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Economic Crime Forensics Capstones

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A wide variety of businesses and government agencies support the U.S. real estate market. Examples would include sales agents, national lenders, local credit unions, private mortgage and title insurers, and government sponsored entities (Freddie Mac and Fannie Mae), to name a few. The financial performance and overall success of these organizations depends in large part on the health of the overall real estate market. According to the National Association of Home Builders (NAHB), the construction of one single-family home of average size creates the equivalent of nearly 3 new jobs for a year (Greiner, 2015). The economic impact is significant, with residential construction and related activities contributing approximately 5 percent to overall gross domestic product. With these data points in mind, the ability to accurately predict housing trends has become an increasingly important function for organizations engaged in the real estate market. The government bailouts of Freddie Mac and Fannie Mae in July 2008, following the severe housing market collapse which began earlier that year, serve as an example of the risks associated with the housing market. The housing market collapse had left the two firms, which at the time owned or guaranteed

about \$5 trillion of home loans, in a dangerous and uncertain financial state (Olick, 2018). Countrywide Home Loans, Indy Mac, and Washington Mutual Bank are a few examples of mortgage banks that did not survive the housing market collapse and subsequent recession. In the wake of the financial crisis, businesses within the real estate market have recognized that predicting the direction of real estate is an essential business requirement. A business acquisition by Radian Group, the Philadelphia-based mortgage insurance company, illustrates the importance of predictive modeling for the mortgage industry. In

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Matthew J. Thom

Developing Issue of Money Laundering Though Online Casinos

La Salle University

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## Executive Summary

This capstone examines the developing issue of money laundering through online gambling sites which are extensions of casinos located within the United States. The online gambling scene is rapidly growing; and these venue will soon become targets for money laundering by criminals, human traffickers, and even terrorists. "Internet gambling and online capabilities have become a haven for money laundering activities...internet gambling operations are vulnerable to be used, not only for money laundering, but also criminal activities ranging from terrorist financing to tax evasion" (Fbi Confirms Online Gambling Opens Door To Fraud, Money Laundering; Age Verification Software Ineffective. (2009, Dec 04)

This paper will discuss how casinos which host online gambling must focus on protecting their transactions from money laundering. There must be internal controls to "red flag" any suspicious transactions as well as highly trained staff to review such activity. This paper will examine specific areas which online casinos web sites are susceptible to money laundering and offer solutions to identify these transactions.

