

Digital Currencies and Organised Crime Update

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Introduction

Bitcoins and other cryptocurrencies, gambling, money laundering, illicit financing, narcotics trade, slave trade, sex trafficking, endangered species trafficking and the mafia, are all intertwined in the underbelly of crime, and the narrative behind these links are only just being explored and understood. Over the last couple of years organised crime is becoming more sophisticated due to the use of cryptocurrencies and using the family name of Mafia as a franchise to widen the criminal scope. There has been a great deal of activity within these areas which require further and a more in-depth investigation, yet outlined below is a brief overview of events.

Bitcoin

In December 2017 the UK announced that digital currencies such as Bitcoins, their virtual currency exchange platforms and some wallet providers would be bought under current EU anti-money laundering and counter terrorist financing regulations.¹ The risk of cybercrime posed by digital currencies is high due to “its role in directly enabling cyber-dependent crime”.² The report notes that cyber-dependent crime is enabled in three ways. Firstly, victim payments to cyber criminals are often via digital currencies. Secondly, they facilitate criminal to criminal payments where crime is seen as a service bought and sold on the internet. Thirdly, it has been noted that digital currencies launder the proceeds of cyber dependent crime.³ Given the rise in cybercrime, with Bitcoin crimes tripling over the last year due to the rise in the cryptocurrencies value,⁴ criminals are using the currency in a variety of ways.

Organised Criminal Gangs

Organised criminal gangs, , have been linked to the use of digital currencies. The ever-inter-connected nature of the world has given rise to the interconnected digitally aware criminal, and digital currencies are being used to facilitate criminal business within the narcotics trade, sex trafficking, slave trade and the import and export of endangered animals. One recent worrying trend has been the use of online gambling websites to launder the proceeds of crime through digital currencies. In 2014, the author wrote about the problem facing UK online gambling sites and how digital currencies could be used to launder money.⁵ Under the Gambling Act 2005 there were found

¹ HM Treasury. National risk assessment of money laundering and terrorist financing 2017. October 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf Accessed 30 January 2018.

² HM Treasury. National risk assessment of money laundering and terrorist financing 2017. October 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf Accessed 30 January 2018. P.44.

³ HM Treasury. National risk assessment of money laundering and terrorist financing 2017. October 2017. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655198/National_risk_assessment_of_money_laundering_and_terrorist_financing_2017_pdf_web.pdf Accessed 30 January 2018. P.44.

⁴ The Telegraph. Bitcoin fraud triples as criminals target cryptocurrency boom. 26 January 2018. <http://www.telegraph.co.uk/technology/2018/01/26/bitcoin-fraud-triples-criminals-target-cryptocurrency-boom/> accessed 30 January 2018.

⁵ Chambers-Jones, C.L. & Hillman, H. Financial Crime and Gambling in a Virtual World. Edward Elgar Publishing. 2014.

to be various loop holes where the legislative provisions would not prevent digital currencies from being used as a mechanism of launder the proceeds of crime. In January 2018, the Gambling Commission issued a warning that five online gaming casinos could lose their licences as they were seen as not doing enough to prevent money laundering.⁶

In Italy, politician, Lucrezia Ricchiuti, initiated a discussion around the links between gambling, digital currencies and the Mafia. She stated that through gambling sites the Mafia can launder illicit money by using digital currencies that are anonymous and often untraceable.⁷ The gambling industry in Italy has strong links with the Mafia for more common use in tax evasion and now it is reported that sites are being opened and funded through digital currencies. The lack of control and accountability has led them to be safe havens for money laundering for the Mafia.⁸

It is not the only time the Mafia has been linked to digital currencies. In July 2017 a Russian national was arrested and went before a Grand Jury on cyber related crimes and his links with the Russian Mafia. He is accused of laundering money via a crypto currency exchange platform for criminals involved in narcotics and computer hacking. He is accused of laundering more than \$4billion.⁹ In October 2017 Greece allowed the extradition to the US of Alexander Vinnik,¹⁰ and rejected appeals in December to halt extradition.¹¹ Vinnik is due to stand trial in the US.

Criminals are also targeting digital currency exchanges. In Japan on the 27 January 2018, the worlds largest digital currency heist took place. It superseded Mt Gox in 2014 heist and cost the currency exchange \$500bn. The exchange, Coincheck, is partially refunding the 260,000 investors as no central banking authority underwrite investments within digital currencies. Therefore, the exchange is using its own funds to refund investors. This has seen the price of the digital currency the NEM, rise after falling dramatically on the day of the heist. There has been an increase in digital currency heist in recent months, often causing the digital exchange to go bankrupt or decrease in value significantly.¹² It is noteworthy that also in January 2018, a digital currency heist was carried out, for

⁶ The Guardian. Five UK online casinos may lose licence over money laundering fears. Friday, 5 January 2018. <https://www.theguardian.com/society/2018/jan/05/five-of-uk-online-casinos-may-lose-licence-over-money-laundering-fears> Accessed 30 January 2018.

⁷ CNN News. Bitcoin Crime. Italian Politician links Bitcoin to Mafia Controlled Gambling Industry. 27 January 2017. <https://www.cnn.com/italian-politician-links-bitcoin-mafia-controlled-gambling-industry/> Accessed 30 January 2018.

