



Sports Betting and BSA/AML and Sanctions Risks



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Background

On May 14, 2018, the Supreme Court ruled in favor (6-3) of the state of New Jersey to strike down the *Professional and Amateur Sports Protection Act* (PASPA). In the post-PASPA landscape, the decision on whether to allow individuals to gamble on sports is now up to state governments.

Previously, bettors could only legally bet on sports in one state, Nevada.

Individuals can now currently place sports bets legally in Nevada, Delaware, New Jersey, Mississippi, and West Virginia.

Three states have recently enacted state laws: Pennsylvania, Rhode Island, and New York

Currently, 17 other states – Connecticut, Illinois, Kentucky, Michigan, Indiana, Massachusetts, Minnesota, Missouri, Kansas, Iowa, Louisiana, Oklahoma, South Carolina, California, Oregon, Montana, and Ohio – have fast-tracked legislation.¹



By the numbers

\$150B

Estimated amount of money gambled illegally every year on sports betting in the United States²



Estimated amount of money that is laundered globally through sports betting each year³



\$15B

Estimated amount of money gambled recently on the Super Bowl and NCAA March Madness tournament⁴



\$3,831,141



Amount of revenue generated for New Jersey casinos in July 2018,⁶ the state's first full month of legal sports betting

12-15M

Estimated number of Americans who are active illegal sports bettors⁵



97%

Estimated percentage of sports bets placed illegally on the Super Bowl and March Madness⁷

56%



Estimated percentage of sports bets placed online in the U.K. in 2017, where gambling on sports is legal⁸



Number of states that have an anti-gambling position written into the state's constitution (Utah)⁹

Responding to BSA/AML and sanctions risks with controls

| Risks | Expected controls |
|---|---|
| Anonymity of bettors | <ul style="list-style-type: none">• Know your customer (KYC) programs and customer identification programs (CIPs)• Sanctions screening programs• Player AML risk-rating programs• Enhanced player due diligence programs |
| Evasion of thresholds | <ul style="list-style-type: none">• Currency transaction reporting• Transaction monitoring• Suspicious activity reporting• Activity limits and aggregation of activity across sportsbooks and locations |
| New or underdeveloped BSA/AML and sanctions programs | <ul style="list-style-type: none">• Documented and approved <i>Bank Secrecy Act</i> (BSA) officer• Robust BSA/AML and sanctions policies and procedures• Role-specific training programs• BSA/AML and sanctions audits |
| Limited understanding of risks associated with sports betting services | <ul style="list-style-type: none">• Enterprise BSA/AML and sanctions risk assessment• Alignment of BSA/AML risks with specific monitoring typologies (coverage assessment) |
| Inadequate transaction monitoring and sanctions screening models | <ul style="list-style-type: none">• Implementation of screening models• Tuning and optimization of models |
| Failure of ongoing maintenance and compliance | <ul style="list-style-type: none">• BSA/AML and sanctions model validations• Independent testing of AML and sanctions programs |

How BSA/AML and sanctions risks affect financial institutions

Anonymity of bettors

Online platforms enhance a participant's ability to remain anonymous if BSA/AML and sanctions controls are not in place. Additionally, mainstream gambling venues such as casinos or off-track betting facilities can facilitate a bettor's anonymity through "strawmen transactions" or "messenger wagering." Money launderers and organized crime units use these common techniques to hide true sources of funds from financial institutions.

Threshold evasion

Wagers from a single bettor or organization across multiple locations and platforms (for example, online and in person) could expose betting institutions to the risk of missing currency or suspicious activity reporting thresholds if effective controls are not in place.

This technique is common in the "placement" and "layering" phases of money laundering. This type of evasion also puts financial institutions who have casinos, sportsbooks, or racetracks as clients at risk of failing to effectively monitor account activity.



BSA/AML and sanctions program maturity

The recent ruling on sports betting will likely significantly increase the inflow and outflow of cash, automated clearing house (ACH), wire, and cryptocurrencies (via online betting) at casinos and with sportsbooks. Institutions should review and assess the sustainability of their BSA/AML and sanctions programs to monitor for new AML or sanctions risks.

The increased volume and various channels of activity could make transaction monitoring difficult for financial institutions who do business with betting institutions.

Sport betting BSA/AML and sanctions risk awareness

Sports betting presents new AML risks which will require both financial institutions and nonbank financial institutions to enhance their training programs to make sure all impacted personnel can effectively identify and manage the additional AML risks. Additionally, financial institutions and nonbank financial institutions should assess their teams' awareness and proficiency with managing the risks of betting institutions.

Ongoing maintenance and compliance

It is a regulatory requirement that institutions such as casinos, racetracks, and sportsbooks perform ongoing testing activities to maintain the effectiveness of their BSA/AML program. These institutions might not, yet, have the experience or resources to sustain an effective BSA/AML monitoring program.

If the betting institutions themselves cannot establish ongoing compliance, it is possible the majority of the responsibility will fall on financial institutions who serve these customers.



How Crowe can help

BSA/AML program enhancement

Many casinos and racetracks will be opening sportsbooks for the first time, which will require the development and implementation of risk-based BSA/AML and sanctions screening programs. Such programs include:

- Development of KYC, customer due diligence (CDD), enhanced due diligence (EDD), and CIP programs
- Formation of transaction monitoring programs
- Creation of sanctions screening programs
- Establishment of key performance indicators (KPIs) and key risk indicators (KRIs)
- Identification of triggering events that would cause a review of internal policies and procedures to address regulatory risks

BSA/AML and sanctions audits

With the vast growth of sportsbooks anticipated, many casinos and sportsbooks will rely on third parties to conduct audits in an effort to:

- Identify gaps or weaknesses
- Determine if the BSA/AML and sanctions programs are operating as expected
- Assess the programs' compliance with regulatory requirements



Program assessments

The assessment of an existing or newly developed BSA/AML or sanctions program by an outside party can help to optimize the program, establish or enhance mitigating controls, and promote a sustainable and automated screening environment.

Remediation services

An independent party can help enhance and optimize a BSA/AML or sanctions program to promote sustainability and avoid costly risks and monetary penalties.

Tuning and optimization

The expected increase in cash activities will require more robust BSA/AML and sanctions monitoring. Casinos, racetracks, and sportsbooks could benefit from an independent party tuning and optimizing their transaction monitoring or sanctions screening program to mitigate the additional AML and sanctions risks.

Learn more

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