

Testimony before U.S. Senate Committee on Indian Affairs

July 26, 2012

Regulating Internet Gambling for the Tribes

Thank you for providing this opportunity to address the committee on a subject in which I have extensive background.

My first involvement with Internet gambling was more than a decade ago when offshore companies were seeking to better understand the US gaming market. Because the question of legality was never settled through clear legislation in this country, the Internet gambling industry developed and flourished overseas in a market where originally the majority of players (and revenue) were American. Today this is a \$30 billion dollar industry representing almost 9 percent of all the money spent by gamblers worldwide last year.¹ Finally it appears that Internet gambling may be returning to its country of origin.

The Department of Justice opinion of December 23, 2011 has opened the door for state lotteries to pursue online lotto sales and it is only a matter of time until scratch and social games also appear on the Internet. Online scratch games, involving a series of symbols with the win outcome determined by the last symbol, will be virtually indistinguishable from a slot machine once placed on the Internet. Now that the prospect of legalized Internet gambling returning to the US is has grown more probable, it becomes necessary to carefully examine how that should occur and what needs to be done to safeguard players and assure that online games are conducted fairly and responsibly – in short, the regulation of online gambling.

Tribal gaming has already developed successful regulatory institutions and processes to administer land-based gaming but interactive wagering brings a new set of challenges which must also be addressed. Just as with land-based gaming, regulatory authorities will have to put in place responsible gaming protections which include identity and age verification, geo-location, and other “know your customer” (KYC) measures. KYC is usually accomplished through a rigorous registration procedure that requires documentation of age, residence, location, credit card and financial institution information. This is supported by the employment of specific identity verification tools at every logon. In addition tribal regulators will need to establish anti-fraud procedures to prevent collusion or money laundering (chip dumping) taking place on the games. All of this will require significant investment in technology.

Tribal regulators will need to establish effective regulations and enforce penalties for non-compliance. They will also need to develop testing procedures for the online games, as well as procedures for auditing the payment systems for Internet wagering sites. They should be prepared to assess online gaming vendors and if necessary conduct background checks into the company principals. Some of these offshore B2C operators took bets from US citizens after UIGEA was passed in 2006 and probably should not be allowed to profit from those actions.

Most importantly, tribal gaming regulators and operators will need to acquire resources with experience in current online gambling operations and educate internal staff to build the knowledge base required to administer and regulate the new online operations.

¹ 2011 data set, H2 Gambling Capital

Problem gambling will be just as tough an issue as it is with land-based gaming. Increased availability of gambling through the Internet opens the potential for greater abuse, although research to date shows similar rates of problem and pathological gambling between the online and “offline” channels. The good news here is that Internet operations offer better tools for tracking problem gamblers, and even identifying patterns of behavior that lead to problem gambling so that early intervention can take place. Because online betting provides a perfect history of each player’s gambling history, there is ample data available to profile normative gambling as well as abnormal gambling behavior. One lesson to take from Europe is that problem gambling solutions such as self-exclusion need to be approached comprehensively on the Internet and not on a site by site basis.

While Internet gambling does present unique challenges, essentially it constitutes simply another channel for delivering the entertainment experience of responsible gaming. European operators have already established strong regulatory and KYC procedures which can be used as a model for US operations, whether tribal, commercial, or state lottery based. Spectrum believes that Internet gambling will develop in the US differently from the European model and be tied more closely to established land-based brands which can offer tangible player rewards and amenities. Indian gaming is a major part of the land-based gambling industry, generating almost as much revenue as all US commercial casinos, and tribal authorities will be expected to regulate online gaming just as effectively as it does bricks and mortar casinos.

Thank you,

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