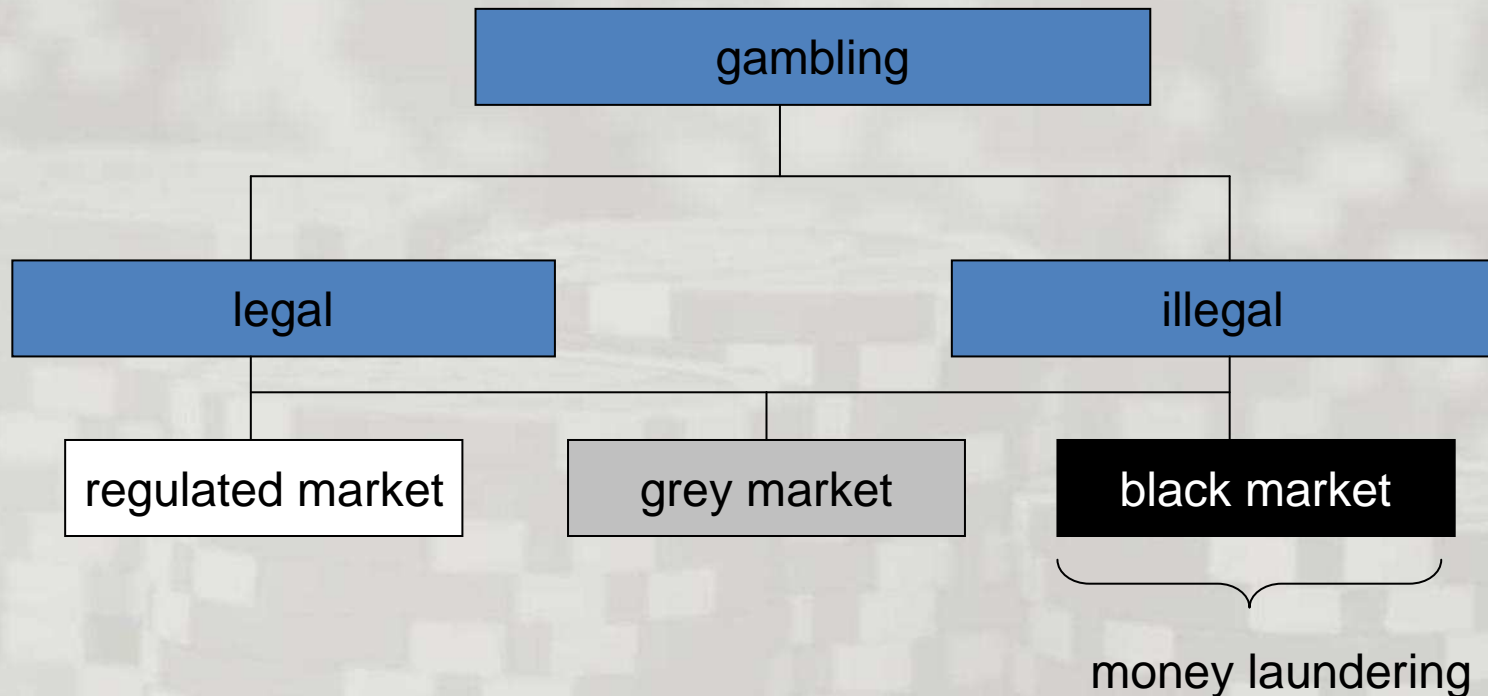


International Research Institute for
Gambling and Gaming

Prof. Dr. Dr. Peren

**Prevention of Money Laundering in
Online Poker**

Money laundering works only in the black market.



- Gambling and gaming only in the black market allow money laundering, and prevent effective player protection and preventive measures.

