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**Expert Talk**



## Special Crime and Terror Series Illegal Sports Betting

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**A**s South Africa races to complete preparations as host to the 2010 FIFA World Cup in June, over 450,000 sports fans are expected to attend this event. While concerns about South Africa's high crime rates continue to be a prominent talking point around the 2010 World Cup, the external criminal influences that plague major international sporting events must also be factored in to the security planning and arrangements.

*"Most of our major mob cases start out as gambling investigations"*

FBI Special Agent James T. Maher

Bookmaking in particular has always been a major core income avenue for organised crime syndicates. While in the recent decades, organised crime groups have significantly evolved and expanded their range of lucrative illicit activities; illegal gambling operations still remains one of the single largest revenue components for most traditional organised crime groups.

To quantify how lucrative the illegal gambling industry is to organised crime groups, it is estimated that legal sports betting in the U.S. constitutes only a mere 1% of the total sport betting market. As such, approximately \$380 billion worth of illegal sports bets are made in the U.S. a year - based on these estimates by the 2005 National Gambling Impact Study Commission, approximately 92% of earnings from sports betting finds its way into the pockets of traditional organised crime groups.

The unfortunate reality of bookmaking and other lucrative illicit activities linked to organised crime elements is that it serves as a foundation to support and perpetuate other criminal activities. For instance, loan sharking, corruption and money laundering are some of the key criminal activities intertwined with illegal gambling operations. When criminal groups are able to secure this illicit income, it can afford ventures into other criminal operations; further solidifying the continuation of these illicit organisations. Due to the transnational nature of these illicit organisations, their border transcending operations pose a serious challenge to security planners and present severe risks to financial institutions.

## How Bookmaking Operations Work

Bookmaking is actually a highly complex operation where organised crime elements can participate at varying levels. The bookmaking operation could either be bankrolled by organised crime groups, directly operated by organised crime groups, portions of the operation outsourced to organised crime groups, or simply obtain security from organised crime groups through protection fee arrangements. Either way, virtually no bookmaker can operate without financially benefitting an organised crime group for the "privilege" of conducting business. In operations not controlled by organised crime groups, independent bookmakers have been known to pay up to 50% of their profits in protection fees.

The reason behind the high level of organised crime involvement in bookmaking is actually quite simple – bookmaking operations require very substantial up-front capital. A decent sized bookmaking operation has a capital requirement of at least

\$600,000 and must maintain a healthy cash reserve of between \$500,000 to a million dollars to be able to settle up losses. This cash intensive requirement serves as a major barrier of entry.

Certain unique characteristics of illegal sports betting will ensure its continued popularity. For one, illegal betting operators normally provide better odds than legal betting outlets. The underground nature of bookmaking means that winnings are not reported or audited and therefore not taxable. And another key factor is that illegal betting operators normally extend generous credit to their clients.

**The profile of a bookmaker is particularly interesting.**

According to a unique research done by the University of North Carolina-Chapel Hill, the common profile of a U.S. bookmaker is one that has participated in illegal sports betting for most of their adult life in varying capacities of client or operator. Usually males in their 40's and 50's. What is truly interesting is that majority of them have been arrested at least once, with the average of three prior arrests – however none have actually served a bookmaking related conviction. Due diligence controls can only be effective if a wide range of risk criteria are adhered to.

The credit extensions provided by bookmakers is a particularly important component of bookmaking operations that opens up for organised crime participation. At times, bookmakers may have to outsource debt collection to organised crime elements that can either be compensated through the protection fee arrangement or obtain a cut of the debt interest earning. In many cases organised crime groups are directly involved in the loan sharking business and may extend the loans directly – at exorbitant interest rates of course. Invariably at times, the threat of violence will undoubtedly be required to successfully reclaim a debt.

The issue of match-fixing touches every sport at almost every level. While not necessarily unique to organised crime involvement, illegal betting syndicates are often the key external force that seeks to influence match outcomes. As bookmakers profit only from the bettors that lost rather than won, they find themselves in a position of substantially higher profit margins by betting against ideal odds.

