



# Combatting illegal betting / Variable Betting Duty and the Impact on Turnover, Illegal Betting and Taxation Revenues

**Martin Purbrick, ARF Council on Anti-Illegal Betting  
& Related Financial Crime**

**To the World Tote Association Forum, Los Angeles  
2023**

*2 November 2023*



# AGENDA

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## 1. Illegal Betting

- a) The State of Illegal Betting
- b) Negative Impacts of Illegal Betting
- c) Combatting Illegal Betting

## 2. Variable Betting Duty (Tax) and the Impact on Turnover, Illegal Betting and Taxation Revenues



# ARF COUNCIL MEMBERS ARE EXPERTS FROM RACING AND SPORTS INTEGRITY, LAW ENFORCEMENT, INTERNATIONAL ORGANISATIONS, AND ACADEMIA

## Members of the Asian Racing Federation Council on Anti-Illegal Betting & Related Financial Crime

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Brent Fisher	Racing Victoria	Tim Robinson	The Hong Kong Jockey Club
Sally Gainsbury	The University of Sydney	Tak Sung Hyun	Korean Racing Authority
Neil Grimstone	New Zealand Racing Integrity Unit	Pim Verschuuren	University of Rennes, France



# FROM WORLD RESPECTED ORGANISATIONS



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Victoria**



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UNIVERSITY OF PRETORIA  
YUNIBESITHI YA PRETORIA



THE UNIVERSITY OF  
MELBOURNE



UNIVERSITY OF  
CANBERRA



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UNITED LOTTERIES FOR  
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INTERPOL



UNODC

United Nations Office on Drugs and Crime



# KEY ISSUES REGARDING ILLEGAL BETTING

Illegal betting is THE major competitor to tote operators

Illegal betting is big and growing in all regions, not only Asia

Illegal betting undermines the integrity of horse racing and other sports

Illegal betting causes far greater gambling harm than regulated betting

Illegal betting is operated by and funds organised crime

Tote operators must differentiate themselves from the illegal betting market and be perceived as part of the solution for the problems caused by illegal betting



# THE STATE OF ILLEGAL BETTING

The State of Illegal Betting report (2022) is intended to

- inform stakeholders about the state of illegal betting;
- assess recent changes in illegal betting markets; and
- predict how they will change further in the coming years.



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# THE STATE OF ILLEGAL BETTING IS AN ANALYSIS OF OVER 20,000 ONLINE BETTING WEBSITES

20,000 websites categorised as “Gambling” and “Gambling > Sports Betting” by leading web analytics tool SimilarWeb

*Selection & filtering*

Filtering these websites with average monthly visits >1 million; and removing websites which did not offer sports betting;

*Analysis*

Analysis of the websites for licensing and regulatory status, web traffic data, server locations, sports betting products offered, and customer information

*Reporting*

Final Report



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# ILLEGAL BETTING IS GROWING MUCH FASTER THAN LEGAL BETTING ONLINE FROM 2019 TO 2021

↑ 36%

Growth of traffic to licensed and regulated betting websites

Strict licence conditions and gambling regulations on the number of sports and types of bets

↑ 36%

Growth of traffic to licensed but under-regulated betting websites (e.g. Curacao, Malta, Philippines)

Offer better prices as based in offshore tax havens, no levies for sports and problem gambling

↑ 64%

Growth of traffic to unlicensed and unregulated betting websites

Operators have better prices, product, promotions, less operating costs, no regulation





# ANALYSIS OF BETTING LICENSES SHOWS LICENSED AND REGULATED BETTING OPERATORS ARE A MINORITY

- Does the regulator license and regulate gambling and betting offered only to persons located in that jurisdiction? The focus is on where the point of sale takes place and whether the operator has a licence in that location

## Licensed and Regulated

Regulated by the jurisdiction in which they are licensed to take bets

## Licensed but Under-regulated

Operators with licences from certain jurisdictions but are under-regulated since they take bets from persons located outside of these jurisdictions

