UK POC bill
Does GBGA challenge stand a chance?

Jersey sure
Bill Pascrell confident on NJ i-gaming
Money laundering through online gaming sites – myth or reality?

Certified anti-money-laundering specialist Christine Duhaime challenges the notion that regulated online gaming is attractive to money launderers.

In the past few months, the media has published numerous stories alleging that money laundering is rampant at online gambling sites and that no one in the industry is doing anything about it. According to these news reports, hundreds of millions of dollars are laundered online through licensed gambling websites partly because the internet allegedly affords criminals an anonymity to launder proceeds of crime that is not available at traditional land-based casinos.

A recent report called Jackpot! Money Laundering Through Online Gambling is illustrative. It found that there is a growing problem of money laundering at licensed (or regulated) and unlicensed online gambling sites, although it could not point to any source for that information. The authors of the report apparently studied online gambling websites from around the world before concluding that there was a rampant problem of money laundering in the online gambling environment.

Many of the regulated online gambling sites the report listed are not regulated by governments at all. For instance, the report said that there are 120 regulated online gambling sites in Canada that are problematic for financial crime. However, Canada only has three government-regulated online gambling websites and all three are operated by an arm of government. None of the three regulated online gambling websites in Canada have ever been cited for money-laundering problems.

The reality is that there may be money-laundering activity occurring on some online gambling websites but if it occurs at all, the vast majority takes place on unregulated and unlicensed websites and likely none of it occurs in jurisdictions where there is a mature or strong regulatory gambling regime in place such as in Canada or the US.

That's because, in those jurisdictions, the regulated online gambling operations are subject to federal proceeds-of-crime legislation that requires that players be identified before they can gamble and it also requires that any suspicious activity be reported to financial intelligence units. Moreover, regulated online gambling websites can only provide services to gamblers through equivalently highly regulated financial institutions, which are likewise subject to the identification and reporting requirements under anti-money-laundering law.

Whether they realise it or not, in the regulated online gambling regime, the financial transactions, financial activities and gaming activities of players are closely monitored, providing very little opportunity for real money laundering to take place without quick detection.

Money launderers thrive in anonymous environments, not in environments where their ID and IP information is tracked, stored and, when suspicious, reported to government agencies.

So does money laundering happen with online gambling?

Studies show that deposit-taking institutions - such as banks, funds, and trust companies - and not gambling businesses, present the greatest money-laundering risk and outnumber all other laundering vehicles combined.

While money laundering may take place at some online gambling sites, because of the ubiquitous nature of the activity, it is nearly impossible to produce accurate statistics on the extent to which it occurs, or the amount of money involved.

News stories that involve online gambling websites and money laundering tend to involve situations whereby a person or a company is charged with a money-laundering offence for operating an unregulated online gambling site, not for laundering proceeds of crime through an online gambling website. The distinction is an important one.

In some countries, operating an online gambling website without government approval may be illegal and the revenues from that operation are then proceeds of crime, thus when those companies are shut down, or their directors and officers arrested, the event results in news headlines of money laundering at online gambling websites when that may not be what actually transpired.

Very often, companies and executives are charged or indicted with money-laundering offences in connection with online gambling operations because such a charge lowers the requirement for extradition under anti-money-laundering law.

As the EU moves to strengthen its anti-money-laundering requirements applicable to online gambling, and generally for all obliged entities within the financial system, including online payment platforms and money services businesses, there will be a significant decrease in the ability of anyone to use online gambling sites for laundering proceeds of crime. That applies even to unlicensed and unregulated sites.

The reason for this is that all along the anti-money-laundering reporting chain, any flow of funds for online gambling that is suspicious will be flagged and reported to multiple financial intelligence units by many more obliged entities in an effort to squeeze out criminal proceeds in the online gambling environment in the EU.

In addition, in the EU, there seems to be pressure from several fronts to monitor, and where warranted, prosecute money services businesses and payment processors who have inadequate international anti-money-laundering policies and procedures in place that service online gambling sites. The areas they fall short in - and will be prosecuted in the online gambling environment in the EU - is in compliance with international (not national) sanctions laws, international counter-terrorism laws, understanding and checking for beneficial ownership of companies, and understanding and ascertaining from clients (not from paid-for databases) whether they are a politically exposed person.

The UK recently announced revised anti-money-laundering guidance that approves personal liability and incarceration of business owners, officers and directors of money services businesses for anti-money laundering and counter terrorist financing failings.

Under its revised guidance, money services businesses that service online gambling websites will be required to train personnel, understand beneficial ownership law, conduct adequate non-face-to-face customer due diligence verification through lawyers, bankers or other professionals, undertake enhanced due diligence for politically exposed persons, file mandatory reports, identify risks and have proper procedures in place to mitigate those risks.

As the online gambling business becomes more global and more sophisticated in its legal obligations, we will see more compliance with anti-money-laundering international standards in the industry. In anticipation of increased anti-money-laundering requirements impacting the industry, online gambling companies should update their policies and procedures now.

Christine Duhaime is a gaming attorney and anti-money-laundering legal specialist for the casino and gambling industry.