

DCMS

# A Literature Review and Survey of Statistical Sources on Remote Gambling

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## 2 Executive Summary

RSe Consulting was commissioned to conduct a literature review and statistical analysis of remote gambling. This work will inform the October 2006 international conference on remote gambling sponsored by the UK government.

The British government has three ongoing concerns about the remote gambling industry:

- Its societal impacts, particularly youth and problem gambling;
- Links to criminality, i.e. the potential for money laundering through remote gambling sites;
- Ensuring fair play, i.e. play data is not used by operators to the detriment of the player.

### Market overview

- The market has more than doubled in the past 5 years;
- It is intensely competitive and characterised by low margins and high percentage payouts leading some experts to believe that the market will consolidate over the next 5 years;
- The market is so competitive that the reputation of operators is paramount. Players will switch to rival sites if practices are questionable;
- The Asian market is growing fastest and is likely to become the largest market in the next few years;
- Mobile gambling is also likely to grow, further increasing accessibility to remote gambling.

### Societal Impacts

- Remote gambling is currently a small proportion of gambling in the UK, but is growing;
- Online gamblers differ from traditional casino goers and betting shop gamblers. Early research indicates that they tend to reflect the average internet user - educated and young;
- Remote gambling sites are highly customisable and attract more women than, for example, traditional betting shops;
- While many of the factors associated with problem gambling appear to be related to remote gambling, the profile of online gamblers does not conclusively match that of problem gamblers;
- Remote gambling has appealing characteristics to young people, but age verification controls, when used, are effective;
- It is difficult to curb these societal impacts because very little international cooperation exists, allowing problem gamblers and youth gamblers to access less stringently regulated sites.

### Criminality

Opinions differ about how much of a threat money laundering poses via remote gambling. Some believe the limits on gambling are too low to make laundering a problem while others believe that it is too difficult for operators to trace money definitively.

## Regulatory Regimes

Regulation varies wildly across countries from a free market approach to complete prohibition, but limits on gambling are porous because the ubiquity of the internet makes it increasingly easy for customers to access foreign sites and circumvent regulatory regimes.

## Conclusions

- The highly competitive nature of the industry makes the reputation of operators key – players will desert sites if play is not seen to be fair and open;
- Some 'micro' regulations, legal and technology frameworks such as age verification controls, kite-marks etc., when adopted appear to be effective;
- Despite these activities, youth and problem gamblers can access sites which do not share the same ethic;
- Some level of international cooperation, and possibly regulatory harmonisation, is required to effectively curb problem and youth gambling.

## Recommendations

1. **Co-operate more with other governments** to harmonise and enforce micro-regulations.
2. **Co-operate with the remote gambling industry** to get better access to transactional data
3. **Conduct studies regarding participation in remote gambling, youth gambling and problem gambling** on a more frequent basis

## 3 Introduction

### 3.1 Context

The British Parliament passed the Gambling Act in 2005 that, among other things, will allow remote gaming operators to lawfully base their operations in Britain for the first time. The British Government has three ongoing concerns about remote gambling:

1. Societal impacts;
2. Criminality;
3. Ensuring that gambling is conducted fairly and openly.

Currently, there is very little international cooperation between countries on remote gambling. There is also little symmetry between regulatory regimes. Without continuity in regulation across countries many operators are highly likely to locate in 'regulation-lite' jurisdictions. This has the effect of pushing customers towards unlicensed and unregulated sites.

Britain has begun a discussion about differences in regulation across countries. This report will inform that discussion.

### 3.2 What this document will do

This document outlines our literature review and statistical survey of sources on remote gambling. It will:

1. Clarify what is known and what is not known about remote gambling;
2. Identify current legislation on remote gambling, here and abroad;
3. Outline the impact of remote gambling to the individual and to wider society;
4. Identify gaps in knowledge and how they can be filled;
5. Differentiate between widely accepted understanding, analysis and new thinking.

### 3.3 Scope

- According to the 2005 British Gambling Act 2005 "Remote" gambling means gambling via remote communication, i.e. via internet, telephone, television, radio or via any other electronic means.
- Remote gambling includes the following forms:

- **Fixed odds betting** – gambling against odds offered by a bookmaker;
  - **Peer to peer betting** - gambling against odds directly offered by another individual (i.e. cutting out the intermediary); this is primarily associated with betting exchanges like Betfair;
  - **Spread betting** - gambling on the outcome of any event where the more accurate the gamble, the more is won and conversely the less accurate the more is lost. A bet is made against a 'spread' (or index), on whether the outcome will be above or below the spread. The amount won or lost depends on the level of the index at the end of the event. In Great Britain spread-betting is regulated by the Financial Services Authority and not covered by the Gambling Act 2005;
  - **Gaming** – placing bets on casino games like roulette and blackjack, and peer to peer games such as poker;
  - **Lottery** – gambling via the drawing of lots for a prize.
- This review does not include:
    - An assessment of tax revenue from remote gambling;
    - Views from sources such as religious groups that are anti-gambling;
    - Any findings from market research companies requiring payment of a fee;
    - Industry-sponsored research.