## Unlicensed and Unregulated

Operators with no license

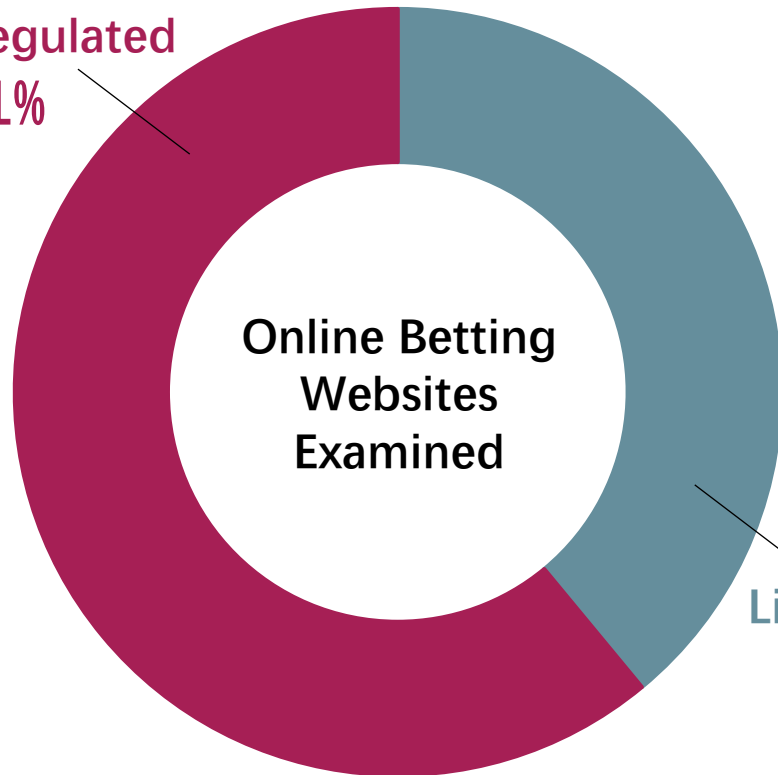
- Because online betting is a transnational globalised business, operators with multiple licences from different jurisdictions were classified according to their strongest licence



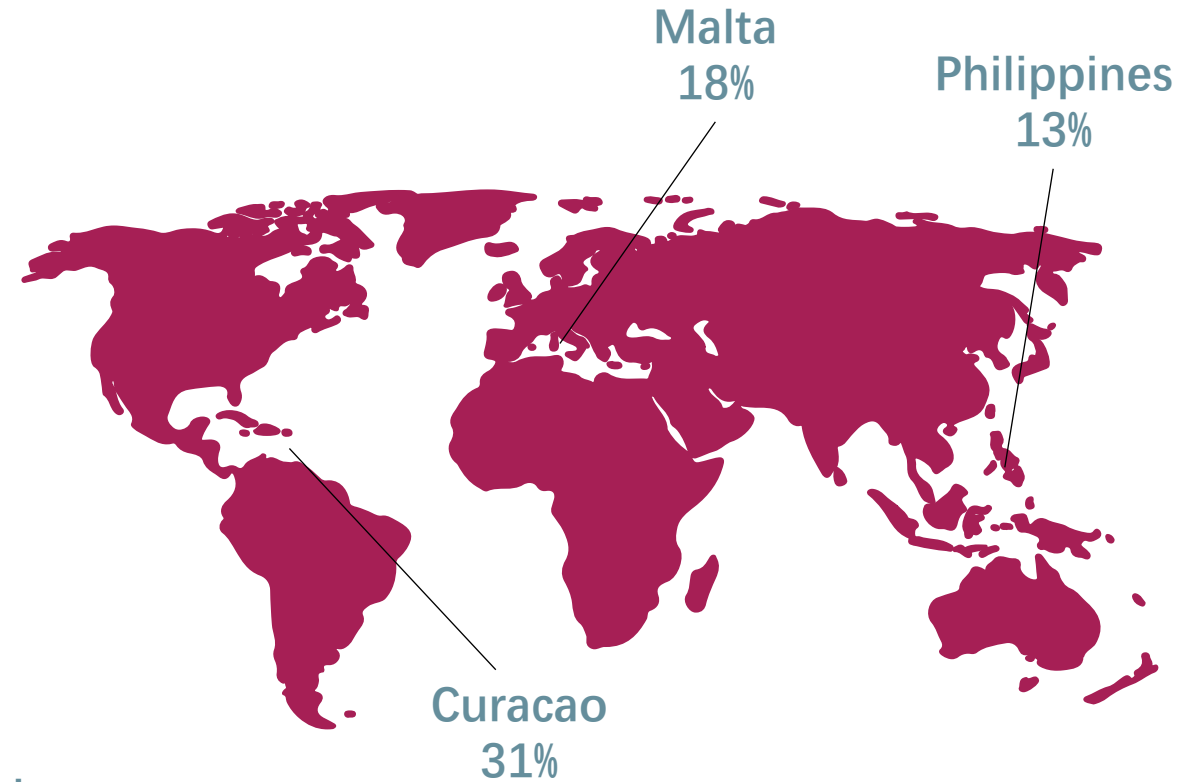
# MOST BETTING ONLINE IS EFFECTIVELY ILLEGAL

Licensed but Under-regulated/Unlicensed and Unregulated

61%



Licensed and Regulated  
39%



Three jurisdictions are responsible for **62%** of the licences for online betting operators that are Under-regulated (and hence illegal).



