

# Too expensive, too dangerous: Regulated online poker is unsuitable for money laundering

New TÜV study develops assessment criteria for regulators and providers

*Article by Ansgar Lange*

Vienna, September 2013. Whenever in recent years discussions in the context of the German inter-state treaty on gambling (GlüStV) have touched on the issue of the regulation of the online poker market, critics of such regulation argued with the horror scenario of money laundering – an argument which up to now has not been sustainable.

Detlev Henze, CEO of [TÜV Trust IT](#) (TÜV Austria Group), already criticised this at the beginning of the year during a workshop with top-class experts in the European Parliament, which dealt with the question as to whether online poker requires Europe-wide uniform safety standards. At the time, he used the term „perceived threat scenario“. A new study prepared on behalf of TÜV Austria Group has now proven wrong all alarmists and pessimists who always insinuate that online poker opens the flood gates to international money launderers. Germany is the second largest online poker market worldwide behind the US, which is why interest in regulating the market should be vital here – in particular in view of possible additional revenue for the treasury. During the presentation of the study in Vienna, Henze explained that the main objective was to „define standardised examination criteria which facilitate monitoring of the gambling providers under technical aspects and aspects

of financial supervision.“ As the market in Germany and in the European Union is subject to different framework conditions, there is a requirement for regulation in view of IT safety, organisational safety, responsible gambling and the combat of money laundering.

### **Professor Friedrich Schneider: Money laundering in online poker tends to be unattractive**

The study „Potential Money Laundering and its Prevention“ will probably contribute to bringing discussions to a more objective level in Germany, where the Schleswig-Holstein gambling act – passed under the former CDU/FDP government – was already a pioneering model which also regulated the online poker sector. „In principle, the money-laundering risks in the regulated area of online gambling are rather small in comparison to other sectors, due to the technical possibilities of identifying customers and their gambling behaviour. These framework conditions have the consequence that online poker tends to be unattractive for money laundering“, [Friedrich Georg Schneider](#) from the University of Linz explained. He is responsible for the study, together with Professors Franz W. Peren and Reiner Clement from the gambling research institute „Bonner Forschungsinstitut für Glücksspiel und Wetten“. In order to reduce money laundering in the unregulated market, it is necessary to create a commercial environment for licenced providers. „General bans of online gambling will rather encourage the growth of the unregulated black market“, says Schneider, who recommends defining EU-wide minimum standards for online gambling.

In view of the often invoked money-laundering activities, he furthermore presents a clear result: Up to now, says the professor from Linz, not one single noteworthy survey anywhere in Europe has documented the money-laundering relevance of the online poker market. Measured in terms of the required efforts

and transaction costs, money laundering via online poker is not profitable – also in view of a variety of technical mechanisms used to identify manipulation attempts, player collusion etc. According to Schneider, online poker and other regulated online gambling offers have hardly any money-laundering relevance in comparison with other sectors. „Money laundering via online gambling is associated with high transaction costs of approx. 30 per cent of the relevant sums, and also with high risks of being caught. This is why other methods are chosen for money laundering.“ Schneider, who, according to the F.A.Z. ranking, is among the top 25 most influential economists in Germany, stressed during the press conference that in the course of his previous scientific research in the field of the „black market and money laundering“, he had not come across the area of „online poker“. As scientifically sustainable numbers for this area do not exist, he had to work on the basis of hypotheses when preparing the study he presented.

### **Ten-point catalogue**

With a view to the German market, the authors of the study now favour the regulatory framework contemplated by the European Union. „The German legislator may be in danger of creating a disproportionate regulatory burden for providers of online games.“ The legislative exclusion of entire categories of online payment methods, and the possibility for the authorities of restricting certain methods to provably verify online identities without a sufficient risk-based differentiation, must be questioned, contrasting the costs and the risks of this regulation. The authors of the study have summarised the possible risk prevention measures in a ten-point plan which is intended to further reduce the money-laundering risks, which are minor anyway: In addition to the identification of players and a risk matrix, the suggested measures include maximum limits on stakes and accounts, as well as the introduction of comprehensive, IT-based analysis

processes, the monitoring of anomalies, cooperation with banks and credit card institutions, transparency of payment flows as well as the application of the so-called KYC principle („know your customer“) during the payment process.

### **Even England is looking towards Schleswig-Holstein**

The chairman of the CDU parliamentary party in Schleswig-Holstein, [Hans-Jörn Arp](#), one of the fathers of the Schleswig-Holstein gambling act, is anything but surprised: „Two things are required in order to successfully combat money laundering: First of all, triangular transactions must be prevented. Profits must only be paid out to the person who has placed the stakes. Secondly, payment flows must be monitored. The internet is exceptionally suitable for this. Our Schleswig-Holstein system is so safe that – even in England – it has been described as exemplary“, is Arps’s assessment „Whoever still describes online poker as a money-laundering instrument, has not dealt with the principle.“

### **Guidelines for regulators, providers and monitoring**

Ultimately, Detlev Heinze said in Vienna, the results are to help the reputable providers, but also the supervisory authorities, to hone their tools. „We as the sponsor will in addition to this develop corresponding monitoring criteria for our work.“ An important guideline in this context is the ten-point catalogue developed in the study. The monitoring procedure to be published should be established EU-wide.