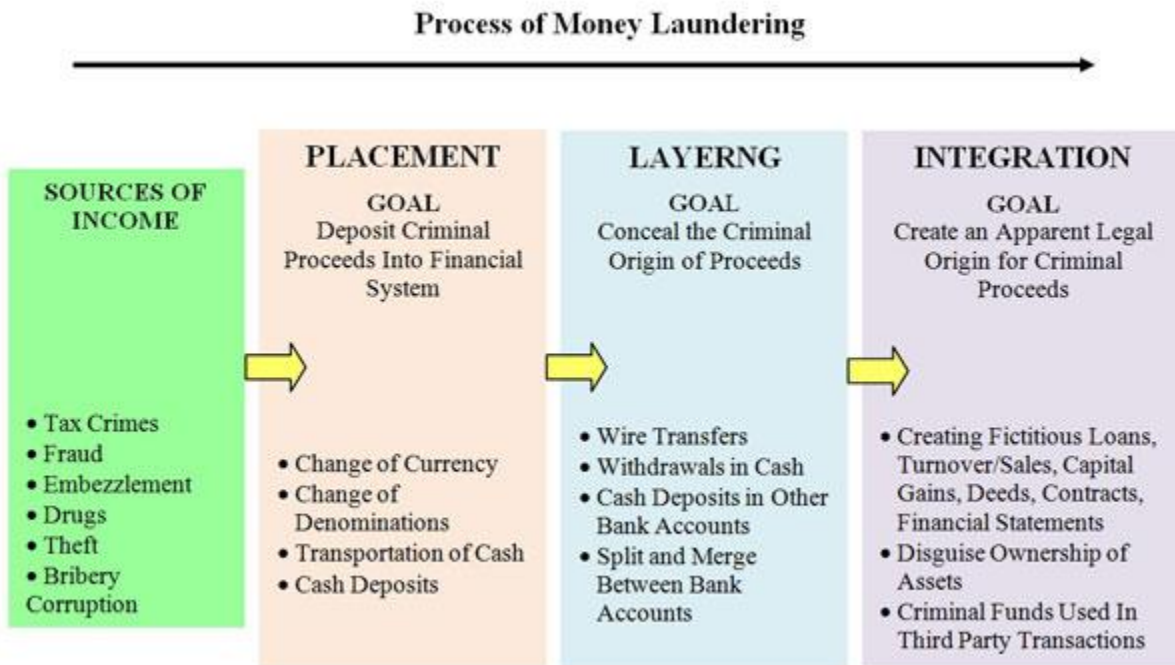
## Introduction

“Money Laundering originates from the US describing the Mafia’s attempt to ‘launder’ illegal money via cash-intensive washing salons, which were controlled by company acquisitions or business formations” (Buchanan, J. 2018). According to June Buchanan, casinos are a perfect target for money laundering due to their high cash flow nature. Criminals are looking for a location where they can exchange a high-volume of cash in a short period of time. Gambling requires a high volume of cash flow, which in turn is needed to disguise money laundering (Sullivan. 2015). Higher volumes of cash mean it will be easier for criminals to exchange their proceeds of crime with clean cash from the casino. “Money laundering is the process by which criminals attempt to conceal the illicit origin and ownership of the proceeds of their unlawful activities.” (Adamoli. 2002)

## Process of Money Laundering

Turning dirty money into legitimate cash occurs through the process of money laundering. Laundering has three pieces; placement, layering, and integration. All three of these steps must be completed for criminals to be able to use the profits from illegal activity. “In the placement stage, the launderer introduces the illegal profit into the financial system. In the layering stage the launderer engages in a series of conversions or movements of the funds to distance them from their source. Finally, in the integration stage the funds reenter the legitimate economy.” (Adamoli. 2002) Casinos are prime locations for money laundering due to the ability to complete all three steps of the money laundering process within one location. The placement stage is completed at casinos when a patron buys cheques. At this point they are able to turn their cash, which was obtained from illegal activities, into cheques used within the casino. The patron

will use these cheques at various tables within the casino interchanging their cheques with cheques from the dealer’s bank at each gaming table, this is the layering stage. The patron is able to bet with their cheques and if they win, they get different cheques back from the dealer. At this point the patron is able to cash out their cheques at the casino cage for cash completing the final step of money laundering, integration. The patron can leave the casino with cash straight from the casinos bank and there will not be questions about where the cash originated. The criminal or casino patron may have been questioned why they have a large sum of cash prior to entering the casino; however, upon leaving the casino with a large volume of cash it is easily explainable. There is no concern when a casino patron leaves with a large volume of cash due to casinos’ being cash intensive and patrons leaving after having a winning trip or winning a jackpot.



## Title 31

“The USA has started its effort to create a money-laundering control regime from an initial focus on banks in the early 1970s with the passage of the original Bank Secrecy Act (BSA) by the Congress (31 CFR 1010.310 – formerly 31 CFR 103.10).” (Carlos, S. L., & Greenlees, M. 2017) On May 7, 1985, the definition of a financial institution was expanded to include casinos as “money service businesses”, this in turn required casinos to comply with the Bank Secrecy Act and more specifically Title 31 within that act. Title 31 has since become the both the formal and informal name for Anti-Money Laundering (AML) rules for casinos within the United States. (Carlos, S. L., & Greenlees, M. 2017) Title 31 within the Bank Secrecy Act lays out four fundamental AML requirements for a US Casino.

- There must be a compliance program in place.
- The casino must report large currency transactions.
- The casino must report suspicious activity transactions.
- The casino must comply with the minimum recordkeeping and training requirements under the act. (Carlos, S. L., & Greenlees, M. 2017)

These four requirements break down into a two- pronged system for casinos. One, the casino must identify any patron who initiates a high dollar cash transaction. This can be via a cash buy in, cash deposit, a cash out or cash withdrawal. Under this requirement online casinos must identify patrons who conduct a high dollar cash deposit. This is one initial area which brings more risk to online gaming compared to gambling patrons within a physical casino. A patron in a physical casino has limited ways to buy into a table game or slot machine they must do so with



cash or table credit. However, many online gambling sites such as Caesars online gambling and The Golden Nugget offer many different options for customers to deposit funds to use for gambling. Each of these options initiates a high dollar cash transaction that must be protected and the patron must be identified.