# ILLEGAL BETTING IS WIDESPREAD IN ASIA

## China



- Cross-border illegal betting causes CNY 1 trillion (USD 145 billion) capital outflow each year
- Estimated 85% of Chinese sports betting market is illegal, worth CNY 3.9 trillion yuan (US\$ 600 billion) a year – accounts for majority of global illegal market (~USD\$750 billion to 1 trillion)

Source: AGB, SCMP

## Malaysia



- Illegal lottery operations are estimated to have recorded around MYR 15 billion (USD 3.4 billion) a year in revenue
- Illegal betting syndicates cause the government to lose MYR 3 billion (USD 670 million) in tax revenue annually

Source: The Sun Daily, The Straits Times

## Thailand



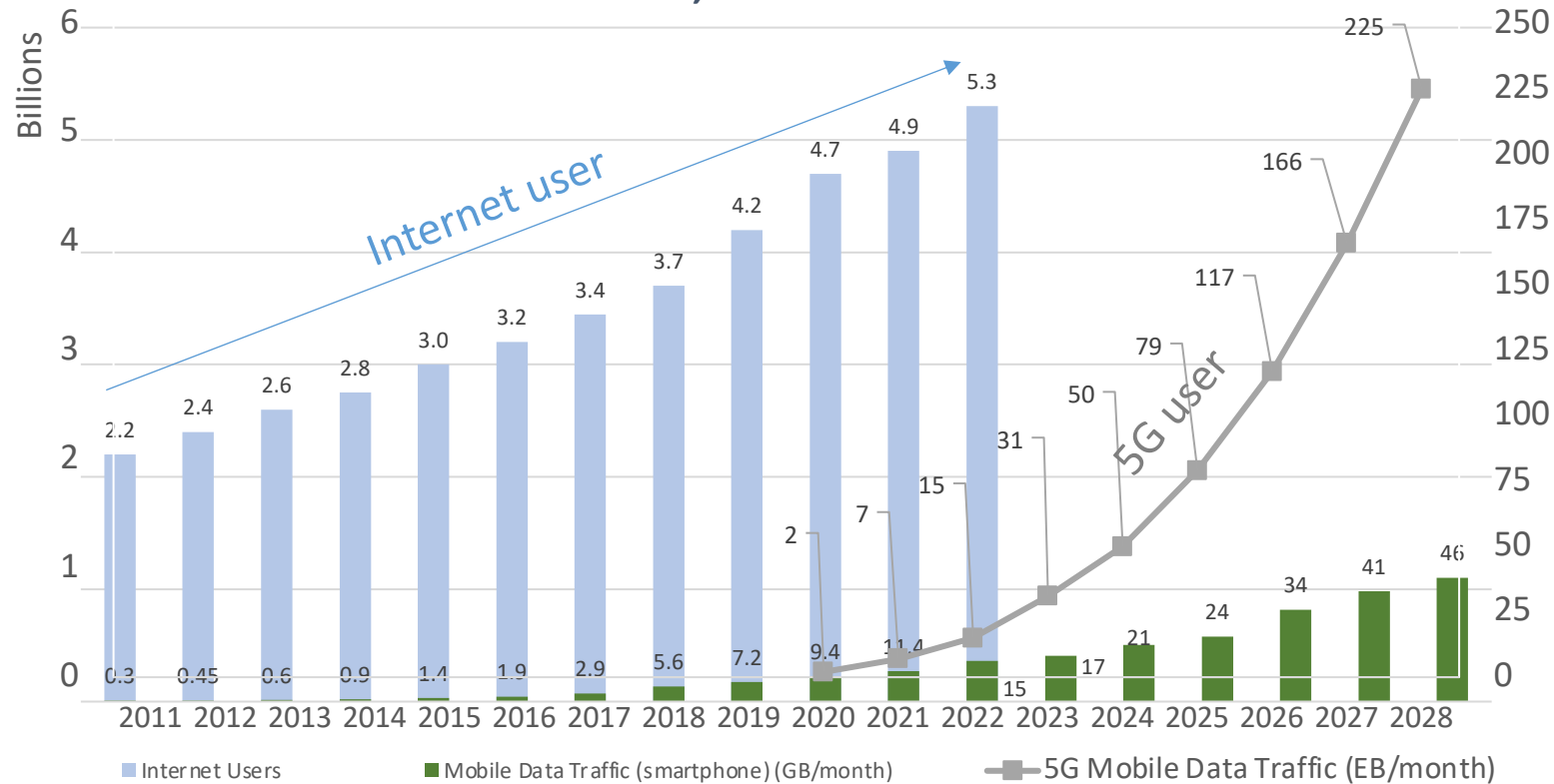
- Total money in circulation within the illegal gambling industry is around THB 436 billion (USD 13 billion)
- Gross gaming revenue of (illegal) online gambling alone is THB 100 billion (USD 3 billion)

