



Children's Charities' Coalition on Internet Safety

Review of HM Treasury's Money Laundering Regulations 2007

A Call for Evidence

In our evidence we draw attention to:

- The lack of enforcement in online environments of long-established laws governing the sale of age restricted products or services
- The way the money laundering thresholds and the regulations associated with prepaid cards have exacerbated this problem putting children and young people at risk by making it easier for them to obtain unlawful access to age restricted goods and services

Age verification

In the UK there are over twenty products or services which are subject to some kind of legally prescribed age restriction at the point of sale¹. Gambling, alcohol, tobacco, knives, certain classes of video games and films are probably the best known.

In a shop or at a race track visual checks can be carried out in relation to every purchase of an age restricted product or service. If there is any doubt about the person's age proof can be requested. If it is not forthcoming typically the sale will not proceed or the service will not be provided. Sales of age restricted products and services over the internet have grown and are set to increase further but there does not appear to have been any corresponding effort made by (even major) online retailers to ensure that, when they sell them, they are sold legally.

The Trading Standards Institute has repeatedly drawn attention to the issue of illegal online sales to minors. In May 2009 in an operation supervised by Greenwich Council trading standards officers, a 16-year-old volunteer went online and successfully purchased the following items:

- Knives from Debenhams, Amazon, Choice and Tchibo
- Age-restricted games for PS2 and PCs from HMV, Play.com and Game
- Age-restricted DVDs from Argos and Play.com
- Alcoholic drinks from Drinksdirect, M&S, Oddbins, Laithwaites

The volunteer made the purchases having bought a prepaid Splash Maestro card and a MasterCard gift card from local retailers. Both cards were registered with the volunteer's real date of birth and address. All of the goods ordered were delivered to his home. No further checks were made at the point of delivery.

¹ For a full list see <http://tiny.cc/agerestricted>

In June 2009 the results of a nationwide enquiry were published. An investigation had been carried out specifically into the online sale of knives to persons under 18. The survey was conducted jointly by Southwark and Lambeth Trading Standards Officers and was sponsored by GOL (the Government of London office) and the Metropolitan Police.

44 internet sites were tested. Officers supervised volunteers aged either 14 or 15 who used their own pre-payment type cards to attempt to buy knives. The youths had obtained the cards perfectly legitimately. They submitted their true names and ages. It is illegal to sell knives to anyone under the age of 18 yet 41 of the 44 sites sold knives to the youths - a non compliance rate of 93%. This compares to a non-compliance rate of 19% amongst high street retailers.

A number of journalists in various news outlets have also demonstrated repeatedly how easy it is for children and young people to acquire these prepaid cards and use them to obtain unlawful access to a range of age restricted goods and services.

In October 2009 the Online Purchasing of Goods and Services (Age Verification) Bill completed its passage through the House of Lords. This Private Member's Bill was sponsored by Baroness Massey and enjoyed support across the House. The Bill fell in the Commons for want of time but had it become law it would have enabled the Secretary of State, following consultations, to draw up regulations which would have required all online retailers of age restricted products or services to introduce robust age verification systems as a condition of continuing to sell those items online. Baroness Massey's Bill was modelled very directly on provisions which the Government had already established in the Gambling Act, 2005. These provisions became operative on 1st September, 2007 and seem to be working very well. The number of reports of minors gaining access to gambling web sites has fallen off dramatically.

Online payments systems

A plethora of prepaid cards using the Mastercard, Visa, Maestro and Amex networks have become available comparatively recently. There are also gift cards which work in a similar way. As noted in the case studies above, these cards are making it easier for minors to gain unlawful access to age restricted goods and services. This is due to a regulatory failure.

FSA oversight does not extend to some of the cards in question because they are promoted by financial institutions based overseas which the FSA does not regulate. Alternatively even where the FSA's writ would otherwise run, full "Customer Due Diligence" measures only have to be applied in the following conditions or situations:

Where the product is a non-re-loadable e-money product

- the purse limit is greater than €150, or
- the purse limit is greater than £650 or the customer wishes to redeem more than £100, or
- the issuer suspects money laundering or terrorist financing

Where the product is a re-loadable e-money product

- the annual purse limit of €2500 is exceeded, or
- the annual redemption limit of €1000 is exceeded, or
- the customer wishes to send more €1000 in one single transaction, or
- the issuer suspects money laundering or terrorist financing

These may be small amounts for many purposes but they are huge amounts for others. They probably put the full range of age restricted products well within reach. Moreover because it is easy to purchase several of these cards at the same time the scale of offending or risk can increase accordingly. A supposed purse limit of 150 Euros or £100 can very easily become, in reality, a purse limit of 1500 Euros or £1,000.

In the UK's most notorious child pornography case (Operation Ore) the typical subscription to the Texan child pornography web site was US\$30 per month. Over 7,000 UK residents appeared to buy into this site using traditional, traceable credit cards. Over 250,000 people did so worldwide. Today only a complete idiot would use a traceable credit card when they could easily obtain an untraceable card and it would give them exactly the same access to exactly the same illegal items.

We think many members of the public will find it a little odd that financial products or services, particularly financial products or services sporting household brand names such as Visa and Mastercard, can be sold in shops on the High Street yet not be the subject of regulation by the FSA simply because they are provided by companies based overseas.

We appreciate that Visa, Mastercard and the other card franchises are doing a lot to try to stamp out the improper use of their online payments facilities, but the fact that they have allowed these new types of prepaid cards to emerge in the way that they have does rather run in the opposite direction and begs several questions.

We appreciate also that some of the prepaid card issuers have blocked their use on certain types of web sites e.g. sites which are specific to particular age restricted products or services such as gambling or alcohol, but many age restricted items are on sale through generic sites e.g. supermarket sites, where such restrictions cannot easily be applied.

The banks and financial institutions quite properly point out that, where the sale of an age restricted product or service arises, it is the retailer's responsibility to determine the age of the persons buying the goods and services from them, in the online world as it is in the real world. There is no doubt that it is true but one cannot help but feel some sympathy for the retailers as the financial institutions promoting these prepaid cards have certainly not made their job any easier. In a very real sense these cards are facilitating illegal purchases. This ought to have been foreseen and prevented.

In the Greenwich and GOL case studies referred to it will be noted that the minors making the purchases used their real names and gave their true ages. With some cards it would have been very easy for them to have given false information because no checks of any kind are carried out. Some promoters make this a feature of their marketing literature, thus giving very obvious encouragement to anyone thinking about using such cards for dubious purposes. The cards can, in effect, be used anonymously and where the product or service being bought is downloadable or is consumed online there is not even the possibility of a secondary check at the point of delivery.

What can be done?

Our view is not that these cards should not exist. Our view is simply that, if they are to continue to exist, it should not be possible for them to be used anonymously or, if that is thought to be going too far, it should not be possible to use them to purchase any age restricted product or service without the vendor being required to operate, in the same way as gambling web sites, a separate means of verifying that the person making the purchase meets the specified age requirement. This could be done without necessarily having to make a full disclosure about every attribute of the purchaser i.e. it could be done by a system that simply confirmed that the purchaser has been verified by a reputable third party as being over the age of 12, 15, 18 or whatever the appropriate age limit might be.

If you have any questions about any aspect of this evidence or would like any further information, please do not hesitate to contact me.

Yours,

A handwritten signature in black ink, appearing to read 'John Carr', written in a cursive style.

John Carr
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