### 3.4 Methodology

1. **Literature review** – Researching and assessing the following:
  - The identity, characteristics, motivations and attitudes of participants in remote gambling;
  - The gambling behaviours of remote gamblers including youth gambling;
  - Any association between problem gambling and remote gambling;
  - The wider costs and benefits of remote gambling;
  - The business models and strategies of suppliers of remote gambling;
  - Government policies towards remote gambling especially whether or not it is advisable to attempt to regulate or self regulate remote gambling; and
  - Methods of controlling remote gambling.
2. **Statistical analysis** - Uncovering:
  - Amount staked, and expenditure, on remote gambling;
  - Changes in stakes and expenditure;
  - Numbers and characteristics of players;
  - Participation in remote gambling compared with other types of gambling;

- Patterns of play by remote gamblers; and
  - Measures of benefits and harm of remote gambling.
3. **Industry interviews** – Interviews with two industry experts; one from a company offering all forms of remote gambling bar lotteries, and the other from a gaming company.
  4. **Gap analysis** – Looking at the areas in which more research needs to be undertaken and rating the credibility of all information sources (see the appendix for further details)
  5. **Final report write-up.**

**Our methodology helped us to answer the following questions:**

- ✓ What are other countries doing to regulate remote gambling?
- ✓ What is/are the size and characteristics of the remote gambling market?
- ✓ How does the industry respond to legislation and micro regulation?
- ✓ What are the links between legislation/micro regulation and the societal impact of remote gambling?
- ✓ What is the profile of an online gambler?
- ✓ How does remote gambling compare with more traditional forms of gambling in terms of problem gambling?
- ✓ What are typical business models of operators?
- ✓ Do different business models require different types of regulation?

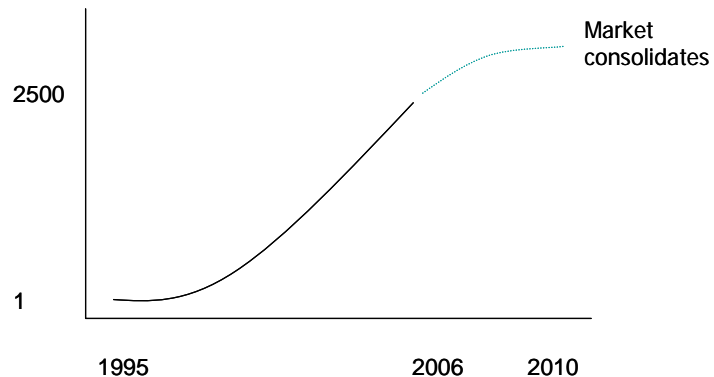
## 4 Market Overview

The following section provides a brief overview of the remote gambling market including how it can be broken down, both by type of gambling and by geographic location, and finally what the future of remote gambling might look like.

### 4.1 Operators

#### The market has more than doubled in the last five years.

The first online gambling site, Internet Casinos Inc, opened in August 1995 with eighteen different casino games and access to the National Indian Lottery<sup>1</sup>. Since then, the market has exploded, particularly in the last few years. Although estimates vary widely, reasonable estimates of the market size are at around 2,300 sites<sup>2</sup>. This rapid growth in the number of sites in recent years may be tapering off, as the big companies buy out smaller sites and the market consolidates. In 2005, there were 32 instances of market consolidation, compared to just nine in 2004<sup>3</sup>.



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#### The remote gambling market is characterised by low profit margins and high percentage payouts.

Estimates for the money going out as winnings range from 88% to 98.7%<sup>4</sup>. This is brought about because:

- Overheads are so low; all that is needed is a server, software, payments system, some back office systems and staff;
- Competition for customers is stiff, which means sites need to have attractive odds to attract or retain customers, leading to high percentages paid out. Customers can compare the odds of winning on different sites through a number of websites such as oddsexchange.com and oddschecker.com;
- The turnover of these companies is so large that the small margin corresponds to a large amount of money, making it a profitable business to be in.

**Reputation is becoming increasingly important for operators.** Many customers seek out reputable sites and operators are making an effort to be seen in a good light. Kitemarks are one possible means to this end as is registering the company in a reputable jurisdiction.

<sup>1</sup> Online Gambling Turns 10, WinnerOnline.com (2006)

<sup>2</sup> House Committee on Financial Services (2006)

<sup>3</sup> Online Gambling: Market forecast and assessment to 2010, Screen Digest.

<sup>4</sup> Remote Gambling Taxation (2005) and RSe industry sources

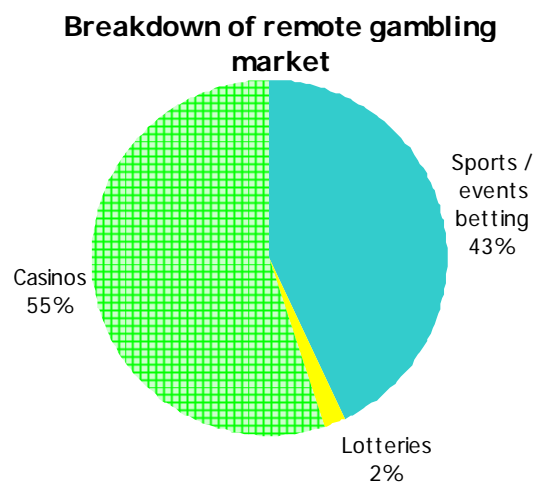
**White sites or white labels are a common business practice<sup>5</sup>.** This involves a site being built and sold on to another company who then puts their own brand on it. Many big players in the market are known to build these white sites. The original company who built the site takes a share of the profits. This is a worthwhile business practice for the company who builds the site as there is little brand loyalty in the market and taking a cut of a number of sites can be more profitable than marketing just one site. However, this makes the application of regulations slightly murky, as one operator may run the site whilst another owns it.

**Keeping remote gambling sites up and running is one of the biggest challenges remote gambling operators face** according to the industry interviews. In particular, our sources noted that threats from criminal groups to stall sites during big money-making events or games occurred frequently. There have been many recorded instances of Denial of Service (DoS) attacks. Firms such as William Hill, Betdaq and Totalbet were all approached by extortionists threatening to cripple their websites with deluges of data during the 2004 Cheltenham horse racing festival<sup>6</sup> unless a ransom was paid. Currently, there is no specific DoS offence<sup>7</sup> under the Computer Misuse Act (1990), although the British All Party Parliamentary Group on Betting and Gaming has called for reform of the Act, citing the impact of DoS attacks on the remote gambling industry as “severe<sup>8</sup>”.