The second phase makes it a requirement for the casino to file suspicious activity reports (SARs) for any transaction which can be viewed as suspicious in nature. (Carlos, S. L., & Greenlees, M. 2017) The Title 31 Act, requires that casinos identify, observe and report any suspicious transactions. After identifying and observing the suspicious behavior by a patron the casino must then report it to Financial Crimes Enforcement Network (FinCEN). This phase is the same for any online gambling transactions. Any suspicious behavior conducted via deposits, gambling actions, or withdrawals must be recorded through a SARs and sent to FinCEN.

### Know Your Customer

The Federal Reserve Board issued the “Know Your Customer” (KYC) anti- money laundering rules to require banks to verify the identity of their customers. (Federal reserve board issues 'know your customer' rules 1998) Casinos face a more difficult task gaining KYC information from their customers. While compared to banks and credit card companies, casinos face a more difficult task and must consider the customer’s experience when attempting to gain more KYC information. (Borsch and Robertson, 2018) Knowing your customer for a casino is important since this will give the casinos’ anti-money laundering, compliance, and surveillance departments a baseline on what activity to expect with their customers. The KYC rules require financial institutes to develop a profile for each customer’s typical transactions and to observe any deviations in their normal behavior. For a casino, this would be if a patron typically made all

their deposits via wire transfers then one month switched their deposit types to being made via cash at the casino's physical location. Making deposits via cash at the casino's physical location is not suspicious on its own however, if the patron had never done that before and had a pattern of making deposits via other avenues this would be a red flag to investigate further. The customer may have a reason for the change in deposit types, but this is something that must be investigated to ensure there was not anything suspicious to the change in behavior. The Federal Reserve Board stated that a proper KYC program will allow a financial institution to;

- determine the true identity of the bank's customers;
- determine a customer's sources of funds and normal and expected transactions;
- monitor customer transactions to determine if such transactions are consistent with normal and expected transactions;
- determine if a transaction is unusual or suspicious. (Federal reserve board issues 'know your customer' rules 1998)

KYC also applies to the customer's basic personal information such as their address, employment, and income. The act does not specifically tell the financial institution how to create the KYC program but instead gives them a framework on what must be encompassed within it. (Federal reserve board issues 'know your customer' rules 1998) All financial institutions are expected to obtain this information when the customer begins their relationship. This means for casinos, and specifically online casinos, it must request this type of information when the customer opens their account online. This is basic information on the customer but will start creating a baseline for the types of bets which may be expected from the customer.

The casino must get as much information as possible on the customer at the account opening stage. The casino should proceed to record the customer habits when it comes to gaming and the preferred method to deposit funds on the account. “FinCEN has emphasized in recent years its expectation that casinos use all available information and by that it means the increasing amount of data casinos collect through automated means on their customers, their customers’ preferences, patterns, and practices.” (O'Melveny & Myers LLP 2019) Due to the nature of a casino compared to other financial institutes, casinos have more KYC information on their customers. Customers are more willing to keep the casino up to date on any telephone or address changes since they want to continue receiving their coupons to the casino and any event news for the casino. All of this personal data must be collected to create a file on each customer. This file will show investigators the customer’s game preference, patterns for the deposit habits, and any practices when it comes to gambling or cash actions.

Based on a study by Koos Couvée in 2018, it was reported “that many casinos neither vet funds from clients whose wagers fall below a certain threshold nor challenge answers that VIP customers give to income-related inquiries.” Casinos should have an idea of the occupation and approximate income of their customers. They need to estimate how much their customer makes, so that if a customer who has an annual income of \$40,000 starts betting and losing \$20,000 multiple weekends in a row, then the casino would know to investigate that customer.

Even though online customers do not come into the physical casino often if at all, the casino must have a file on each customer that contains the expected behavior and their typical activities. If the customer has had an account with the casino for over one year and has been making online bank transfers the entire time and changes to make a high-volume cash deposit, the casino would notice the unusual behavior and investigate. It is the casino’s responsibility to

ensure this behavior is not just a single change versus the start of suspicious behavior. “FinCEN emphasized that in addition to these requirements, casinos must use all information available to them—including the sophisticated automated monitoring capabilities they use to identify their customers’ patterns and preferences—to effectively identify customers, identify suspicious transactions, and create records of transactions required by the BSA.” (O’Melveny & Myers LLP 2019)

The casino is responsible for doing enhanced due diligence (EDD) on any customer who makes a high dollar deposit when they initially open the account or make a series of deposits which add up to a specific amount. Each casino must set predetermined values and if any deposit exceeds that amount an alert is automatically created, and investigators will look into that customer to ensure the deposit makes sense with their pattern of activity. The casino must also check the customers reported income and recent financial activity to make sure the high dollar deposit is reasonable for that customer.