Source: The Pattaya News, Thai PBS



# ILLEGAL BETTING HAS GROWN IN PARALLEL WITH INTERNET BASED MOBILE TECHNOLOGY GROWTH

Historic and Projected Growth of Internet Users, Mobile Data Traffic, and 5G Mobile Data Traffic



Internet users have more than doubled in the last decade

Mobile data traffic has grown from 2GB per smartphone per month in 2016 to almost 20GB in 2023

5G mobile data traffic will grow from less than 20 exabytes per month in 2022 to over 160 in 2027

Note: One Exabyte (EB) is equal to 1,000 Petabytes or one billion gigabytes (GB)

Source: ITU, Ericsson



# CREDIT AND CRYPTOCURRENCIES ARE THE NORM



- **70%** of licensed websites accept credit cards
- **35%** of Unlicensed and Unregulated websites accept credit cards - often blocked by providers and easy to trace by authorities
- **Credit betting is the norm** in illegal markets, but credit is assigned directly into accounts via agents



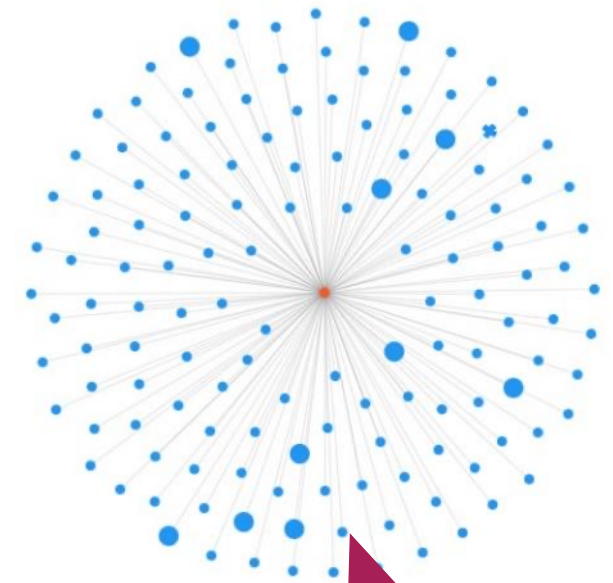
- **24%** of betting websites accept cryptocurrencies
- **35%** accepting cryptocurrencies are Under-Regulated or Unregulated (illegal), with Curaçao the most prevalent license
- **A third of websites** can be funded indirectly by cryptocurrencies, by accepting payment apps (e.g. PayPal, Skrill, Neteller) that accept cryptocurrencies



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# UNLICENSED BETTING OPERATORS ARE USING MIRROR WEBSITES TO AVOID DETECTION BY AUTHORITIES

- **81% of unlicensed betting websites uses mirror websites**
- Mirror websites are exact copies of a betting website hosted on a different URL
- They provide **redundancy and business continuity**, and to **avoid detection by authorities** – If a URL is shut down or blocked by authorities, customers can quickly be migrated to an alternate URL
- **Huangguan (皇冠)**, one of the world's largest Unlicensed and Unregulated sports betting operators, has no fixed domain but customers access websites via mirror URLs provided by agents and/or referral websites



*Typical IB website network map for hg00.co (with 69 mirror websites)*



# IT HAS NEVER BEEN EASIER TO SET UP AN ONLINE BETTING WEBSITE

- Betting websites need functions such as odds-making and risk management, live sports data feeds, live video streaming, customer relationship management, technical support and payment processing.
- Software is typically licensed from business to business (B2B) providers
- At least **73%** of betting websites use **one or more third-party** software providers

**A problem is when betting suppliers service unregulated operators, supporting illegal betting.**

Unlicensed and Unregulated operators almost **exclusively rely on third party suppliers including data suppliers**



