

# **RISKS TO THE INTEGRITY OF SPORT FROM BETTING CORRUPTION**

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# Introduction

- The histories of sport and gambling have been closely entwined ever since modern games first developed.
- A continuing theme in the relationship between the two sectors has been concern for the opportunities for corruption.
- As with other financial crime, such scandals as emerge provoke speculation that they are the tip of a much bigger iceberg and that many other cases of 'fixing' remain undetected.
- Such a loss in confidence in the integrity of sport is a major threat to sport and its position in our culture
- It also threatens the gambling sector and raises issues concerning what modes of betting should be permitted and with what regulatory oversight

# THE PROBLEM IS NOT NEW

- Cricket in early nineteenth century England was notorious for betting corruption and the professional game lost all credibility
- Baseball was the subject of major scandal as soon as the National League was formed in the late nineteenth century; and it was discredited when matches in the 1919 World Series were found to have been “thrown” by Chicago

## BUT RISKS MAY BE GROWING

- **Concern is increasing amongst sports governing bodies. Significant reports were commissioned last year by a consortium of UK sports and by the World Tennis Tour**

# TODAY....

- There will be a focus on *why* there is increased risk of manipulation of sports events
- We will also discuss the types of bet and types of situation in which risk appears likely to be highest
- And we will review some recent proven cases of match fixing to illustrate the argument
- In all this, we will be guided by an economic model that has been highly effective in adding to understanding of all sorts of crime
- Match fixing is a financial crime in which victims are other bettors and, of course, sports fans

# THE ECONOMIC MODEL OF CRIME

- First developed by Nobel Laureate, Gary Becker
- There are potential criminals in any community
- Each of them decides whether or not to commit a crime based on whether the expected benefit exceeds the expected costs
- As expected benefits and costs change, so there is a change in the number of persons for whom it is worthwhile to choose to commit crime
- Criminals and potential criminals are economic actors responding to *incentives*
- Changes in the social environment and in public policy have predictable effects on the amount of crime

# THE MODEL APPLIED TO SPORT

- Some athletes (and referees) are potential fixers
- An athlete will accept a proposal to fix if the expected benefit is greater than the expected cost
- The **expected benefit** will be the sum of money offered as bribe (*multiplied by the probability of the fix being successful*)
- The **expected costs** relate to
  - loss of earnings if caught
  - loss of prize money and sporting reputation from underperformance
  - moral discomfort from the act of cheating
- As the betting environment changes, so will the expected benefit and costs and therefore the willingness of sportsmen to accept bribes will go up or down

The framework already gives clues as to how changes in the sporting and betting environment will affect how much corruption goes on, for example

**More** athletes will be willing to cheat if higher bribes are offered

**Fewer** athletes will be willing to cheat if their pay is raised

**More** athletes will be willing to cheat in matches where there is little loss of prize money/ reputation from an under-par performance

**The framework can be used to organise thought on why incentives to fix are growing and how policy makers might respond**

## WHY IS INTEGRITY RISK GROWING?

### Five areas in which the betting environment has changed in the new millennium...

#### a) Liquidity

- Betting on sport has been increasing in volume throughout the present decade and markets are now very large.
  - E.g. The Swiss Institute Report for the EC showed a 31% increase in bettor losses in the EU in two years
  - Far Eastern betting turnover on Premier League matches ~US\$500m per weekend.
  - Amount wagered on a one day cricket international can approach US\$1bn.
  - A UK betting exchange matched about GBP300b of bets on Wimbledon
- Thus, more money can be pumped into the market by the 'fixers' without detection (or suspicion) and without driving the odds against themselves. As a particular betting market grows, a betting syndicate will therefore be willing to offer sportsmen higher bribes

# Risks in the 21<sup>st</sup> Century, continued

## b) **Increased competition**

- Bettors now have access to bookmaker websites located around the world
- Bookmakers forced to offer better deals, e.g. lower takeouts, raising potential payoffs to criminal betting rings and their sportsmen agents (**increased bribes**)
- UK bookmakers have abandoned their traditional prohibition of singles bets on football matches

# Risks in the 21<sup>st</sup> Century, continued

## **c) Modes of betting: rise of the Exchange**

- The internet has facilitated person-to-person trading, as in e-Bay, and one of the most successful areas of application is betting
- Traditional bookmakers have been very critical of betting exchanges. Amongst their charges is that the introduction of this new mode of betting raises the likely incidence of fixing in horse racing and other sports (opportunity to lay).
- Exchanges claim a commission from winnings and do not directly bet with the client- less incentive to monitor?
- However, the exchanges do have some incentive to preserve integrity as they will surely lose out on business if they gain a reputation for attracting cheats

