Chinese police in collaboration with counterparts in countries including the Philippines, Malaysia, Myanmar, and Vietnam ([State Council](#), January 6, 2021). By April 2021, according to ZHAO Kezhi, the police had investigated over 17,000 cross-border

gambling and related cases, apprehended 110,000 suspects, and stopping over 3,400 online gambling platforms and over 2,800 illegal payment platforms and underground banks ([State Council](#), April 8, 2021).

By the time of the crackdown by the Chinese authorities against illegal gambling from 2018, it was clear that Macau junkets and the triad leaders involved in the largest operators were deeply involved in cross border organised crime. The ARF Council [reported](#) in September 2021 that around 1 trillion yuan (~USD145 billion) flows out of China via illegal online gambling websites annually. Macau casino junkets seem to have been a major part of these growing criminal enterprises, which need to be understood across the rest of Asia where these groups also operate gambling businesses.

Tote manipulation for Illegal Betting

By Thomas Chignell, Executive Manager, Racing Integrity and Betting Analysis, The Hong Kong Jockey Club

Totalisator ('tote') is how many people commonly refer to the parimutuel betting system, which was first used in a mechanical device in New Zealand at Ellerslie Racecourse in 1913, followed by Australia in 1917, Great Britain in 1928, and in the USA in 1932. Tote betting became popular as it was an alternative to illegal bookmakers and returned revenues back into the horseracing industry. The chance of fraud in betting was reduced as the amount wagered is divided from a single pot pro rata to the winning tickets.

Tote betting on horse racing provides not only fairness in the bet but a relatively efficient market where dividends are settled based upon the weight of money on selections. Tote prices are calculated by the final amount wagered on each horse, and it has long been observed that a significant proportion of all money wagered in a race is placed in the final minute before the race starts, with the final dividend price not known until after the horses start racing.

The opening tote prices hours before the race start do not reflect the true value of horses running, which is clarified as bets increase and the market's prediction becomes more accurate until it reaches a price at the point of the race.

This summary touches on incidents of market manipulation, which even though rare, do occur on the horseracing tote systems as well across other types of betting markets.

Relationship between illegal and legal markets

Analysis of legal and illegal markets suggests that the odds (prices) in both are generally very closely correlated. Any significant price difference between legal and illegal betting markets tends to be levelled out by arbitrage bets where the betting selection (i.e. a horse or team) can be traded at prices across multiple betting operators to guarantee a profit whatever the outcome of the event. A notable exception to this is if an event is subject of manipulation of the outcome and the price becomes less important to the betting operator or bettor with knowledge of the fix. In these situations, those with inside information about the fix can continue to offer a price above the rest of the market or can take prices below the market price as they know the outcome of the event.

Odds movements on both legal and illegal markets tend to travel in the same direction. If a horse or team is a positive on the illegal market it is highly likely to also be a positive on the legal market, and vice versa if the horse's odds move in a negative direction. The strong correlation between legal and illegal markets can offer opportunities for price manipulation.

The growth of the illegal betting market has increased perceived incidents of market manipulation in the legal market.

Dividend manipulation on Tote systems

Opportunities to profit from manipulating local horseracing tote dividends has increased due to growth of illegal betting on horseracing. Illegal market operators settle bets at local tote dividends. The illegal operators keep the bets themselves rather than commingle the bets into the local tote pool meaning the final tote dividends are not truly reflective of the total weight of money on each selection. This creates an opportunity where the local tote pool can be manipulated to increase the dividend (and profits) on large bets placed with illegal market operators.

Over the last decade and as recently as 2021 there have been incidents in some jurisdictions with small tote pools of unusual tote returns where, in the seconds before the race, money is placed on every other selection in the race except for the forecast short-priced selection, which results in the forecast favourite selection returning a local tote dividend dramatically higher than expected and which appears unrealistically big.

The bets placed into the tote are placed upon selections which are highly likely to lose and not on the most likely winning selection. The bets are large relative to the tote pool size and significantly shorten the odds on those selections, and in doing so, inflate the final dividend of the most likely winning selection which is subject to much larger bets with illegal betting operators.

For the manipulation to be successful the bets have to enter the local pool as close to the start of the race as possible to prevent other gamblers placing bets due to the odds change. On some occasions the bets have been placed so late into the pool that the odds have not changed before the race started and therefore removing the opportunity for other customers to place bets at the inflated odds.

The manipulation is specifically focused on obtaining heavily inflated odds via the illegal market on selections which should be the short price favourite. For the dividend manipulation to be successful, the winnings are made from bets placed in the illegal market.

Conclusion

Incidents of dramatic, and often unexplained market movement, can cause confusion with regular bettors and undermine the public's confidence in the sport and the betting markets. Even if a racing authority does not operate the local tote betting, it is in the interest of the sport that customers believe the betting markets are fair and transparent. If the race is won by an unlikely winner and not the likely favourite, the dividends would be very small which may lead to allegations such as race-fixing.

Racing jurisdictions with smaller tote turnover sizes are possible targets. Manipulation is more likely to happen in tote pools which have usually low turnover as they require less investment to manipulate than pools with high turnover. The larger the pool size is, the more expensive it will be to manipulate the dividends.

There are clear characteristics which can help racing regulators and tote operators identify pool manipulation activity. These characteristics include:

- Size of bets - highly unusual large bets on selections perceived as having the least chance of winning.
- Timing - the bets are placed in the last few seconds and the odds changes may not even become public prior to the race starting.
- Inflated odds on most likely winning selection and very short odds on the least likely winning combinations.
- Races with small number of runners and with an expected short-priced favourite have been targeted for dividend manipulation as the likely outcome is very predictable.
- The turnover of the total pool size is likely to be significantly larger in size compared to regular size i.e. may treble or quadruple in size.
- Not limited to a single market but can take place for example in the Win market or Quinella markets.

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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 18 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	Melbourne University
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