# THE SUPPLY OF SPORTS DATA IS FUELING ILLEGAL BETTING

Betting software, sports and integrity data companies

Supply sports and  
betting data to

Legal and illegal  
betting operators

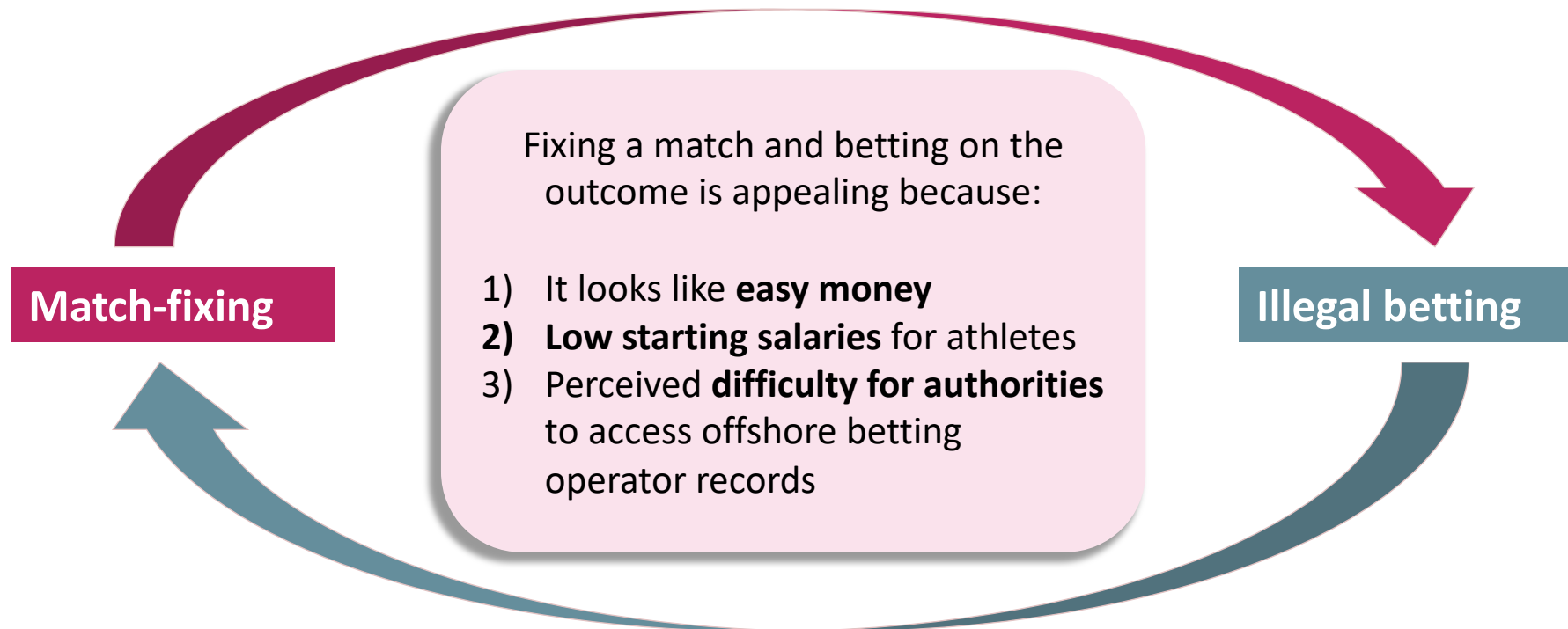
- driving illegal betting expansion
- causing more corruption in sports





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# ILLEGAL BETTING & COMPETITION MANIPULATION ARE INTRINSICALLY LINKED



**Match-fixers will corrupt low-paid athletes with bribes, then make huge profits by betting on the matches they have fixed at illegal betting sites**



# ILLEGAL BETTING CAUSES GAMBLING HARM AT A MUCH HIGHER RATE THAN LICENSED AND REGULATED BETTING

- Globally, there is a growing amount of evidence to show that **illegal and offshore betting and rates of gambling disorder are correlated** – this is also the case in Australia and New Zealand .
- This is because of the **lack of constraints** within illegal betting environments, which **spur on those with gambling disorder** to bet more (amplifying their issues in the process).
- In contrast, **onshore betting operators** must pay the Problem Gambling Levy and **face sanctions** if they do not proactively take measures against problem gambling.
- At the same time, evidence suggests that those with gambling disorders are **disproportionately afflicted by a variety of other social ills**.