In “September 2015 Caesars Entertainment Corporation agreed to pay \$9.5 million to the U.S. Financial Crimes Enforcement Network, or FinCEN, and the Nevada Gaming Control Board for, among other violations, failing to detect and report suspicious activity originating from its branches in Singapore, Hong Kong and Tokyo.” (Pasquali, 2017) The violations stemmed from the casino’s failure to conduct proper due diligence on high net worth foreign clients of their private rooms in their Las Vegas casinos. A specific example of the failures by Caesars’ was allowing a patron to deposit \$50,000 in cash into their casino account without the marketing or compliance staff investigating the transaction, per FinCEN. (Pasquali, 2017)

If the customer reported to be an assistant chef making \$45,000 yearly, it would be a red flag if the customer began making \$10,000 bets each weekend within a one-month period. This

would mean the customer deposited \$40,000 into their account within a 4-week period while reporting only making \$45,000 throughout the year. The \$10,000 bets would not be suspicious on their own but with the KYC on the customer would appear to be high for their income.

## Casino Security

Casinos offer multiple avenues which allow patrons to deposit their funds other than just bring cash into them and purchasing cheques. The more avenues patrons have to move their funds into the casino the more susceptible they are to receiving dirty money. Patrons can send and receive funds via wire transfers, conduct money exchanges, have gaming credits, and cash checks at a casino. Because of the many options and the volume of transactions per day, casino operations are vulnerable to money laundering. Therefore they must have heightened protection against money laundering activities. (Carlos, 2017) Some of the components of a strong Anti-Money Laundering program within a casino are: identification and validation for KYC checks, sanctions list screening, transaction monitoring, record keeping, consistent corporate wide policies and procedures, and integration with internal systems and third-party databases. (Borsch and Robertson, 2018)

## Avenues to deposit funds

Finding the balance between customer convenience and security has been a difficult act for casinos and other financial institutions. Financial institutions must always protect against allowing dirty money into their institutions but cannot limit cash flow or customers' access to the point that they avoid the institution. Allowing multiple and different avenues for patrons to deposit cash is provides ways for criminals to insert funds into the financial system and then withdraw them as clean funds. Many different online casinos allow customers to deposit their

funds using account loads from their Visa, Mastercard, or Discover card, online bank transfers, cash deposits at the physical casino, and wire transfers. Allowing patrons to deposit funds into their accounts through so many avenues also invites criminals to deposit dirty money into the casinos through one or more of these avenues.

Patrons can fund their online casino accounts through four main avenues; purchases from credit cards, wire transfers, online bank transfers, and cash deposits. Each of these deposit types have similar issues but they also have very risks specific to the deposit type. Table 1 details the similarity between the types of deposits.

Deposit Type	Verify Customer Payment	Allow Third Party Payment	Use structuring and micro-structuring	Immediate availability
Credit Card	X	X	X	X
Wire Transfer	X	X	X	X
Online Bank Transfer	X	X	X	
Cash			x	X

Table 1: Similarities in Deposit Types

### Verify origination of funds

Online casinos must verify that the funds being deposited are coming from a credit card, bank account, or wire transfer originator which is owned by the patron conducting the gambling or a relative of the patron. Otherwise the funds for the account on the account would be coming from a third party. The anonymity of online gambling makes this verification a major concerns for online casinos face.

The credit card being used to purchase credits may have been stolen or owned by someone other than the patron. These deposits must be blocked from entering the account; However, since the purchase and fund transfer is immediate the casino may not have an adequate chance to block the deposit. This is an example of the casino making things more convenient for the customer but more difficult for the casino to ensure these funds are legitimate. Wire transfers can be even riskier due the higher dollar amounts and the difficulty verifying if it is coming from the patron.

Wire transfers are the transfer of funds from one bank account to another by electronic means. A wire transfer to a casino online account would be a financial transfer from any bank account to the casino's account. Wire transfers have limited information available which makes it difficult for the casino to verify if the wire is from the customer or the customer's family member transfer or someone unrelated attempting to transfer illegal funds to the customer. The casino must verify the wire transfer instructions since the sender can put anything on the wire instructions. The sender may write that the transfer is for my brother, but that does not validate that the recipient of the wire has any relation to the wire originator.

