



World-Check special crime and terrorism series:

illegal sports betting

By: BC Tan, Head of Organised Crime Research, World-Check

South Africa is racing to complete its preparations to host the 2010 FIFA World Cup in June, and more than 450,000 sports fans are expected to attend the event. While concerns about South Africa's high crime rates continue to be a talking point of the World Cup, the external criminal influences that plague major international sporting events must also be factored into its security planning and arrangement.

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

To quantify how lucrative the illegal gambling industry is to organised crime, it is estimated that legal sports betting in the US constitutes a mere 1 percent of the sports betting market. As such, approximately \$US380 billion of illegal sports bets are made in the US each year. Based on these estimates by the 2005 National Gambling Impact Study Commission, approximately 92 percent of earnings from sports betting finds its way into the pockets of traditional organised crime groups.

The unfortunately reality of bookmaking and other lucrative illicit activities linked to organised crime is that they serve as a foundation to perpetuate other criminal activities. For instance, loan sharking, corruption and money laundering are key criminal activities intertwined with illegal gambling operations.

When criminal groups are able to secure this illicit income, it finances ventures into other criminal operations; further solidifying the continuity of these illicit organisations. The transnational nature of these organisations and their border-transcending operations pose a challenge to security planners and present severe risks to financial institutions.

How bookmaking operations work

Bookmaking is a complex operation in which organised crime elements participate at varying levels. The bookmaking operation could either be bankrolled by organised crime groups, directly operated by organised crime groups or portions of the operation outsourced to organised crime groups; or it could simply obtain security from organised crime groups through protection-fee arrangements. Either way, virtually no bookmaker can operate without financially benefiting 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 percent of their profits in protection fees.

The reason behind the high level of organised crime involvement in bookmaking is simple – bookmaking requires 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 and \$1 million dollars to be able to settle up losses. This cash-intensive requirement serves as a major barrier to entry.

Certain characteristics of illegal sports betting ensure its continued popularity. For one, illegal betting operators normally offer better odds than legal outlets. The underground nature of bookmaking means winnings are not reported or audited, and are therefore not taxable. Another key factor is that illegal betting operators normally extend generous credit to their clients. The credit extensions provided by bookmakers are 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, which can either be compensated

through the protection-fee arrangement or obtain a cut of the debt interest. In many cases organised crime groups are directly involved in the loan-sharking business and extend the loans directly – at exuberant interest rates. Invariably, the threat of violence will be used to reclaim a debt.

The issue of match-fixing touches every sport at almost every level, and illegal betting syndicates are often the key external force seeking to influence match outcomes. As bookmakers profit only from the gamblers who lose rather than win, they find themselves in a position of substantially higher profit margins by betting against ideal odds.

Often match-fixing involves organised crime elements seeking a personal relationship with players, direct bribery, or simply the extortion of officials and players. The participation of organised crime elements in match-fixing is so prominent that an FBI special agent once said that “most of our major mob cases start out as gambling investigations”. One such example would be the case former National Basketball Association 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 publicly admitted his match-fixing was 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 an 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 five German Cup matches where Hoyzer either attempted to, or successfully managed to, influence the outcome. And also in 2005, Brazilian Edilson Pereira de Carvalho, who also happened to be on the FIFA referee staff, was found to have accepted bribes to influence over 11 matches. The Union of European Football Associations (UEFA) is currently 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 Asian betting syndicates. However, organised crime syndicates’ involvement in match-fixing is actually a far more complex phenomenon. Often match-fixing incidents can involve multiple actors acting across borders. For example, there have been many occasions where non-European betting syndicates have been linked to match-fixing incidents in Europe.

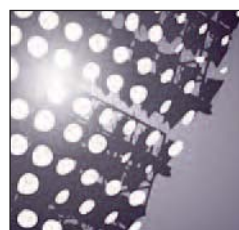
Betting syndicates that operate out of Asia in particular have been singled out as key players in the international illegal sports betting industry. Specialists in this field says this is because in Asia it is common for bets to be uncapped (meaning bets are placed without any value limits), while this is much less the case in Europe. This equates to higher stakes in sports betting in Asia.

An expected 3 million football fans will arrive in South Africa during the World Cup and a cumulative total of 40 billion fans are

these illegal betting syndicates worldwide. In continuation to Operation Soga in 2007; in 2008, Interpol coordinated another similar operation in Asia. At its completion, Operation Soga II successfully disrupted over 1000 illegal gambling operations estimated to have managed some \$1.5 billion in bets.

Conclusion

The 2010 World Cup will be the first FIFA event at which 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 World Cup in Germany and introduced to FIFA 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 participating in betting, gambling, lotteries and similar events or transactions connected with football matches – officials are taking no chances in



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expected to follow the game through global telecasts. The transnational element of illegal sports betting poses a grave risk to global financial institutions because the operational requirement of illegal betting syndicates to move finances around the globe is usually done using the global financial system. Besides the obvious regulatory risks involved with illicit finances from illegal sports betting, these illicit finances are often 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 particular betting syndicate uncovered during this operation was one led by Tien Dung Ngo: a particularly successful betting syndicate that operated in Canada, Europe and Asia. Investigations revealed that, besides the lucrative betting operation that brought in an average of \$1.5 million per major international football game, the syndicate was involved in narcotics trafficking and laundering the proceeds from its criminal ventures.

As we get closer to the World Cup finals in South Africa, it will be expected that officials will step up their efforts in disrupting

preventing the influences of illicit external forces and making certain that perpetrators will be identified.

During this period, financial institutions, foreign exchange houses, betting facilities and law enforcement agencies must install heightened controls to identify and prevent 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 betting placements that is to be expected during such massive 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 to ensure they do not risk their reputations by being associated in any manner with these criminal organisations. ■