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# ILLEGAL BETTING IS A MAJOR REVENUE SOURCE FOR ORGANISED CRIME GROUPS

Criminals have and will continue to exploit regulatory weaknesses / lack of understanding around illegal betting

Chinese organised crime highly experienced in casino and online illegal betting, and quick to adapt to changes in environment and exploit vulnerabilities (e.g. cryptocurrencies)

China crackdown on gambling and Macau junkets has pushed these individuals to expand across Southeast Asia and beyond

Global awareness of promise of such operators, as money laundering, corruption and other crime typically come in their wake



# AND IS CLOSELY LINKED TO OTHER AREAS OF ORGANISED CRIMINAL ACTIVITY

Provision of credit leads to other debt-enforcement related crimes

- Assault
- Kidnapping
- Robbery
- Fraud
- Usury

These can take place as debtors look to relieve their debt burdens or as they are coerced to commit criminal acts by illegal bookmakers to pay off their debt

Related money-laundering offences

- Place and layer illegal betting proceeds (as well as other criminal proceeds) within genuine betting business operations, thus inadvertently rendering legal entities complicit in criminal activity

Provide revenue streams for other organised criminal activity

- Robbery
- Terrorist Activities
- Drug/Human Trafficking

Fix sports matches & events to increase revenue

- Match-fixing and associated illegal betting
- Bribery
- Intimidation



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# ENFORCEMENT ACTION IS NOT THE SOLUTION – VERY DIFFICULT TO FIND AND PROSECUTE ILLEGAL BETTING OPERATIONS

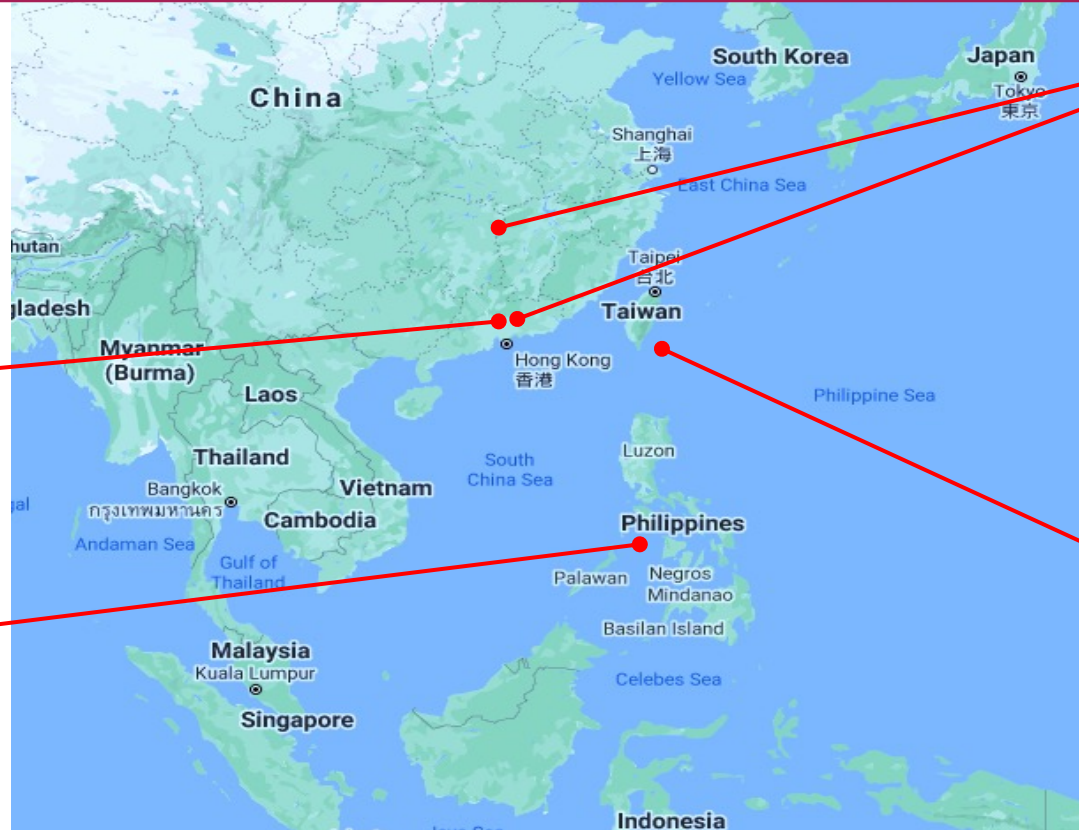


Organised crime syndicate in Hong Kong / Macau uses criminal proceeds to fund website

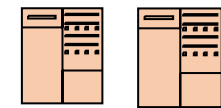


Licence, business registration and call centre staff in the Philippines

*Where did the crime take place?*



Customers from Hong Kong, Mainland China and the rest of Asia (and beyond)