Las Vegas Sands Corporation was ordered to return \$47,400,300 to the U.S. Treasury to settle alleged failures in Suspicious Activity Report Casino (SARC) filings. Between the end of 2006 and early 2007 Zhenli YeGon deposited approximately \$45 million in wire transfers and \$13 million in cashier checks at the Venetian-Palazzo hotel casino. "The Las Vegas Sands Corporation failed to flag any of Ye Gon's transfers through the Venetian's affiliate in Hong Kong as suspicious until after the federal investigation was made public in 2007." (Pasquali, 2017) This volume of wire transfers as well as cashier checks should have triggered an investigation by the Venetian-Palazzo hotel casino; however, the Venetian-Palazzo hotel casino

failed to file any SARs until after Zhenli YeGon was later charged with multiple drug trafficking offenses. “Prosecutors stated that Ye Gon’s financial transactions should have prompted Venetian-Palazzo to file one or more suspicious activity reports for casinos in addition to the one filed in April 2007. The agreement stated that Venetian-Palazzo and Las Vegas Sands failed to investigate Ye Gon and his respective companies, failed to understand the manner Ye Gon was layering his wire transfers, and failed to investigate Ye Gon’s use of multiple third-party fund sources and casas de cambios, among other things.” (Pasquali, 2017)

The originating bank account for online banking transfers must be verified to be the patrons or a relative of the patrons. This provides an opportunity for the patron’s account to be funded via a third party who is not the patron or a relation. If a drug dealer who has an account and is owed money by one of their customers, the customer can log into the casino account that and uploads funds directly to the drug dealer’s online casino account. This way the drug dealer is paid and will be able to game with the funds and then withdraw them without ever physically receiving the cash from the customer.

### Structuring and Micro-Structuring

Another risk area with all the four deposits is structuring and micro structuring. According to the Association of Certified Anti-Money Laundering Specialists, structuring, which is often referred to as smurfing, is the illegal act of splitting cash deposits or withdrawals into smaller amounts, or purchasing monetary instruments, to stay under a currency reporting threshold. Criminals who attempt to structure often break up their deposits or withdrawals into several smaller amounts. Micro-structuring is similar to structuring; however, on a smaller level. According to FinCEN, criminals will deposit or withdraw amounts under \$1,000 several times a



month. Due to the way online casino accounts are set up, they are susceptible to criminals attempting to structure and micro-structure funds. They attempt to deposit lower amounts of money multiple days in a row or multiple times within one day, in order to stay below the currency reporting threshold.

Salvatore A. Dalessandro the deputy special agent in charge of the New York Field Office of the Department of Homeland Security's Immigration and Customs Enforcement (ICE) Office of Investigations investigated the case of Angela Jimenez. Jimenez attempted to conduct micro structuring throughout multiple banks within New York City and send the funds back to Columbia. Jimenez was depositing drug proceeds into multiple banks which were all in close proximity to each other in New York City. At the end of the investigation enforcement agents stopped Jimenez along her walk to multiple banks and caught her with \$165,000 in cash in her handbag. Jimenez would deposit \$1,000 into each of her accounts. Her associates would withdraw the funds in Columbia and deliver the money to the drug lords in Columbia. Federal authorities estimate that Jimenez assisted in moving over \$1 million in drug proceeds to Columbia. Agent Dalessandro was informed of Jimenez's actions and her suspicious deposits by Citibank. Citibank flagged Jimenez's activity via a micro structuring alert in 2004 when the bank picked up small repetitive transactions. (Cocheo, 2008)

Online casinos are more susceptible to structured and micro structured transactions due to offering many ways for patrons to deposit funds into their account. Patrons can deposit a small amount via multiple deposit avenues within a short time period instead of being forced to use the same deposit type for all their deposits. Figure 1 demonstrates how \$30,000 can be micro

structured across multiple different banks and each deposit is under the reporting threshold. This makes it harder for the casino to observe