Peren, F.W. / Clement R. (2013)

2013-02-04

www.forschung-gluecksspiel.de

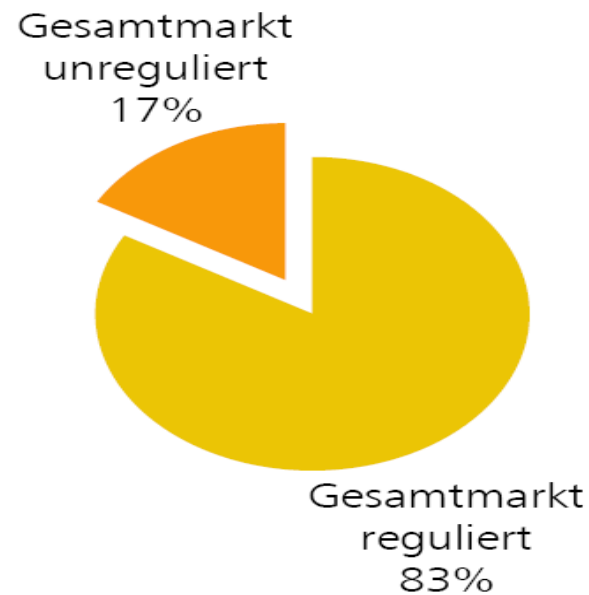
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Unregulated vs regulated market

Market shares of the unregulated and the regulated market in the overall market, in terms of the gross gambling revenue in Germany in 2009.

Basis: 10,3 Mrd. Euro Bruttospielertrag

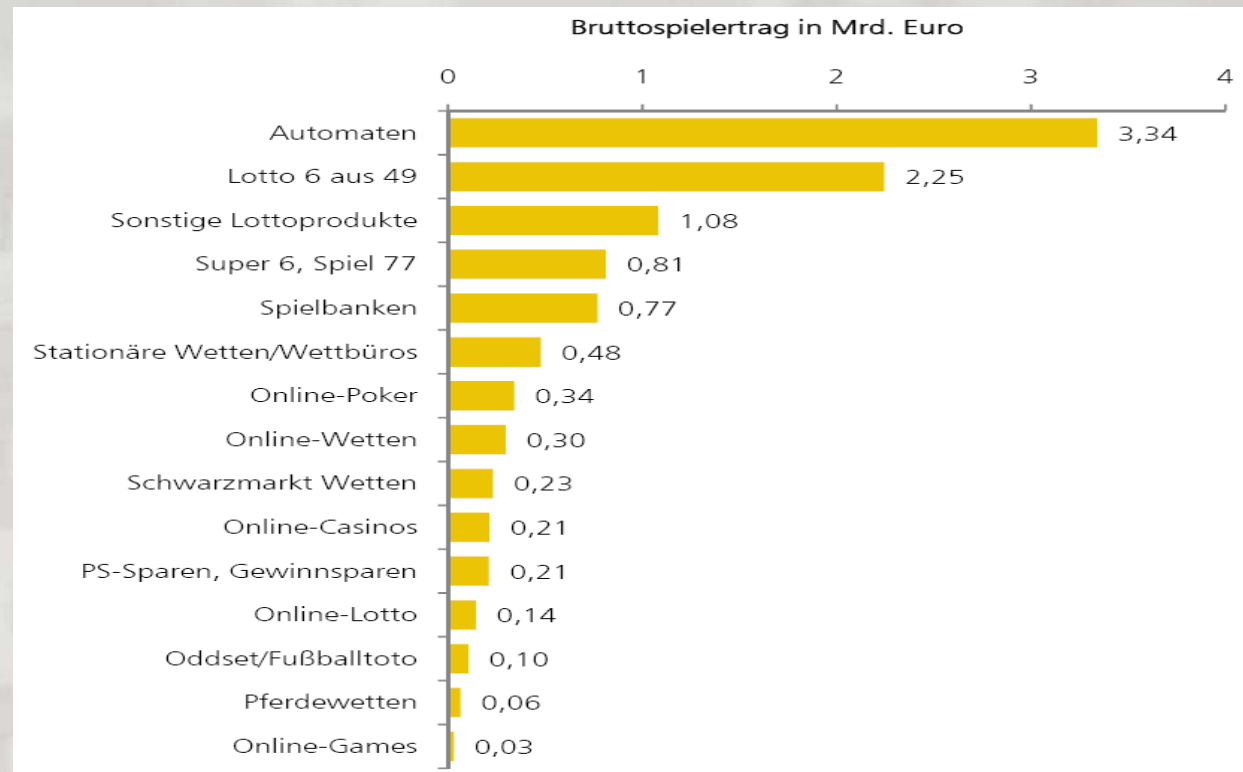


Distribution of gambling and gaming

Gross gambling revenue of gambling market segments in Germany in 2009.