⁸ Coin Telegraph. Italian Senator claims Mafia uses Bitcoin for Gambling, Money Laundering. 27 February 2017. <https://cointelegraph.com/news/italian-senator-claims-mafia-uses-bitcoin-for-gambling-money-laundering> Accessed 30 January 2018.

⁹ The Telegraph. Cyber criminal who laundered £3 billion in bitcoin arrested in Greece. 27 July 2017. <http://www.telegraph.co.uk/technology/2017/07/27/cyber-criminal-laundered-3bn-bitcoin-arrested-greece/> Accessed 30 January 2018.

¹⁰ Reuters. Greek Court clears US extradition of Russian bitcoin fraud suspect. <https://uk.reuters.com/article/uk-greece-russia-cyber-extradition/greek-court-clears-u-s-extradition-of-russian-bitcoin-fraud-suspect-idUKKCN1C90QV> Accessed 2 February 2018.

¹¹ Bitcoin.com Greek Supreme Court reject extradition appeal by BTC-e's Alexander Vinnik. 13 December 2017. <https://uk.reuters.com/article/uk-greece-russia-cyber-extradition/greek-court-clears-u-s-extradition-of-russian-bitcoin-fraud-suspect-idUKKCN1C90QV> Accessed 2 February 2018.

¹² CNN Tech. \$530 million cryptocurrency heist may be biggest ever. 29 January 2018. <http://money.cnn.com/2018/01/29/technology/coincheck-cryptocurrency-exchange-hack-japan/index.html> Accessed 30 January 2018

the first time, in person in the UK, where armed robber broke into the home of a Bitcoin trader and forced the transfer of digital currency at gunpoint.¹³

The Sale of Ivory

Another form of organised crime that is becoming more apparent is through North Korea's diplomatic and governmental involvement in African states and the import/export of endangered species such as Rhino horn. In 2006 North Korea made it illegal for people to trade in narcotics, this which largely promoted by China's influence. North Korea's government is widely seen as a crime family and known as the Korean Mafia,¹⁴ and has also been added to the state sponsors list of terrorist financing.¹⁵ Prior to 2006 Korean Diplomats were used as an efficient form of drug mules to transport drugs across borders. Korean Diplomats are on relatively low wages and so to sustain living standards in their host countries they use drug trafficking as well as other illicit criminal activities to boost their incomes. However, since 2006 diplomats needed to source a new way to accrue hard currency and they turned to the trafficking of endangered rhino horns.¹⁶ In the early 2000's Rhino horn was not on the illicit good list but by 2008, following the 2006 narcotics ban in Korea, the numbers of Rhino's fell dramatically and their horns were worth more than Cocaine, Heroin and Gold.¹⁷ Korean diplomats had turned to using local African people, who were very poor, to hunt and kill Rhinos taking with them Vietnamese sex trafficked women along as a front.¹⁸ Again, organised crime was traversing many different fields, as the women were also paying off their debts to their pimps from being trafficked into Africa. On the hunts Korean diplomats are using military style illicit weapons demonstrating the global mafia's multi-million pound organisation.¹⁹ Once the Rhino horn is smuggled through customs by the Diplomat and sold on the black market and into the underbelly of Korea, digital currencies are used as a means of laundering the money, leaving it hard to trace the perpetrator.

Conclusion

Criminals are making the most of the unregulated digital currency market and whether it is through organised crime families or on a smaller scale in the form of a hacker or an armed robber, regulation needs to be considered to control and manage the repercussions of digital currencies. The UK Government although issuing guidance on the tax implications of trading and using Bitcoins²⁰ Needs

¹³ The Telegraph. Britain's first Bitcoin heist as trader forced at gunpoint to transfer cyber currency. 28 January 2018 <http://www.telegraph.co.uk/news/2018/01/28/britains-first-bitcoin-heist-trader-forced-gunpoint-transfer/> accessed 2 February 2018.

¹⁴ The Global Initiative Against Transnational Organised Crime. Diplomats and Deceit: North Korea's Criminal Activities in Africa. September 2017. P.3.

¹⁵ US Department of State. State Sponsors of Terrorism. <https://www.state.gov/j/ct/list/c14151.htm> accessed 2 February 2018.

¹⁶ Glenny, M. BBC News. The strange figures behind a secret trade. 30 January 2018. http://www.bbc.co.uk/news/resources/idt-sh/rhino_poaching accessed 1 February 2018.

¹⁷ Glenny, M. BBC News. The strange figures behind a secret trade. 30 January 2018. http://www.bbc.co.uk/news/resources/idt-sh/rhino_poaching accessed 1 February 2018.

¹⁸ Glenny, M. BBC News. The strange figures behind a secret trade. 30 January 2018. http://www.bbc.co.uk/news/resources/idt-sh/rhino_poaching accessed 1 February 2018

¹⁹ Glenny, M. BBC News. The strange figures behind a secret trade. 30 January 2018. http://www.bbc.co.uk/news/resources/idt-sh/rhino_poaching accessed 1 February 2018

²⁰ HM Government. Revenue and Customs Brief 9 (2014): Bitcoin and other Cryptocurrencies. <https://www.gov.uk/government/publications/revenue-and-customs-brief-9-2014-bitcoin-and-other-cryptocurrencies> Accessed 31 January 2018.

to do more to stay ahead of the organised crime families that are utilising cryptocurrencies in new and dynamic ways to thwart traditional legislation.