#### 4.2 Breakdown of the market – by type of gambling

The market share of remote gambling as a proportion of all gambling is not available. However, the remote gambling sector itself is broken down in the pie chart<sup>9</sup>, left:

The betting sector is made up of fixed odds, peer to peer and spread betting. The growth in this sector is likely to be in peer to peer betting (see Future Trends). Within online casinos, poker is predicted to rise globally, although the UK poker market is thought to be reaching saturation<sup>10</sup>. In the UK, new games such as backgammon are on the rise.



#### 4.3 Breakdown of the market – by location

<sup>5</sup> RSe industry source

<sup>6</sup> <http://news.bbc.co.uk/1/hi/technology/3549883.stm>

<sup>7</sup> [http://www.channelregister.co.uk/2005/03/10/mp\\_pitches\\_denial\\_of\\_service\\_law\\_to\\_parliament/](http://www.channelregister.co.uk/2005/03/10/mp_pitches_denial_of_service_law_to_parliament/)

<sup>8</sup> <http://www.out-law.com/page-5508>

<sup>9</sup> [www.microgaming.com](http://www.microgaming.com)

<sup>10</sup> RSe industry source

**The majority of sites are registered in just a few jurisdictions.** There are 85 jurisdictions around the world that currently regulate remote gambling. The table below shows the number of sites in the most popular jurisdictions in 2005.

Jurisdiction	Number of sites <sup>11</sup>
Antigua	537
Costa Rica	474
Kahnawake Mohawk (Canada)	401
Curacao	343
Gibraltar	111
United Kingdom	70
Belize	60

According to the website Gamblinglicenses.com, there are four factors that dictate where a gambling operation will base itself. These can be summarised as follows:

1. **Jurisdictional commerciality.** The availability of licences for the various forms of remote gambling, such as betting, casinos, betting exchanges and lotteries;
2. **Regulatory structure.** The existence of regulation is not a deterrent: indeed it can be attractive, since reputable operators will often place a value on being licensed in a jurisdiction which sets high standards of integrity. Some jurisdictions are more attractive than others simply because obtaining information and dealing with competent regulatory bodies is easier and quicker. However, the cost of licences (including the costs of satisfying licence terms) can have a negative impact too;
3. **Policy stability.** The stability of the political environment and what form any changes to policies governing interactive gaming are likely to be. Tax rates are also a major factor for operators deciding where to locate;
4. **Telecommunications facilities.** Remote operators will need to be satisfied about the availability, reliability and cost of communications, especially (though not only) internet access, adequate bandwidth, the availability of leased lines and satellite communications<sup>12</sup>.

In an article in TimesOnline in August 2006, John O'Reilly, head of Ladbrokes' e-gaming division played down the likelihood that it would bring its online poker and casino operations onshore. He said that the low-tax regime in Gibraltar made a move to the UK unlikely, although he was keen to be licensed in the UK if the Government removed the requirement that operators be based onshore.

**Some operators have stated they are unlikely to move jurisdictions in light of the changes to the British regulations.**

Although the Great Britain is an attractive location in terms of reputation and integrity, the low tax regimes elsewhere may deter operators from moving their operation to the Britain.

<sup>11</sup> An Analysis of Internet Gambling and its Policy Implications, American Gaming Association (2006)

<sup>12</sup> Remote Gambling Taxation (2005)

**Generally, markets are growing worldwide.** Estimates as to the exact size of the market vary widely. The table below summarises the key markets for remote gambling.

Market	No. of regular remote gamblers <sup>13</sup>	Turnover <sup>14</sup> US\$	US \$ / gambler / year	Comments
USA	4 million	\$7.6 billion	\$1900	Currently largest individual national market for online gambling. Market share predicted to fall as other key markets are exploited.
Asia-Pacific	7 million	Estimated at \$16 billion	\$2300	This region is as yet relatively untapped but is large and fast growing.
Europe	3.3 million (0.9 million in the UK)	Estimated at \$6 billion	\$1800	An area of huge interest and activity, particularly in the UK due to recent changes in licensing and regulation. High per capita income and internet penetration make this a key region for growth in the long-term.

Remote gambling is still considered to be in its infancy. In more established markets, such as the USA and UK, the numbers of gamblers are growing because:

- Remote gambling is still being discovered by potential customers;
- Internet penetration is increasing;
- The numbers of women gambling remotely are growing.

Up till now, the Asian market has been slower to develop than the USA and Europe due to:

- Difficulties in moving money into and out of some countries;
- Lack of internet access by potential customers;
- Lack of reliable telecommunications infrastructure<sup>15</sup>.

This market is now expanding rapidly and is being targeted by a number of large operators, such as BetWWTS.com, who are translating their sites into Asian languages. Operators still face a number of difficulties in entering the Asian market such as:

- Raising awareness as gambling advertising is illegal in many Asian markets;
- Lack of policy stability regarding gambling in some jurisdictions<sup>16</sup>;

<sup>13</sup> Microgaming.com. These estimates are tentative – the exact size of the remote gambling industry (particularly in comparison) to the traditional gambling industry, is unknown.

<sup>14</sup> Microgaming.com

<sup>15</sup> Internet gambling making waves in Asia, MSNBC, (2004)

<sup>16</sup> <http://www.msnbc.msn.com/id/4311924/>

- Mistrust of betting on machines e.g. slots, video poker – some sites, such as DrHo888.com have live video feeds of dealers to reassure players;
- In some jurisdictions, relatively few people have credit cards and those that do cannot use them to transfer money out of the country.

Despite this, projections by Christiansen Capital Advisors in 2004 were that the Asian market would constitute 40% of a total betting market of \$11.6 billion in 2006, up from 16% in 2003<sup>17</sup>.