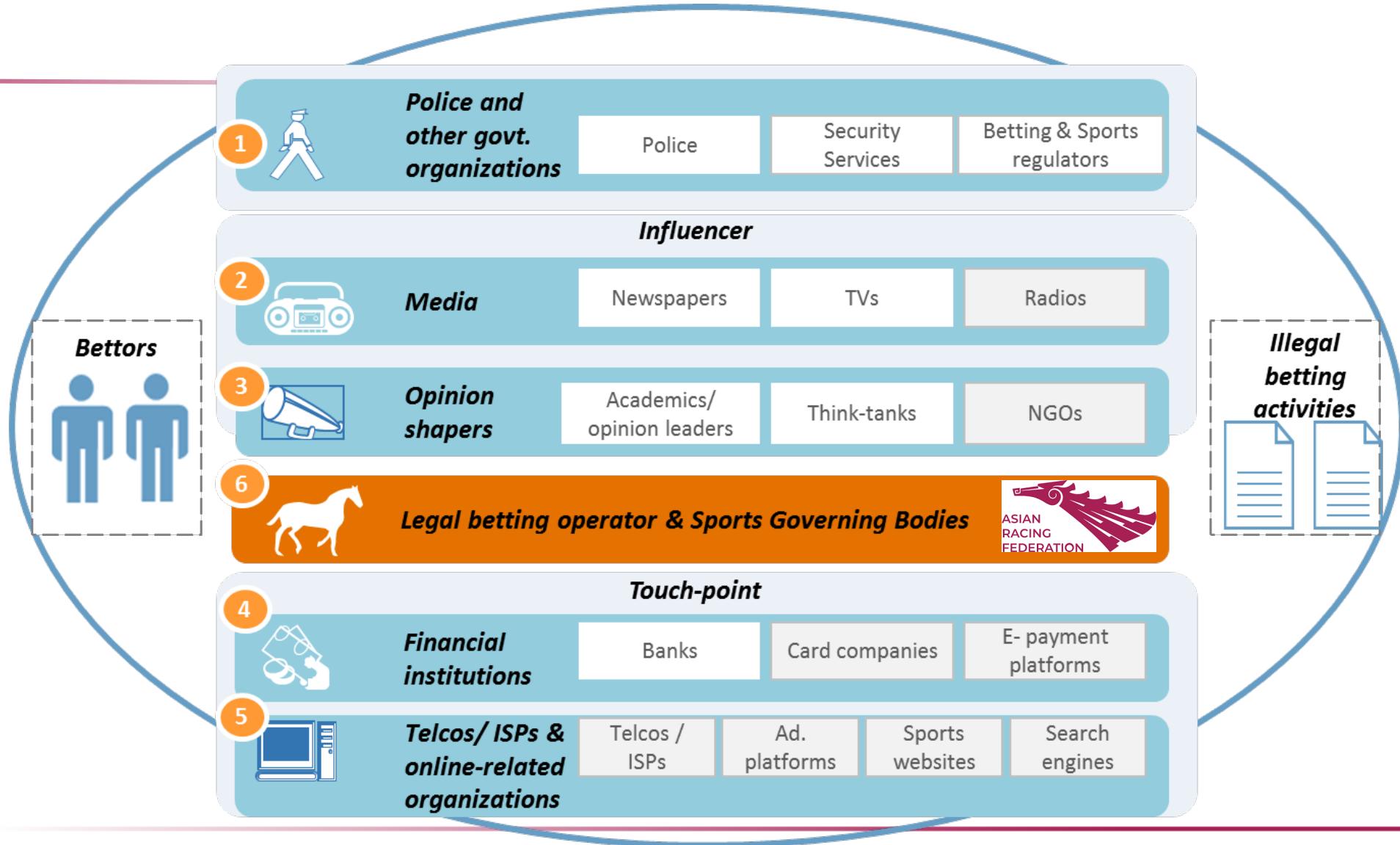


Servers and technology staff in Taiwan



Source: HKJC research

# STAKEHOLDERS MUST COMBAT ILLEGAL BETTING TOGETHER



# GOOD PRACTICES IN ADDRESSING ILLEGAL BETTING: A HANDBOOK FOR RACING AND SPORTS ORGANISATIONS TO UPHOLD INTEGRITY

1. Gambling regulators should adopt the Macolin Convention definition in national gambling regulation;
2. Betting operators should be licensed and approved by the specific jurisdiction in which they operate, rather than by offshore jurisdictions;
3. Taxation authorities should prevent betting and gambling being used to shelter tax evasion;
4. Internet Service Providers (ISPs) should be required to block access to illegal betting websites;
5. Financial institutions should lobby operators to block transactions to and from illegal betting merchants;
6. Licensed betting operators should commit to 100% of their revenues to come from regulated markets, and to exit markets in which there are no viable paths to regulation.