Gross gambling revenue
(= difference between opening stake and legally distributed profits)

Goldmedia (2010)



The following questions have to be discussed:

- Would an (over)-regulation of legal markets contribute to the growth of illegal markets? And in last consequence the loss of public control?
- Could a (modern) regulation system transfer parts of the illegal markets into legal markets?

A complete ban or over-regulation may lead to a criminalisation of citizens and may force them into the black market. This leads to fiscal and financial losses as well as the lose of control to pathological players. Addiction prevention would get out of control.

Peren, F.W. (2012):

<http://www.landtag.nrw.de/portal/WWW/dokumentenarchiv/Dokument/MMA16-30.pdf>

A prohibition-oriented regulatory would canalize to foreign offers.

Pursuant to an empirical study commissioned by BITKOM, 39% of the players would change to foreign offers in the event of a complete enforcement of the ban on internet gambling against German providers.

"This number shows that a prohibition-oriented regulatory approach would push a significant portion of users towards foreign offers, and thus ultimately into grey or black markets."¹

Within Europe, Great Britain is the largest market for online gambling (2010: approx. 2 billion Euro). The German market comes second (2010: approx. 1 billion Euro). Followed by Italy (2010: < 1 billion Euro) and France (2010: < 1 billion Euro).²

¹ BITKOM, Bundesverband Informationswirtschaft, Telekommunikation und neue Medien (2010).

² PWC (2011).

The uncontrolled and unregulated market in Germany may grow.

BITKOM states:

"There is a clear demand from many gambling customers for online offers – in particular lotteries, sports betting and poker. The last two years have shown that users do not accept the ban on German providers, and circumvent this ban."

From an economic point of view, this means that obviously a great demand for online gambling is met by insufficient offers in the regulated area. On the other hand, online offers in the unregulated area can hardly be technically contained.¹

➤ In consequence, the uncontrolled and unregulated market in Germany may grow.²

¹ http://www.bitkom.org/de/presse/62013_61903.aspx.

² Daumann, F. (2012).

Indicators for money laundering in the online area of gaming.

Phase	Online indicators
Placement	Player accounts (anonymous cash deposits and cash transfers).
Layering	Chip dumping; multi-account abuse; arrangements (collusion) in order to agree on the acceptance of intentional losses or the sharing of profits.
Integration	Transfers from player accounts into the (legal) economic cycle.

How can risks broken down?

Plausibility considerations show that risks in the context of online games such as poker can substantially be broken down to the following core issues:

- It is necessary to clarify whether an unambiguous identification of players, or rather, mostly anonymous gaming is possible?
- It is necessary to clarify whether and to what extent the money laundering risks in the various gaming phases can be reduced by applying suitable measures?

The European Parliament

*"calls for cooperation among national regulatory bodies to be considerably expanded, with the Commission as coordinator, to develop common standards and take joint action against the unregulated black market; in particular as a means of identifying gamblers and combating money laundering, national standalone solutions are not successful; the GREF-net-work and the European Regulatory Platform could serve as a basis for this."*¹

¹ European Parliament (2011)

A ten-point-plan for the prevention of money laundering in online poker.

A **ten-point-plan**¹ to prevent money laundering risks in online gaming:

Phase	Risk prevention measures
Placement	<ol style="list-style-type: none">1. Player identification2. Risk matrix3. Setting limits4. No multiple accounts
Layering	<ol style="list-style-type: none">5. IT-based monitoring6. Transfers of monetary funds only after full identification7. Monitoring conspicuous factors
Integration	<ol style="list-style-type: none">8. Cooperation with credit institutions/ credit card companies9. Transparency of payment streams10. KYC principles for payment methods

¹ Peren F.W./Clement R. (2013)

1. Player identification

Placement / Layering

Phase	Identification requirement	Excluded
Admission to the game	Basic identification. Avoiding anonymity.	- minors - addicted players
	Temporary deposit limits.	
Gaming phase, Pre-gaming phase	Transfer of funds from the player account into the player's payment account only after a complete identification in accordance with § 9b of the German GwG-E.	