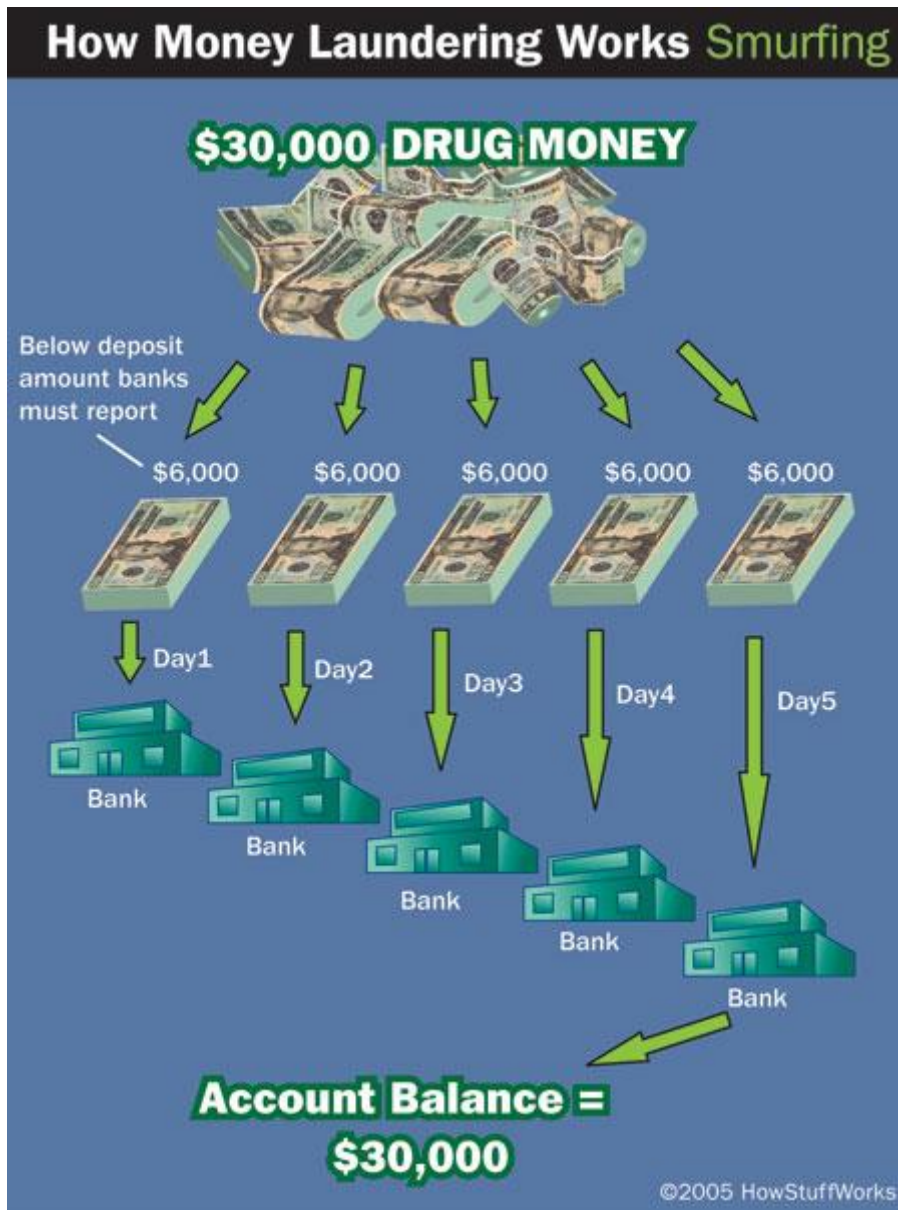


Figure 1: How Smurfing Works (Layton, J., & Curran, O. 2006)

each deposit compared to the patrons only having the ability to deposit via one avenue. Figure 1 provides a graphic explaining how structuring, or smurfing, occurs.

### Differences between deposit options

For some of these deposit avenues there are specific related risks. The major difference is the timing of the availability after the deposit occurs. Credit card purchases, online bank transfers, and cash deposits are all deposited to the patrons account and can begin be used for gambling immediately. This type of deposit is more convenient for the patron; however, the casino is taking on more risk to allow the patron to gamble quicker access to the funds.

Deposits give patrons an easy way to receive money from a third party who is not the patron or related to the patron, as described in the earlier example. Deposits made by cash have the funds available immediately. There is risk of why a patron would have a high volume of cash on their person. Criminals prefer to avoid most payment systems due to the paper trail which is left. They prefer to use cash and leave no trail of their purchases or payments (Popa 2012). For these reasons, criminals are drawn to casinos where they can deal completely in cash and are not questioned since casinos are naturally cash intensive businesses. Patrons can deposit cash directly at the cage window within the casino's physical location. A gambler who has an account at the Golden Nugget casino online gambling site can go to their physical location and make a cash deposit at the cage window. These funds would be available immediately for the patron to use for gambling.