In most cases, organised crime elements seeking to influence match outcomes would first attempt to cultivate personal relationships with players and officials, failing to do so, they will likely resort to bribery or coercion. The participation of organised crime elements in match-fixing is so prominent that a US Federal Bureau of Investigation Special Agent once said that “most of our major mob cases start out as gambling investigations”. One such example would be the case of former National Basketball Association (NBA) referee Tim Donaghy who was convicted in 2005 for his part in influencing the outcome of numerous NBA matches; the discovery of his participation was actually the result of an investigation into a mob operated bookmaking operation. Finally in 2007, Donaghy publically admitted that his match fixing was in fact linked to a bookmaking operation associated with the Gambino crime family of Brooklyn.

With over \$148 billion placed on football bets annually, football in particular has a long and tainted history of corruption. In 2005, former German referee Robert Hoyzer confessed to allegation of match-fixing. Unsurprisingly, investigation into Hoyzer's match-fixing activities uncovered links to Croat organised crime elements. The outcome of the investigation identified at least 5 German Cup matches where Hoyzer either attempted to, or successfully managed to, influence the outcome. And also in 2005, Brazilian Edilson Pereira de Carvalho, also a FIFA referee, was found to have accepted bribes to influence over 11 matches. As of today the Union of European Football Associations (UEFA) is investigating at least 40 alleged cases of match-fixing.

In 2007, UEFA issued a 96 page dossier addressed to Europol that identified 26 cases of high profile European matches alleged to have been influenced by betting syndicates in Asia. Organised crime syndicates' involvement in match-fixing is actually a far more complex phenomenon. There have been many occasions where non-European betting syndicates have been linked to match-fixing incidents in Europe. For example, the common practice of not capping the value of bets in Asia have singled out Asian betting syndicates as key players in the international illegal sport betting market; with

the clearly higher stakes involved, Asian betting syndicates are frequently found to be associated to match-fixing incidents in Europe and other regions. This clearly exhibits that match-fixing is a highly transnational issue.

An expected 3 million football fans will arrive in South Africa during the World Cup, and billions of fans are expected to follow the games through telecasts globally. The transnational element of illegal sport betting poses a grave risk to global financial institutions - the operational requirement of illegal betting syndicates, to effectively move finances around the world, is usually done using the global financial system. Besides the obvious regulatory risks involved with illicit finances from illegal sports betting, often these illicit finances are further linked to other criminal activities. In 2007, Interpol coordinated "Operation Soga" in cooperation with eight national law enforcement agencies in Asia that targeted illegal betting syndicates. A betting syndicate uncovered during this Interpol coordinated operation was lead by Tien Dung Ngo - a particularly successful syndicate that operated in Canada, Europe and Asia; investigations revealed that besides being a highly lucrative betting operation which brought in an average of \$1.5 million per major international football game, the syndicate was also involved in narcotics trafficking and laundering the proceeds from its various criminal ventures.

As we get closer to the final World Cup event in South Africa, it will be expected that law enforcement authorities will step up their efforts to disrupt these illegal betting syndicates worldwide. In continuation to the successful 2007 "Operation Soga", in 2008 Interpol coordinated another similar operation in Asia. At its completion, "Operation Soga II" successfully disrupted over 1,000 illegal gambling operations estimated to have managed some \$1.5 billion worth of bets.

## Conclusion

The 2010 World Cup will also be the inaugural FIFA event where an Early Warning System will be implemented to monitor the games for anomalies and identify possible match-fixing. This system was tested during the 2006 FIFA World Cup in Germany and officially introduced to the FIFA qualifying tournament matches in July 2007. Along with procedural changes such as the FIFA code of ethics, amended in 2006, that bars officials and players from taking part in betting, gambling, lotteries and similar events or transactions connected with football matches, officials are not taking chances in preventing the influences of illicit external forces but also making certain that perpetrators will be identified.

Financial institutions, foreign exchange houses, betting facilities and law enforcement agencies must install heightened controls to identify and prevent the abuse by criminal elements in the movement and laundering of criminal proceeds during this period of increased liquidity and spike in cash based transactions. With the obvious increase of transactions involving bet placements expected during such international sporting events, the zero tolerance approach adopted by FIFA and law enforcement agencies will likely result in further identification and disruption of these transnational criminal syndicates - financial institutions must take the highest precautions and not risk their reputation by being associated in any manner to these criminal organisations.