#### 4.4 Future trends

Christiansen Capital Advisors estimates that the worldwide revenue from gambling remotely, which currently stands at around \$12 billion, will double in the next 5 years<sup>18</sup>.

**Mobile gambling, a relatively new channel, will increase accessibility.** One of the most widely cited future trends for the remote gambling market is the forecast growth in mobile gambling. Current estimates for the annual turnover of the mobile gambling market are between £500 million<sup>19</sup> and £635 million<sup>20</sup>. Estimates as to how big the mobile gambling market will become vary, but a number of reports suggest the market will reach around £4 billion by 2010<sup>21</sup> (although one report cites the market will reach £10.6 billion by 2009<sup>22</sup>).

Mobile gambling is predicted to really take off in Asia, where penetration of mobile usage is particularly high. Although the regulatory regimes differ markedly from country to country, a number of companies are starting to move into the market with some companies offering gaming for points rather than money (e.g. Spin3's Spinfone System in Singapore). Spin3 are also said to be tailoring games specifically for the Asian market, such as Pai Gow, Chinese Poker and possibly Mahjong<sup>23</sup>.

**Live video-streaming will increase the interactivity of gambling.** People can watch races or games on the internet or on their phones and bet on the outcome whilst the event is in progress. A number of companies are offering this service already, for example 24dogs.com shows live greyhound races online and youbet.com, an American site where you can watch and wager online.

**Peer to peer betting has been a growing area recently which is likely to continue in the future.** Betfair, launched in Britain in 2000 now processes more than 300 bets per second<sup>24</sup> and is expanding its operations in other countries. Other companies are also now setting up betting exchanges, which are able to offer better odds for customers as they have

<sup>17</sup> Internet gambling making waves in Asia, MSNBC, (2004)

<sup>18</sup> The Guardian (2006)

<sup>19</sup> Alatto research (2006)

<sup>20</sup> Informa Research (2005)

<sup>21</sup> DMEurope.com, Informa Research, Mobile gambling markets on the rise, QCK.com (2006)

<sup>22</sup> Juniper Research, Mobile gambling markets on the rise, QCK.com (2006)

<sup>23</sup> Internet Gambling making waves in Asia, MSNBC.com (2004)

<sup>24</sup> www.betfaircorporate.com

lower cost structures than traditional bookmakers, including less taxes to pay (as the house doesn't win and so doesn't pay taxes on its winnings).

**The major knowledge gaps around the remote gambling market are:**

- The exact size of the remote gambling market, including the number of operators and turnover;
- The market share of remote gambling compared to other types of gambling;
- Future trends in remote gambling.

## 5 Societal impacts

*This section explores the impact that remote gambling has on society; looking first at the numbers of remote gamblers and who is gambling remotely and then looking at three areas of interest:*

- *Problem gambling*
- *Youth Gambling*
- *Criminality*

### 5.1 Numbers of remote gamblers

**Remote gambling accounts for only a small proportion of all gambling in the Great Britain.** According to the last British Gambling Prevalence Study, which was published in 2000, nearly three-quarters (72%) of the British population had taken part in some form of gambling activity within the past year<sup>25</sup>. Excluding the National Lottery reduces this figure to 46%. However, this same study showed that just 0.5% of the population had gambled online<sup>26</sup>.

**The numbers of remote gamblers in the Great Britain, and globally, are growing.** Back in 1999, just 0.5% of the population had gambled online, according to the British Gambling Prevalence Study. The Gambling Commission measures the number of people gambling in the UK through a quarterly omnibus survey, which shows that from 2000 to 2006, the number of people who have gambled online in the last month has grown from just under 1% to just over 2% of those surveyed<sup>27</sup>. Research for the American Gaming Association shows that 4% of the American population gambles online. However, while online gambling has been available for about ten years, the significant majority – 70% - of online gamblers have only started to participate in the activity in the past two years<sup>28</sup>. This proves that online gambling in America is a very recent phenomenon.

<sup>25</sup> The DCMS 'Taking Part' survey (2005-06) puts this figure, England only, at 64%

<sup>26</sup> British Gambling Prevalence Study (2000)

<sup>27</sup> Gambling Commission Annual Report 2005-06

<sup>28</sup> State of the States, American gaming Association (2006)

## 5.2 Gambler profile

### Online gamblers differ from traditional casino goers and betting shop gamblers.

Previous attempts at profiling those who were most likely to gamble online in Britain were based on the assumption that they were likely to be similar to a typical e-commerce customer, that being a 34 year old male, in social class ABC1 who has at least one degree<sup>29</sup>. A 2005 survey of American internet gamblers for the American Gaming Association painted a remarkably similar picture; the profile of an internet gambler as a 31 year old male, educated to at least degree level, who is fairly affluent<sup>30</sup>.

**eCOGRA Global Gambler Report will be released in January 2007.** eCOGRA (eCommerce and Online Gaming Regulation and Assurance) will survey 20,000 players through a quantitative internet based survey in addition to qualitative focus groups with over 200 players in the US, UK, Japan, Canada, Germany and Sweden. The report will focus on:

- Who gambles online and why;
- How frequently people gamble online;
- What are the consequences, including its impact on finances and well being;
- Perceptions of operator conduct, including customer service standards;
- Opinions on what further player protection measures can be put in place.

The study will also differentiate between poker and casino players.

The American study shows that the profile of an internet gambler differs from the profile of a traditional casino gambler, in the United States at least, in the following ways:

Prevalence of characteristic	Remote gambler	Casino Gambler
Male	68%	53%
Under 40	69%	23%
At least college educated	61%	43% <sup>31</sup>

The comparison of remote gamblers with traditional gamblers is made more difficult by the fact that the profiles of traditional gamblers differ in themselves. For example, there are stark differences between your typical casino goer and a punter in a betting shop.