Wire transfers are the only of the four deposit types which does not allow funds to be available immediately for the customer to use. The major risk involved with wire transfers is the customer's ability to write anything on the wire transfer instructions. The wire transfer originator can write that the funds are for the brother, but the recipient of the wire may not be related to the wire originator.

## Summary of Deposit Avenues

Online casinos offer many different avenues for patrons to deposit their funds which include credit card purchases, online bank transfers, wire transfers, and cash. These are only some of the methods which online casinos offer for patrons to deposit their funds into their accounts. However, these are also the ones with the highest risk for being part of money laundering and casinos need to protect against these. Offering these many options to customers opens up the casino to higher risks.

There are also more ways that customers can conduct structuring and micro-structuring within their deposits. Gamblers can conduct a deposit via an online bank transfer, credit card purchase and cash within one day all under the currency reporting threshold but a review of all the combined deposits could put the amount over the threshold. Third party payments are another type of deposit which makes the casino more susceptible to money laundering. Each online banking transfer and wire transfer must come from the customer or a relative of the customer.

## Withdrawing funds

Casinos must ensure that funds deposited within their casino are legitimate and the funds are not the proceeds of any crimes. Any check or cash received from the casino must be able to be explained and there should be no concern with a customer carrying a few hundred dollars away. Casinos must have more alerts automatically set to trigger if a customer attempts to use a new withdrawal avenue or withdraws a significant amount over a specified time period. Customers may also attempt to structure or microstructure their withdrawals as well. This should be another type of alert which warns that the customer is conducting high dollar withdrawals or

the customer appears to be altering their withdrawals to keep them under the currency transaction report (CTR) threshold.

### Avenues to withdrawal funds

Patrons have very similar options to withdraw their winnings as they do to deposit funds via; wire transfers, checks written and electronic bank transfers, and cash inside the physical casino. Table 2 shows the similarities for withdrawing funds from casinos.

Withdraw Type	Verify Customer is account owner	Fund Availability
Wire Transfer	X	5-7 business days
Check	x	Electronic: Immediately available Written Check: 2 to 3 weeks
Cash	x	Immediately Available

Table 2: Similarities in Withdraw Types

All of the withdrawal options have the same risks to the casino to ensure that the individual withdrawing the funds is the account owner account. This is very important because of the speed that funds are available when withdrawn. Criminals are always concerned with how quickly they can receive their clean money back to use it again. This raises the risk for electronic ACH transfers. The casino must do their due diligence in advance to be sure that the bank account receiving the ACH transfer belongs to the customer. The casino must require a photo identification to be uploaded and submitted during account opening to protect the casino’s risk for cash withdrawals. The speed and convenience will appeal to many of the online customers and that is what can open it up to more risk. Criminals looking to withdraw and have their cash on hand quickly will go towards this avenue. They can win their money without ever

stepping foot on the casino property and immediately go in only to collect their winnings in cash with little visibility inside the casino. The first experience inside of the casino maybe to collect the online winnings. This adds more risk as well if the casino does not know the customer or has no picture of the customer. The cage employees must work together with the casino's surveillance department to ensure the customer at the window requesting the gambling winnings is the same customer who opened the online account and conducted the gambling.

### Differences in withdrawal options

The major difference in the withdrawal options examined is the availability of the funds. This may seem like a trivial option, but this is a major risk for the casino. Patrons withdrawing their funds at the physical casino from the cage cashier window will be immediate which have low risk due to being able to physically hand over the cash to the patron. There is lower risk with this withdrawal option as the cage cashier can confirm the patron who owns the account is receiving the cash. There is no concern of a third party receiving the funds with this option. Checks and wire transfers have additional risks due to sending the funds to another account. The beneficiary account must be owned by the patron or a relative of the patron.

Electronic checks can be immediately transferred while it may take 2 to 3 weeks if the patron requests a physical check depending. The two options offer different benefits and risk. The physical check mitigates some risk for the casino but the electronic check would be preferred for a criminal or someone looking to get their winnings quicker. The casino needs to ensure that the account receiving the check is also in the name of the customer, otherwise the casino would open itself up for potentially assisting in money laundering and fraud cases. The 2

to 3 week delay will assist the casino in doing the due diligence on the recipient's account to ensure it is owned by the same person who deposited the funds.

The electronic check is a faster pay out and would be preferred by most customers since they will see their winnings deposited in their personal checking or savings account immediately. But there are higher risks with this type of pay out. Faster pay outs mean less opportunity for the bank to conduct their due diligence. Criminals attempting to clean their money want to get it back and be able to use it as quickly as possible. The faster they can get their dirty money into the financial system, and layer it with clean money and then withdraw it, the sooner they can use it.