# Risks in the 21<sup>st</sup> Century, continued

## d) In-play betting

- The emergence of online exchanges has facilitated in-play betting
- In-play betting offers new opportunities for athletes to manipulate sporting events for betting gains
- Specifically dangerous is that a player may be able to generate a profit while still retaining the chance of winning the match in the end (**little loss of prize money/ reputation**)

EXAMPLE FROM TENNIS If you know that the favourite will lose the first set, you can bet against (lay) him before the match and back him after the first set and lock into a guaranteed profit  
**IRRESPECTIVE OF FINAL RESULT**

- This manoeuvre exploits lengthening of odds after first set

# Risks in the 21<sup>st</sup> Century, continued

## e) **Proposition/novelty bets**

- Greater competition for market share has induced the gambling industry to offer an increasing range of subjects beyond the traditional one of which player or team will win the match
- Examples: how many disciplinary points (red and yellow cards) will be given in a football game? will a certain cricket player score 50 or more?
- Such bets offer players the opportunity to make betting gains without throwing a match and can often be arranged by one player or official (so that *all* the bribe is available to *one* person)
- Even so, these markets are often not high risk since the liquidity is kept low....but there are exceptions, eg EPL disciplinary points market

- THESE ARE GENERAL REASONS FOR CONCERN
- important changes in the betting environment point to more athletes and officials being likely to be tempted by offers from betting rings, according to the economic model
- What can the economic model tell us about where this risk is most likely to occur?

# Predictions from the model

- (i) *The greater is the monetary gain from a successful, undetected fix, the more players will attempt to fix*

**Dangers of corruption are greatest in more liquid markets**

since

- (a) Detection risk is lower, and
- (b) Amount of money that can be won is higher and this provides more capital with which betting rings can offer players inducements to fix

# Predictions from the model

- (ii) *The lower the probability of a fix being successful, the fewer players will attempt to fix*
- Need to consider the nature of the sport and the subject of the bet when assessing the risk of corrupt behaviour
- One-on-one sport such as tennis or darts is easier to fix than a complex interactive sport such as football
- In team games, it may therefore be the case that proposition bets on aspects of the game to a large extent under the control of an individual are more likely to generate fixes if these proposition markets become liquid enough

# Predictions from the model

(iii) *The greater the probability of detection, the fewer players will attempt to fix*

- Sports governing bodies have the capability to reduce fixing by greater investment in the monitoring of the performance and behaviour of athletes and officials
- Since players sometimes reserve effort for another match (especially, say, in tennis) and referees may often make 'honest' mistakes, monitoring alone will not be enough in some sports
- Governing bodies require the assistance of regulators and the betting industry in reporting of unusual betting patterns
- A limitation of such cooperation is that strong monitoring of betting activity may induce conspirators in a fix to place their wagers through other jurisdictions

# Predictions from the model

- (iv) *The greater the financial loss associated with detection, the fewer players will attempt to fix*
- High pay in some professional sports offers some insurance against fixing
- For example, Preston and Szymanski (2000) propose the pay gap between the sports offers a partial explanation for cricket evidently being more corrupt than football
- US legislators long-run battle to make betting on college sports illegal- here the athletes are not paid at all
- However, higher paid sports also have weak links- referees and veteran players for example

# Predictions from the model

(v) *The lower the value placed on underperformance, the more likely are players to agree to a fix*

- Part of the cost of taking part in a fix is the loss of sporting glory.
- There may be no loss of glory in a fix if either:
  1. The match is a 'dead-rubber', e.g. end of season match, or played just for tv, eg many one day cricket internationals; or
  2. The fix does not involve losing, e.g. **points shaving** in handicap betting

# Predictions from the model

(vi) *The lower the moral scruples about cheating, the more likely are players to agree to a fix*

- Players and officials who feel exploited are likely to have less resistance to fixing
- College sports in the US generates huge income but players are not paid
- Referees in contemporary football are paid very modestly compared with the players (who often show them little respect)

# DANGER SIGNALS

- \*High liquidity relative to pay levels
- \*Subject of bet easy to fix by one person
- \*Subject of bet does not involve a different final outcome to the event (eg losing instead of winning)
- \*Situations where below-par performances are not suspicious in themselves

# Some well known scandals and the model

## *Baseball: the 1919 World Series*

- Following not guilty verdict in criminal trial, sufficient evidence emerged that eight members of the Chicago White Sox team had 'thrown' games in the series that they were banned from the sport for life
- Joe Jackson admitted to having been offered \$20,000. If each player was offered this amount huge sums of money must have been pumped into the betting market for the syndicate to make a significant return on their investment
- Instigator recruits an insider who coaxes teammates to join the conspiracy
- Players blamed club owner who notoriously paid **low wages**

