

PRESS RELEASE

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New report finds that online gambling is not susceptible to money laundering

A report produced by MHA Consulting for the RGA concluded that a combination of statutory and self regulation had effectively reduced the risk of money laundering through online gambling and that there were almost no examples of money laundering in licensed jurisdictions.

Some of the report's key findings were that:

- the absence of cases and examples of money laundering and terrorist financing within the remote gambling industry appear to indicate that the risks are low;
- there was a strong commitment within the industry to prevent and detect money laundering and terrorist financing, to comply with the various legislative and regulatory requirements and to co-operate with the authorities;
- whilst no service sector can be immune from the attention of criminals, there appears to be little evidence to support the view that remote gambling has, to date being particularly susceptible to money laundering and terrorist financing; and
- online gambling is not a likely accessible avenue for money laundering because: the identities of the gamblers are known; the financial transactions between the bettors and operators are all in electronic format; and all of the wagering is recorded.

The report also underlined the need for the industry to remain vigilant; to work with regulators, law enforcement agencies and others to disseminate best practice; and to ensure that all related rules and guidelines keep pace with technological developments and the inventiveness of money launderers.

Clive Hawkswood, the RGA's Chief Executive, commented: 'In the past a combination of misperception and misinformation has led many to believe that money laundering is a particular problem for the online gambling industry. That

is quite clearly not the case and we hope this report will go some way to dispelling those often quoted myths and introduce a greater level of objectivity whenever these issues are debated.

However, we are still a relatively new industry dealing with a relatively new framework of money laundering regulations. The industry has risen to the challenge, but cannot rest on its laurels and we will certainly be following up on the recommendations made in the Report.

This is an area where we must remain proactive and continue our work, both individually and collectively, with legislators and regulators as well as with groups such as the FATF, the Institute of Money Laundering Prevention Officers, and cross industry forums such as the Anti-Money Laundering Europe group in Brussels. We will also be looking to discuss with various governments how we might expand the available sources of information to build on existing data that is used to combat fraud and money laundering.'

Notes for editors

The MHA report (Executive Summary attached) reviewed the licensing regimes of those European jurisdictions which are home to most of the industry, and international anti-money laundering initiatives such as the European Money Laundering Directives and the Financial Action Task Force (FATF) standards. It then considered the practical application of the varying layers of regulation within the online gambling sector itself and whether there was any evidence to indicate that online gambling might be especially susceptible to money laundering.

MHA consulting is a definitive financial crime resource for all regulated businesses. They are an end-to-end support service for the financial crime prevention strategy not only for regulated businesses, but also for regulators and even jurisdictions.

It boasts unrivalled expertise in anti-money laundering, sanctions, fraud and terrorist financing. As the natural extension for any financial crime team or MLRO, MHA provides the resources to ensure effective and compliant financial crime risk mitigation.

The RGA represents most of the world's largest, licensed, and stock market-listed remote gambling companies and provides the industry with a single voice on all the issues of importance to regulators, legislators, and key decision makers around the world. For more information, please visit www.rga.eu.com

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The threat of money laundering and terrorist financing through the online gambling industry

A report prepared for the Remote Gambling Association

Executive summary

Whilst, historically, the measures to guard against money laundering and terrorist financing had been directed towards the financial sector, in December 2001 the Second European Money Laundering Directive¹ extended the provisions to a range of non-financial sector businesses, including casinos, and set an implementation deadline of June 2003². Whilst the scope of the Directive was extended to the gaming sector because of the perceived vulnerabilities of land-based casinos, there continues to be a perception that remote casinos are also similarly vulnerable. Consequently, both the perception and the money laundering risks have needed to be managed by the remote gambling industry. The imposition of money laundering and terrorist financing requirements on remote casinos is therefore relatively new, and application of industry standards and regulations that had been designed primarily for the heavily regulated and significantly vulnerable financial sector has provided a significant challenge. In October 2005, the Second European Directive was replaced by a Third Directive³ which added a further set of challenges.

However, regardless of these challenges, there appears to be a strong commitment across the industry to prevent and detect money laundering and terrorist financing, to comply with the various legislative and regulatory requirements and to co-operate with the authorities.

The jurisdictions within which RGA members operate are subject to the Financial Action Task Force (FATF) international standards relating to the prevention of money laundering and countering terrorist financing. Specific guidance has also been drawn up for the gambling industry to supplement these generic standards. In addition, all EEA member states are bound by the European Money Laundering Directives. Specific AML/CFT regulations and guidance therefore apply to remote gambling within all of the jurisdictions within which RGA members operate.

¹ Directive 2001/97/EC of the European Parliament and Council

² The Second European Money Laundering Directive was implemented in the UK by the Money Laundering Regulations 2003 which became effective on 1 April 2004.

³ Directive 2005/60/EC of the European Parliament and Council

However, as is the case with all financial and non-financial businesses that come within the scope of the European Directives and the international standards to counter money laundering and terrorist financing, the strength and application of the regulatory measures varies. The industry is also truly cross-border, and operators must work across the requirements of a number of jurisdictions when devising their policies and procedures. As the regulations start to bite, this could provide a temptation for some less scrupulous operators outside of the EU to locate themselves in the least well regulated centres. Nevertheless, the fact that the regulators must also work to international standards against which their success will be measured, limits the scope for regulatory arbitrage. There is also evidence that the International Association of Gaming Regulators is working on the development of common standards and guidelines that will further limit the scope for such regulatory arbitrage and should provide the opportunity for a proportionate approach that limits the current variations.

The application of a risk-based approach to money laundering and terrorist financing through the Third Directive and the FATF Recommendations places significant responsibilities on senior management to assess, manage and mitigate the risks. To assist senior management in this respect, all remote gambling operators have appointed a money laundering reporting officer/nominated officer to establish internal controls and procedures, to monitor compliance with the relevant legislation, regulations and guidance and to provide a central point of contact for reporting suspicious activity.

Undertaking customer due diligence and monitoring customer activities as prescribed by the Directives and international standards is not a new requirement for the remote gambling industry and the application of electronic identification measures strengthens the process. The industry also undertakes age verification, and gaming surveillance to guard against underage and problem gambling.

Evidence suggests that the strong fraud prevention measures in place within all remote gambling operators are being used successfully to prevent and detect money laundering, in particular the risk of identity theft and fraud through the use of stolen credit cards. However the money laundering and terrorist financing risks are different and operators need to work together and with their regulators and law enforcement to ensure that the risks are adequately understood and managed.

However, the extension of customer due diligence and identification measures that work for the remote gambling industry need to be further developed taking an industry wide approach. Benefit could be gained from discussions with regulators and law enforcement agencies and the development of specific cross-border practices that are tailored to the needs and practices of the industry. In the absence of practical guidelines developed by the industry itself in consultation with its regulators, remote gambling operators and their trade

associations will not be best placed to influence consultation on standardisation and new best practice recommendations as they emerge from the regulators, the FATF or other international standard setting bodies. Standard guidelines and procedures will also assist in the formulation of effective training programmes across the industry.