Wire transfers take longer between when the withdrawal is requested and when the patron receives their funds, this option takes between 5 to 7 business days. This delay mitigates the casino of some risk and gives them time to verify the winnings and who is receiving the funds. There are extra risks with wire transfers as compared to cash withdrawals. Once initiated wire transfers send the money instantaneously; therefore, the casino must be sure the beneficiary of the funds is the same person as the gambler. Wire transfers can be sent anywhere around the world which opens up this withdrawal option to more risk. The wire transfer may be sent to an unrelated account based outside of the United States. This could be an easy way for the gambler who is aiming to deposit funds into the online account and transfer it out of this country via a different originator not in the gambler's name.

There are risks and benefits to each withdrawal type. Online casinos offer multiple ways for patrons to withdraw their funds for convenience, while taking in more risk for certain type of withdrawals offered. Online casinos must balance how convenient they want to make the process for customers versus how much risk they are willing to take. The withdrawal process holds the

most risk for the casino as this is the last stage of the money laundering process. If the customer's goal is cleaning their funds via online gambling transactions, then the funds are integrated after the withdrawal has been completed and the criminal has created a legal avenue for the proceeds.

### Transaction Monitoring System

Casinos are by nature a cash intensive business and therefore open to more risk of money laundering. Online casinos are open to even more risk due to having another layer of anonymity which criminals prefer. Online casinos also offer multiple options for customers to deposit and withdraw their funds which open them up to more risk than physical casinos. Online casinos must have a transaction monitoring system in place to observe and investigate suspicious activity. "Suspicious transaction monitoring systems enable financial institutions to monitor their customers' transaction behavior systematically by providing relevant scenarios/rules that analyze the underlying customer transactions and generate automated alerts of activity that may be unusual and indicative of potential money laundering." (Beaumier 2019) These alerts which were created due to customer deposit and withdraw transactions would then be investigated by the casino staff employees within the Anti- Money Laundering department, Compliance department, or Surveillance department. Any activity which was determined to be suspicious would subsequently be submitted to FinCEN via a Suspicious Activity Report and if the activity could be mitigated it would be deemed acceptable.

This type of transaction monitoring system is the best way to keep the casino secure and continually observe the customers' financial activity. The casino would need to implement alerts based on customer behavior to notify them of potentially suspicious deposit or withdraw activity.



The casino must protect itself from scenarios that put it is most at risk due to certain deposit and withdrawal activity. This would protect against structuring, micro structuring activity, and third-party payments which are part of money-laundering and fraud.

### USA PATRIOT Act 314(b)

“Section 314(b) of the USA PATRIOT Act permits financial institutions to share information with one another. When institutions work together, they can learn more about their customers’ activity across institutions, they can uncover more suspicious activity, and in the end, they can prevent more losses for their institution.” (Verifin, 2016) Casinos, both physical and online, fall under this section since they are under the umbrella of financial institutions. Therefore, casinos have access to a bigger database of customer information. Casinos should take advantage of this act whenever possible. The casino may observe a suspicious deposit from another financial institution. Under the 314(b) act the casino can contact the other financial institution and inquire about the customer. The casino can ask questions about the customer’s transaction patterns and inquire if this is normal behavior for the customer. This is an under-utilized source of information on customers which can be a valuable source of information for financial institutions.

### Conclusion

Casinos are naturally a target for money laundering with the high volume of money passing through them at one time. Online casinos offer the same games and slot machine options as a physical casino, but the customer does not need to leave the comfort of his/her home. They are more susceptible to money laundering due to similar transaction types as a physical casino

plus their anonymity and additional money avenues for online casinos. They offer more options to deposit and withdrawal funds compared to physical casinos.

Online casinos have only been available in the United States outside of Las Vegas for a short period of time; therefore, criminals and money launderers know that they will not be as well protected and will attack this avenue. Criminals will attempt to clean high volumes of cash through online casinos until authorities show they can catch money launders and deny their patronage. Online casinos must investigate and secure the customer transactions immediately upon opening. Online casinos offer more benefits and convenience compared to going to a physical casino. However, there are still many ways which the casino can use to protect against criminals attempting to launder illegal proceeds. The casino must have a strong Know Your Customer program, they must examine high risk transactions, and they must have a strong transaction monitoring system.

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