### Women are becoming increasingly important in the remote gambling market.

Although the study above shows that remote gamblers are more likely to be men than casino gamblers, the male dominance of remote gambling should not be overstated. Other studies show that women now actually outnumber men on online gambling sites – according to River City Group, 68% of online gamblers are now women<sup>32</sup>.

<sup>29</sup> Gambling Review Report, DCMS (2000)

<sup>30</sup> State of the States, American gaming Association (2006)

<sup>31</sup> State of the States, American gaming Association (2006)

<sup>32</sup> River City Group, casinofortune.com

Figures from Nielsen//Net Ratings for internet gambling activity during the 2006 FIFA World Cup show the proportion of women visiting the most popular sports/gambling websites:

Site	% women visitors <sup>33</sup>
The Times Sport	46%
William Hill	34%
FIFA World Cup site	27%
Ladbrokes	26%
Premium TV	24%

This study also showed that women spend less time on gambling websites than men do. In the week commencing 12<sup>th</sup> June 2006, men spent two and a half times longer on gambling websites than women. Men averaged 53 minutes on gambling websites whereas women averaged just 22 minutes<sup>34</sup>.

**Remote gambling provides a chance for companies to reach women**, who are not, for example, traditionally big users of betting shops. And many companies are targeting sites specifically at women, for example [www.ladycasino.com](http://www.ladycasino.com) and [www.cameocasino.com](http://www.cameocasino.com) which seek to appeal to women by being pink, and having pages dedicated to 'Gambling horoscopes' and 'Hunk of the month'. In addition, some sites are targeting women by offering novelty bets, on celebrities and pop culture.

**The reasons for gambling on the internet are manifold.** Mark Griffiths in 2004 stated the following as reasons why people choose to gamble online:

Reason <sup>35</sup>	Explanation
Accessibility	The internet is available all day, every day.
Affordability	It is cheaper to pay for a minute on the internet than a minute on the phone.
Anonymity	Especially important for problem gamblers.
Convenience	Easy access from the comfort of your own home, especially if you don't like going to casinos or bars.
Interactivity	Correspondence with other gamblers through peer to peer betting or chat rooms.
Event frequency	Playing on multiple sites at the same time and faster spin rates than on slot machines.

Perhaps the most important of these in attracting women to remote gambling are:

<sup>33</sup> UK online sports and gambling audiences up 30% during 2006 FIFA world cup™, Nielsen//Net Ratings

<sup>34</sup> UK online sports and gambling audiences up 30% during 2006 FIFA world cup™, Nielsen//Net Ratings

<sup>35</sup> Griffiths 2003 – "Internet gambling: issues, concerns & recommendations"; Griffiths & Smeaton 2004 – "Internet gambling & social responsibility: an exploratory study"

- **Convenience** – There is a perception that betting shops are not the most pleasant of places in which to spend time;
- **Interactivity** – especially in games such as bingo and poker, where there is a highly social side to gambling.

**The major knowledge gaps in gambler profiles are:**

- Up to date and regular figures for numbers and profiles of remote gamblers;
- How this changes over time as internet penetration increases;
- Transactional data about gamblers such as patterns of play, amounts wagered etc.

**There are a number of studies in the pipeline** that may help to fill these knowledge gaps. These are:

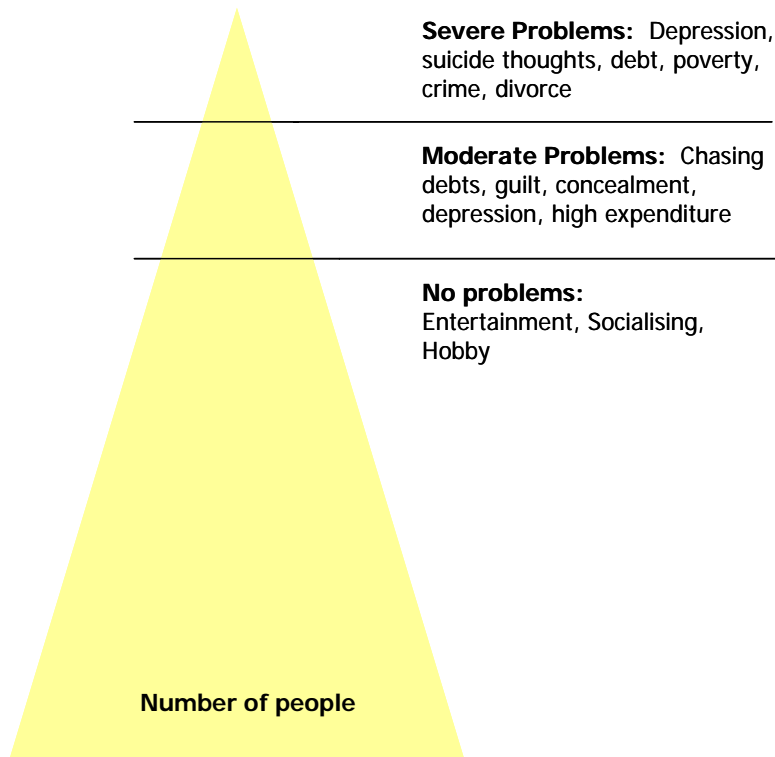
- The British Gambling Prevalence Study 2006;
- eCOGRA Global Gambler Report;
- The Responsibility in Gambling Trust is funding Leeds University for a study of patterns of play and harm in families about internet gambling.

**5.3 Problem Gambling**

Problem gambling is defined by Gamcare, a leading UK voluntary sector organisation concerned with the social impact of gambling, as ‘participation in gambling to the point where it causes serious harm to oneself and others’.