"It is therefore not possible to play anonymously with withdraw winnings, so that there is no incentive for players to conceal their identity."

TÜV, German Technical Control Board (2009)

2. Risk matrix for players

Placement

- **Customers** can be categorised in accordance with a **risk matrix**.
- ✓ A regular **examination** and a **dynamic adjustment** of the customer-specific risk class, seems to be reasonable.
- ✓ In this context it would for instance be possible to introduce a scoring model which categorises customers into a **numeric profile**.
E.g. like **AsTERiG** (Assessment Tool to Measure and Evaluate the Risk Potential of Gambling Products) to evaluate risk potentials in getting addicted by using different gambling products.

3. Setting Limits

Placement

➤ The sum of a **limit** could be linked to various factors:

- (1) The determination of certain maximum deposit limits, depending on the deposit method and on the player's suitability.
- (2) An increase of the maximum deposit limit is only done after a corresponding suitability test, in particular after an examination of the gaming history. In this context, no conspicuous facts must be detected.
- (3) The player can at all times request his definition of a lower limit.

4. No multiple accounts

Placement

- Only **one account** per player.

Furthermore, it must be ensured that a person will not be able to open several player accounts.

5. IT-based monitoring

Layering

By permanently monitoring the gaming activities, the risks caused by chip dumping, multi-account misuse and/or arrangements (collusion) in order to agree on the acceptance of intentional losses or the sharing of profits can be identified and minimised with a relatively high level of certainty.¹

In contrast to, for instance, conventional casinos, where it is not possible to track all gaming activities, online games offer the ideal possibility of monitoring the players' conduct from the outside.²

¹ <http://www.allesit.de/allgemein/sicherheit-beim-online-poker>

² Fiedler, I./Wilcke, A.C. (2011)

6. Transfers of monetary funds only after a full identification

Layering

A transfer of monetary funds should only be possible after a full identification. The following measures are recommended, and have in part already been put into practice:¹

- ✓ Continuous monitoring of profit and loss margins.
- ✓ Withdrawal of funds is only possible after participation in a game and after a full identification.

¹ Peren F.W./Clement R. (2013)

7. Monitoring conspicuous factors

Layering

- Money withdrawals, gaming history and gaming process can be analysed on the basis of certain algorithmic procedures.¹

¹ Peren F.W./Clement R. (2013)

8. Cooperation with credit institutions / credit card companies

Integration

Payment service, type of payment	in %
Credit cards	64 - 65
Cyberwallets	12 – 14
Bank transfers	11 – 13
Pre-paid cards	9 – 11

Approximately two thirds of all transactions in the online gaming sector are effected via credit card, a further 12% are effected via bank transfers.⁸

⁸ EU-Kommission (2011)

9. Transparency of payment streams

Integration

In order to ensure an effective prevention of activities with money laundering relevance in the online gaming sector, **cooperation by the credit companies** is indispensable, as credit cards are the dominating payment method.⁹

⁹ <http://online.casinocity.com/payment-methods/>

10. KYC principles for payment methods

Integration

- Transfers from player accounts to payment accounts (cash outs) should be only possible via selected payment methods (e.g. bank transfer, credit card) and might require additional identification documents from the player.
- In addition, all transactions should be reviewed automatically and in case of suspicious indications also manually.

- *“...in a regulated environment, the risks are lower than in land-based gaming and in cash-based businesses, due to the high traceability of transactions, betting limits and customer identification controls in the regulated sector.”¹⁴*
- The intention of the law is to lead players from the black market or the grey market, which is not regulated in Germany, into the regulated market. First of all this allows the reduction of money laundering risks.
- Combating of money laundering risks has to be in the providers' own interest.

¹⁴ Levi, M. (2009), page 9

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**Thank you
for your attention**