

## **ATM Cards Tied to Virtual Worlds a ‘Money Launderer’s Dream,’ say Consultants**

November 20, 2007-11-23

By Brian Monroe

Software firm MindArk, creators of Entropia Universe, is on the verge of re-releasing automated teller machine-style cards that allow players to access real dollars directly from their virtual world accounts, something consultants say will make them an attractive venue for criminals to launder illicit cash.

Swedish-based MindArk, which launched Entropia in 2003, is working with a major credit card service provider – MasterCard or Visa, according to insiders – after testing its Entropia Debit Cards in the second half of last year.

With MindArk auctioning off what they are calling banking licenses earlier this year and offering ATM cards that link to Entropia, the “barrier between the virtual world and real world is getting exceedingly slim,” said Sean F. Kane, a virtual world legal expert and attorney for Drakeford and Kane in New York.

While Frank Campbell, director of business development for MindArk, called the initial test of the Entropia cards a success, technical issues have delayed the launch of the new cards. The company is now planning on reintroducing them “before the end of the year,” Campbell said.

Most online games that allow dollars to be turned into virtual currency require players to go through several steps to get their money into and out of the virtual world, including inputting a credit card or bank account number and going through a third-party payment processor to wire money to or from their account. Those steps are cut out using the Entropia card.

### **Pick a card**

Entropia and competitor Second Life, run by San Francisco, Calif.-based Linden Labs, allow gamers to transfer real funds in a variety of ways. They can use a credit card, bank account number, prepaid card or PayPal to get Project Entropia Dollars (PEDs) or Linden Dollars in Second Life.

To cash out of the game, they exchange their virtual dollars for real ones at either a fixed rate – similar to a currency exchange – or a going rate determined by supply and demand, meaning that if more people try to cash out at once the price can fluctuate. That money is then wired to the person’s bank account, PayPal or other similar online or e-wallet account.

Since intermediaries are involved, a bank or third-party processor may notice that a transaction is suspicious and halt it.

But the Entropia debit cards give players direct access to their funds through an ATM and leave the door open to classic money laundering techniques that use ATMs, such as “smurfing” and microstructuring.

Smurfing involves criminals fanning out to banks to deposit amounts of money that fall below transaction reporting requirements. Micro-structuring also involves

money launderers visiting multiple financial institutions to make deposits that won't trigger reporting requirements, but in very small increments, sometimes only a few hundred dollars.

Money launderers using ATMs like the fact that there is no face-to-face contact with a curious teller, said Ken Rijock, a former attorney-turned-launderer who is now a financial crime consultant for World-Check. He adds that if a financial institution is victimized by a major laundering scheme using its ATMs, regulators may conclude the bank should have seen a pattern and done something to halt the suspicious activity.

There is also "reputational risk" for a bank that even gets mentioned in the news media as an institution whose products were used by an organized crime ring, Rijock said.

### **'Frontier town'**

The ease of getting money into and out of Entropia with ATMs is a "money launderer's dream," said Mark Bell, who is studying virtual worlds as part of his PhD project and co-author of *Second Life for Dummies*.

Having spent countless hours in Second Life and other worlds, Bell said transferring money online is as easy as clicking onto a person's avatar. "It's like a frontier town: sex, violence and crime."

John Wood, president of Washington D.C.-based AML consultancy Play Fair Group, said the ATM cards turn Entropia – and any other virtual worlds that would follow suit – into an international currency exchange sans money laundering regulations.

The only reason terrorists, money launderers and organized crime gangs aren't already exploiting these worlds on a large scale, according to Wood, is because their "existing money-making and money laundering systems work well."

But, he added that if a crackdown by authorities disrupts their current fiscal networks, money launderers will find these virtual worlds a perfect vehicle for them to operate.

In one scenario, Wood said that a gang located in a country with strict AML laws could "smurf" money into a game by depositing funds in small amounts that are under transaction reporting requirement thresholds and then perform virtual transactions, such as selling real estate, to double or triple the money.

After completing the virtual real estate transactions by selling the property to themselves or using accomplices – the launderers can then take the money out in a country with weaker AML regulations or at an ATM with no ceiling on withdrawals.

As it stands, law enforcement is "at a total disadvantage right now," Wood said. "Quite simply, these games are being played all over the world," including regions with strong privacy laws, presenting a bevy of legal obstacles for building a case.

### **Rigorous process**

Campbell said he couldn't discuss how the company monitors or handles suspicious transactions because criminals would use that information against Entropia.

However, "all transactions are monitored and logged, and pass both automated and manual controls," he said.

Further, Entropia has a "rigorous control process" in place to check the identities of gamers. Applications are rejected if information is missing or suspect. As to the ATM cards, he said there is a deposit limit of 30,000 PEDs a month, roughly \$3,000.

The company is "confident the secure technology we have developed and our open cooperation policy with authorities and regulators will allow us to provide a quality product for decades to come," Campbell said.

Campbell, however, wouldn't say if the new cards had upgraded security, fraud or anti-money laundering features, only that the company, overall, is in accordance with Swedish laws. Entropia, like Sweden, doesn't allow gambling in its jurisdiction.

### **Sweden's role**

Sweden has had anti-money laundering laws since 1999 and made non-financial institutions, casinos, real estate agents, dealers in precious metals and stones, lawyers and auditors subject to AML regulations in 2005.

The Paris-based Financial Action Task Force rated Sweden for its anti-money laundering regime in September 2005, releasing a report in February 2007.

The group, which sets global AML standards, stated Sweden's AML initiatives to combat money laundering and terrorist financing – including customer identification and recordkeeping – were "generally comprehensive," but it also noted few convictions for such crimes and a need to implement customer due diligence provisions.

The 27-page FATF report doesn't mention Entropia or other virtual worlds and no country has made a determination as to whether these virtual worlds should be designated as financial institutions or be subject to AML laws.

Only Australia has gone so far as to say the income made in these virtual worlds is taxable, according to a November 2006 report by the Sydney Morning Herald.

The United Kingdom and the United States Joint Economic Committee are currently studying the issue to see if they should follow suit.