**The vast majority of gamblers are not problem gamblers but the prevalence of problem gambling in Britain was last measured 7 years ago.**

Figures for the numbers of problem gamblers in Britain are out of date. The latest study, conducted in 1999, shows that 0.6-0.8% of the population could be considered problem



gamblers (275,000 – 370,000 people)<sup>36</sup>; there has been a huge increase in the remote gambling market since then and the potential effects of this on the numbers of remote gamblers is unknown.

**Certain factors associated with the development of problem gambling however are particularly relevant to remote gambling.** These are summarised below:

Factor that can lead to problem gambling <sup>37</sup>	Link to remote gambling
Availability of gambling opportunities	Gambling over the internet is available 24/7. The Regulatory Impact Assessment which accompanied the November draft of the draft Bill commented that "extending the choice and availability of gambling could lead to an increase in problem gambling."
Continuous types of games	Online casinos allow continuous play.
Early onset of playing	Young people are more au fait with the internet. Free demos on gambling sites allow them to learn the games earlier than would otherwise be the case. These demos often have more favourable odds than when gambling for real.

**However, those who gamble remotely are not necessarily those who are at risk of becoming a problem gambler.** The British Gambling Prevalence Study (2000) and other research shows that the profile of those more at risk of becoming a problem gambler does not completely match the profile of remote gamblers. It is therefore difficult to draw links between remote gambling and likelihood of becoming a problem gambler.

Demographic	Remote gambler <sup>38</sup>	At risk of becoming a problem gambler <sup>39</sup>	Match?
Sex	Male	Male	✓
Age	Under 40	Under 35	✓
Education	At least college educated	Low educational attainment	✗
Income	Fairly affluent	Low	✗
Marital status	Single	Single	✓

<sup>36</sup> British Gambling Prevalence Study (2000)

<sup>37</sup> Internet Gambling in Canada Waits in Legal Purgatory, National Policy Working Group, Terri McKay (2004)

<sup>38</sup> State of the States, American gaming Association (2006)

<sup>39</sup> British Gambling Prevalence Study (2000)

**Remote gambling may exacerbate existing problem gambling.** Aside from the link between remote gambling and *developing* problem gambling habits, remote gambling may add to an *existing* problem. Problem gamblers may be more susceptible to internet gambling addiction according to a 2002 report which claims that 74% of Internet gamblers were classified as level 2 (problem) or 3 (pathological) gamblers according to the South Oaks Gambling Screen, compared with only 22% of those who did not gamble on the Internet<sup>40</sup>. Griffiths has also noted that problem gamblers are more likely to play in isolation; the internet provides an ideal, stigma-free environment.

Gamcare have noted an increase in the complexity of problem gambling behaviour. They state in their Care Services 2002 report that for most of their clients, "gambling on the internet had been added to an already existing pattern of problem gambling and for many it had become the mode causing most damage and with the highest levels of preoccupation and chasing".

**Operators have measures in place to counter problem gamblers.**

The industry experts that we spoke to all asserted that they can spot problem gamblers on their sites given that the large amounts of data that they collect in terms of level and frequency of amounts staked. If people are losing large amounts of money, operators can contact them and potentially limit their daily limits or close down their accounts. However, we are unsure as to how regular this practice of curbing the losses of problem gamblers is. There are a number of measures that operators have in place to counter problem gambling:

- Links to GamCare or other counselling services on the sites;
- Allowing players to set their own loss or betting limits;
- Allowing self-exclusion from particular sites;
- Daily checks for losses.

In addition, the draft Licence Conditions and Codes of Practice from the Gambling Commission propose a number of mandatory conditions aimed at protecting vulnerable people. Some examples are given below:

- Provide clear information about responsible gambling and the help available to problem gamblers;
- Train employees about possible problem gambling and how to identify it;
- Customers must be able to exclude themselves, through customer services or automated mechanism on websites;
- Operators should make customers aware of how much time and money they have spent on their sites;

According to a survey of American gamblers, internet gamblers are less likely than casino gamblers to set a budget before they start gambling. However, still over three quarters (78%) of internet gamblers **do** set a budget before they start.

<sup>40</sup> Ladd and Petry, Disordered gambling among university-based medical and dental patients: A focus on internet gambling. *Psychology of Addictive Behaviors*, 16, 76-79 (2002)

- Customers must only be allowed to register a maximum of 2 credit cards and must be able to put a limit on their gambling<sup>41</sup>.

**International co-operation does not currently exist to protect vulnerable players.** It is all very well imposing codes of practice on British operators but measures are not always so stringent in other jurisdictions. Players can easily access foreign sites which might not place the same weight on protecting problem gamblers. A consistent code-of-conduct, covering micro-regulations around intervening to limit problem gambling and also verifying age would help to protect vulnerable players.

**The major knowledge gaps around problem gambling in remote gambling are:**

- Up to date figures on the numbers of problem gamblers including how this changes over time, updated on a regular basis;
- Profile of problem gamblers including how this changes over time.

**There is a study in the pipeline** that may help fill these knowledge gaps. It is:

- The Responsibility in Gambling Trust is funding Oxford University for a study of internet gambling, personality traits and risk of on-line gamblers.

#### 5.4 Youth Gambling

A key risk factor in developing problem gambling is early onset of play<sup>42</sup>. The effect of remote gambling on youth gambling is therefore an important consideration.

**Remote gambling, as opposed to traditional forms of gambling, is more of a risk for young people in developing problem gambling.** Some key factors that make remote gambling more attractive to youths are:

- Low level of oversight from operators, regulators or parents;
- Familiarity with the internet;
- Similarity to video games;
- Freebie games allow adolescents to learn how to play games without placing money, often displaying more favourable odds than when money is wagered, distorting the perception of reality.