GOOD PRACTICES IN  
ADDRESSING ILLEGAL BETTING  
A HANDBOOK FOR  
HORSE RACING AND OTHER SPORTS  
TO UPHOLD INTEGRITY



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## 6. LICENSED BETTING OPERATORS SHOULD COMMIT TO 100% OF THEIR REVENUES TO COME FROM REGULATED MARKETS, AND TO EXIT MARKETS IN WHICH THERE ARE NO VIABLE PATHS TO REGULATION

Licensed betting operators should commit – as part of their license application process –

To take all reasonable steps to NOT accept wagers from customers in jurisdictions where they do not hold a local license

Implement responsible gambling programs and have self-exclusion policies in place

Be seen to act in a responsible fashion to distinguish themselves from illegal operators

Contributing financially to research, education and treatment of problem gamblers

Taking active steps to ban minors and vulnerable people

Globally, sports, racing and the legal betting industry must work together to bring pressure to bear on betting tax havens and jurisdictions which act irresponsibly and enable illegal and grey-area betting





## VARIABLE BETTING DUTY AND THE IMPACT ON TURNOVER, ILLEGAL BETTING AND TAXATION REVENUES

- Higher betting tax leads to pressure for a higher takeout rate (for tote operators) and a higher theoretical margin (for fixed odds bookmakers).
- This leads to higher prices passed on to customers, leading more to migrate to illegal betting markets where prices are better value because operators and customers do not pay any tax.
- The consequence is decreased legal betting and decreased taxation.



## BETTING DUTY (TAX) VARIES GLOBALLY BETWEEN 6% TO 75%

- The highest rate of Betting Duty is in Hong Kong, at 75% of GGR.
  - USA (states) 6 to 51%
- The median rate of Betting Duty is in France, at 37.7% of GGR.
  - Australia (states) 15%
  - Sweden increasing from 18 to 22%
- The lowest rate of Betting Duty is in South Africa, at 6% of GGR.



## BETTING DUTY (TAX) HAS SOME CORRELATION TO ILLEGAL BETTING MARKET LEVELS, BUT HARD TO MEASURE AND OTHER VARIABLES

Country / Jurisdiction	Betting Duty / Takeout Rate	Illegal Market Size (per annum)	Illegal Market by head of population
Hong Kong	72.5% to 75% (racing) / 17.5% to 25%	USD 1.91 billion (margin)	USD 257
Singapore	25% / 18% to 25%	USD 336 million (margin)	USD 61
South Africa	6.5% (racing) / 17.25% to 25%	USD 160 million (margin)	USD 59
Australia	10% to 20% / 14.25% to 25%	USD 780 million (margin)	USD 30
USA	6.75% to 51% / 15% to 25%	USD 3.8 billion (margin)	USD 11.44
UK	15% / 19.25% to 30%	USD3.49 billion ("bets placed")	[Not calculated as no margin figure available]



# CONCLUSIONS

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- The huge variations in betting tax lead to distortions in the betting market as consumers go to illegal markets where prices are better.
- Government policies are contradictory as they seek to limit the negative impact of gambling on society by imposing higher rates of betting tax, but also want taxation income as part of a broad based tax system.
- Higher betting tax leads to increased theoretical margin to betting odds, consequent increases to the take out rate of the operator, increased prices for the customer, and drives customers to illegal betting markets.

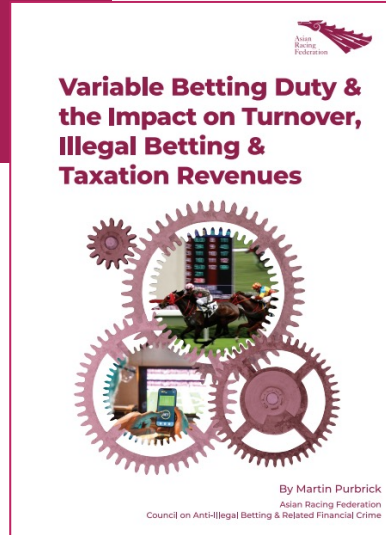


## RECOMMENDATIONS FOR TOTE OPERATORS

1. Clearly differentiate yourselves from the illegal market and be part of efforts to combat illegal betting.
2. Support integrity in horse racing and other sports as a core part of the relationship between betting and those sports.
3. Lobby government and gambling regulators for reasonable and stable betting tax rate to channel demand to the legal betting sector and allow licensed betting operators to effectively compete with the illegal market.



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