# Some well known scandals and the model

## *Cricket: the Cronje scandal, 2000*

- Cronje (team captain of South Africa) accepted bribes to lose a test match v. England on the final day by reckless strategy. **The series was already won.**
- Captain in cricket has great power over the outcome of matches (**betting interests target individuals with above average influence-** in football, it might be a goalkeeper, for example)
- Also alleged to have taken money to persuade team mates to score fewer runs than a named number in one day internationals (**use of insider, proposition market**)

# Some well known scandals and the model

## *Association football: the Bundesliga scandal, 2005*

- Robert Hoyzer awarded two highly dubious penalties and a red card in a game in which the team he was supposed to ensure victory for was losing. His intervention was successful (the team came back to win 4-2) but was so blatantly biased that an investigation was launched. He subsequently named other referees alleged to participate in fixing.
- Several points to note:
  - Corruption seemed to be widespread in German football. Prosecutors claimed 23 matches had been fixed in a season
  - Football betting is so prominent that markets on lower league games are large enough to attract fixers.
  - High liquidity means large bribes can be offered.
  - International element: the betting ring that paid Hovzer came from Croatia.

# Some well known scandals and the model

*Basketball: the NBA referee scandal, 2007 (uncovered by accident- FBI was investigating organised crime, not sport)*

- Tim Donaghy admitted to influencing games by, for example, giving more points to both teams
- Can be used for gains in the 'over-under' market and difficult to detect since the referee is showing no bias to one team
- In contrast to European football, NBA referees are well rewarded (up to \$300,000 per year). However, Donaghy claimed to suffer from a pathological gambling disorder- may have been a one-off but **he alleges that several referees in the NBA were doing the same thing**

# Some well known cases and the model

## *Tennis: the Davydenko case, 2007*

- One-on-one contests, highly liquid market, betting exchanges
- Then world number four Nikolay Davydenko, lost a match against a player 83 places below him in the rankings by virtue of retiring in the third set. Betfair voided all bets on the match. Movement in odds prior to match suggested information leak that Davydenko was going to retire through injury
- Davydenko was cleared of wrong-doing by a lengthy inquiry
- But the case shows that insider trading can be observationally equivalent to fixing

# COLLEGE SPORT: POINT SHAVING

- American college sports: *Sports Illustrated* (March 27, 1998) provided **a long list of scandals** going back to the 1940s, though the majority were uncovered in the 1990s.
- Betting environment:
  - **Highly liquid markets, athletes unpaid, handicap betting.**
- Wolfers (2005) provides interesting analysis of just how extensive point shaving might be in college basketball.
- Wolfers estimates that 500 games over sixteen years had been fixed.

# WHERE IS DANGER GREATEST?

- THE MOST LIQUID MARKETS ARE IN FOOTBALL, CRICKET AND TENNIS
- In the case of football and tennis, high liquidity is present even at relatively low levels of competition where financial rewards are lower and scrutiny is also lower
- Referees in football have great capacity to influence outcomes and are an obvious target for betting interests
- In tennis reserving effort is common (tanking) and it is therefore difficult to identify where a player loses a set for betting gain
- In cricket one day internationals, there are large markets on whether named individuals score fifty- raises risks because the player himself or the umpire can easily arrange for him not to score fifty

- Dangers heightened where the contest is of low importance- eg “dead rubbers” in cricket and end of season football matches between mid table teams
- Handicap betting with competitive imbalance- teams can win but by less than the spread- situation arises commonly in European rugby (league and union) and American football and basketball
- Dangers arise where liquidity is moderate but potential betting gains still high relative to pay, eg snooker

# Policy response to corruption

- Governments- complete prohibition?
  - Unlikely to succeed as bettors can seek out illegal markets
- Regulators- prohibit some types of bet and betting?
  - Difficult to restrict domestic access to international markets.
  - Manipulation of European sporting events may originate outside the jurisdiction and betting markets elsewhere may be used
  - Given these obstacles faced by national gaming regulators, it is likely the burden of policy to control corruption will fall on sport itself.

# RESPONSE BY SPORT

- Player education programmes (required now in English football)
- Disrupt illegal trade: allocate referees to each NBA match very late, prohibit mobile phones in tennis players' dressing rooms, etc
- Allocate more funds to policing and monitoring events
- Random audits of finances of players and referees
- Such policies have a role to play but are unlikely to succeed alone
- They have failed for decades in restraining use of drugs

# INCENTIVES

- Need to CHANGE INCENTIVES
- Eg pay more to referees, allocate more prize money to early rounds in tennis or final game in a cricket series
- Given that cheating is hard to prove, sports may have to punish players not trying (as in horse racing) or referee mistakes
- Such measures are likely to be costly to sport
- Sport argues that the betting industry should pay for the costs necessary to tackle corruption
- This may be hard to enforce in any given jurisdiction
- Betting industry cannot remain competitive if it faces costs not imposed on betting operations elsewhere
- Betting industry in any one country may argue that sports events are manipulated by gangs based in another part of the world and using less regulated markets conducted from a third part of the world