**Operators interviewed do not view youth gambling as a big problem.** The industry has checks in place to prevent youth gambling, some of which are mandatory to prevent money laundering. Again, the draft Licence Conditions and Codes of Practice from the Gambling

<sup>41</sup> Licence Conditions and Codes of Practice: Remote Gambling Briefing Paper, Gambling Commission (2006)

<sup>42</sup> Internet Gambling in Canada Waits in Legal Purgatory, National Policy Working Group, Terri McKay (2004)

Commission lays out a number of mandatory measures aimed at protecting young people, including:

- Operators must not make their sites particularly attractive to children and young people;
- Operators should carry out random credit card checks to verify age;
- Operators should use the best publicly available data to verify age from whichever country the customer is from<sup>43</sup>.

**The measures operators have in place to prevent youth gambling may not be stringent enough on all sites.** Despite the measures in place to prevent under 18s remote gambling, research has shown that young people can still register on gambling sites:

- A study in 2004 allowed a 16 year old volunteer to open an account with a debit card that would allow him to place bets online on 30 out of 37 sites tested<sup>44</sup>;
- Another study in 2004 showed that 15 out of 30 UK sites did not specify an age restriction and 11 did not verify age<sup>45</sup>.

There are many different age verification systems in the marketplace; regulators must ensure that whatever system is used to verify age, operators follow broadly the same processes and put in place similar controls. Controls that seem to work include requesting two independent items of identification (one of which has to be the player's passport).

**Again, international co-operation does not currently exist to prevent youth gambling.** As underage players can easily access foreign sites, stringent measures need to be in place in all jurisdictions to prevent underage people from gambling online.

**The major knowledge gaps around youth gambling in remote gambling are:**

- Numbers of young people gambling remotely and changes over time;
- Profile, motivations, behaviour and attitude of remote youth gamblers.

## 5.5 Criminality

A frequently cited objection to remote gambling is that it is intrinsically linked to criminality. However, there is conflicting opinion as to whether remote gambling is any more tied to criminality than traditional gambling or other e-commerce.

There are three types of criminal activity that can be linked to remote gambling:

<sup>43</sup> Licence Conditions and Codes of Practice: Remote Gambling Briefing Paper, Gambling Commission (2006)

<sup>44</sup> <http://www.gamcare.org.uk/pdfs/PressreleaseFinal.pdf>

<sup>45</sup> Smeaton and Griffiths, Internet gambling and social responsibility : An exploratory study (2004)

1. **Hacking.** In 2001, hackers altered casino games on two of CryptoLogic's operating licensees so that users could not lose. This only lasted a few hours but 140 gamblers managed to rack up winnings of \$1.9 million (Reuters, 2001<sup>46</sup>).
2. **Fraud by operators.** Lack of regulations around online gambling in many countries mean that it is possible to launch a site, gather credit card information, take bets and then close the site before paying out any winnings, as in the case of the disappearing site, Luvbet.com
3. **Money Laundering.** According to Deputy Assistant Attorney General John Malcolm in his statement to the United States House of Representatives in 2003, "Organized crime is moving into Internet Gambling". In 2001, one of Canada's largest organised crime family's high tech illegal gambling operation was raided and exposed<sup>47</sup>.

**Although there are high profile examples of these crimes, just how prevalent they are is unknown.**

The most talked about of these issues is money laundering and organised crime. According to the GAO report of 2002, the FBI was then investigating two cases of suspected money laundering, but there have been few cases brought to bear<sup>48</sup>.

There are a number of ways that gambling sites could theoretically be used to launder money:

- If the site was set up specifically for the purpose of laundering money, it would be possible to:
  - Transfer illegal funds to an inside source in the casino by playing until the appropriate amount of money was paid out;
  - Transfer illegal funds from a casino insider to a gambler by rigging the game until he "won" the appropriate amount;
  - Program casino gaming software to react to a specific password or sign-on command, automatically taking a percentage of the deposit and cloaking it as a gaming loss.
- If the site was legitimate:
  - An individual could potentially deposit illicit funds into a legitimate internet gambling account under a false name and wager a small amount in order to make the account appear genuine to the site operator. After a few losses, the individual could withdraw the rest of the illicit funds from the account.
  - A legitimate online gaming account could be used as a potential storehouse for illicit funds until they could be transferred to an offshore account. For instance, a money launderer could locate several legitimate internet gambling sites that had few or no deposit requirements and deposit the maximum amount at one

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<sup>46</sup> Gambling@Home: Internet Gambling in Canada (2001)

<sup>47</sup> Internet Gambling in Canada Waits in Legal Purgatory, National Policy Working Group, Terri McKay (2004)

<sup>48</sup> Internet Gambling: An Overview of the Issues GAO (2002)

or more of them. The funds could later be transferred into an offshore account as “legitimate” winnings<sup>49</sup>

Opinions differ as to how much of a threat money laundering in remote gambling poses, both in the literature and amongst our industry sources:

Money laundering could be a problem in remote gambling because...	Countered by...
Characteristics of the internet such as the high speed, high volume and international reach make it susceptible to money laundering	These characteristics are common to all types of online transaction, making gambling no more susceptible than other transactions.
Anonymity of the internet and use of encryption can make it difficult to trace payments	When credit cards are used for payments, a transaction record is created. In addition, credit cards are subject to relatively low transaction limits.
New non-credit card forms of electronic payment are arising (which offer advantages to consumers such as increased security, lower transaction costs etc.) which may not be subject to the transaction records or limits of credit cards	Operators have checks in place (which may be mandatory or self-imposed) to detect possible money laundering and may be required to report these to the authorities. In Australia, for example, operators are required to report: <ul style="list-style-type: none"> <li>• Transactions over \$10,000</li> <li>• International funds transfers</li> <li>• Suspicious transactions e.g. cash transactions which fall just below reporting limits<sup>50</sup></li> </ul>
Gambling sites are frequently located in areas with weak or nonexistent supervisory regimes	The Financial Action Task Force <sup>51</sup> (FATF) has initiated the Non-Cooperative Countries and Territories process to help bring countries with weaker anti-money laundering laws and supervisory regimes up to international norms <sup>52</sup> .

**As a by-product of the evolution of remote gambling, there appears to be a money laundering “arms race” in operation**, with criminals exploiting loopholes or weaknesses in the system and governments and operators working to plug those gaps and strengthen those weaknesses. There are two major implications of this:

1. Ensuring that jurisdictions with less rigorous regulation or supervision are not the source of the loopholes or weaknesses;

<sup>49</sup> Internet Gambling: An Overview of the Issues GAO (2002)

<sup>50</sup> Gambling, money laundering and the proceeds of crime: a trifecta? Elizabeth Montano (1998)

<sup>51</sup> The FATF is an inter-governmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

<sup>52</sup> Internet Gambling: An Overview of the Issues GAO (2002)

2. Assessing the ramifications of the future trends in the remote gambling market, such as peer to peer betting and mobile gambling for example) and putting in place measures to counter their susceptibility to money laundering.

**The major knowledge gaps around criminality in remote gambling are:**

- The prevalence and scale of criminality – how big a problem is it?
- Effectiveness of anti-criminality measures

## 6 Regulation

*This section examines the different approaches to regulating remote gambling across the globe.*

### 6.1 Overview

For ease of analysis we have made the distinction between:

1. **Macro-regulation** – regulation governing whether remote gambling is legalised or prohibited;
2. **Micro regulation** – the licensing framework, legal and technical standards that have to be adhered to by operators, covering issues as diverse as protection of customer funds, continuous and repetitive play and intervention to tackle problem gambling.

### 6.2 Macro Regulatory Approaches

**There is disagreement in the international community regarding the best way to regulate remote gambling at a macro-level.**

Our research suggests that there are four principal macro-regulatory approaches:

1. **Free market:** Antigua and Costa Rica are frequently cited as more liberal jurisdictions when it comes to remote gambling. Antigua was one of the first nations to legalise and licence remote gambling in 1996, while Costa Rica has attracted over 90 operators to the Island. In Antigua, operators are charged \$100,000 for a gambling license. For this directors & shareholders have to meet due diligence requirements, the software making odds for the games have to meet internationally recognised standards of fairness and the operator has to have offices and servers on the Island. In Costa Rica, a bill was put to congress in 2004 that would require operators to buy an operating licence for \$150,000, as well as paying sales and consumer taxes. However, as yet, this bill has not been enacted into law.
2. **Regulated free market:** Following the implementation of the Gambling Act in 2007, Britain will be a regulated free market for remote gambling operators (although it is still currently illegal to supply remote gaming from the UK). From September 2007 onwards

the British public will be able to bet on sites regulated by the Gambling Commission. Operators must adhere to licence conditions and codes of practice (see section 6.3 for more details)

3. **Isolationist:** Australia takes a more isolationist regulatory approach to remote gambling by encouraging operators to base their companies in the country while simultaneously prohibiting these sites from taking bets from Australian residents. However, lotteries and sports betting are exempt from this ban, with online casinos being the primary target of the legislation.
4. **Prohibition:** The legal framework for regulating internet gambling in the USA is rather complex; being covered by a mixture of state and federal statutes. The incumbent US government has said that it supports the Kyl Bill (2005) which would make it illegal for US citizens to gamble on the internet in any form. Until this bill is passed the legality of remote gambling depends on the legislation in individual states. The US Justice Department has used the federal Wire Act (1961) to prosecute internet gambling activities (related to sports betting by citizens of states where it is illegal) across state lines. For instance, David Carruthers, CEO of Betonsports, was arrested in July 2006, because his company's website was being used by citizens in Louisiana (where sports' betting is illegal) to place bets. These bets were placed using electronic communication across state lines, hence the use of the federal Wire Act to prosecute him.

The use of the federal Wire Act to prosecute individuals has not been without its controversy. The Act itself appears to contain some ambiguities that would limit its applicability, particularly around the types of gambling that it covers. The Department of Justice appears to take the view that the Act "is NOT limited to sports-related gambling activities"<sup>53</sup> but case law in the US on this issue is conflicting. If we look at the wording of the Act it seems to limit the placing of wagers on 'any sporting event or wager'. When applied to the context of internet gambling the wording leaves a lot of room for interpretation (i.e. does this Act prohibit bets on games of chance?). A 2001 ruling by the United States District Court for the Eastern District of Louisiana appeared to confirm that a "sporting event or contest" should be strictly construed (and thus only apply to sports betting and NOT games of chance). The United States Court of Appeal for the Fifth Circuit upheld this verdict in November 2002 stating that the Wire Act "in plain language does NOT prohibit internet gambling on a game of chance."

The non-executive Chairman of Sportingbet, Peter Dicks, was arrested in September 2006 after a warrant was issued by the Louisiana State Police. Like David Carruthers and Jay Cohen before him, Mr. Dicks appears to have been arrested due to sports bets being offered to Louisianan citizens over the telephone and internet. However, this has not stopped the share price of leading gaming companies (e.g. Party Gaming & 888) from falling sharply in light of these developments. It remains to be seen whether the US authorities are going to extend the remit of the Wire Act to cover betting on games of chance.

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<sup>53</sup> US GAO report December 2002: 'Internet Gambling – an overview of the issues'

**There is currently a large gap in the literature regarding the effectiveness of the different macro-regulatory regimes.** This is because regulation of remote gambling is a relatively new thing. Moreover, legislation has not been in place long enough to isolate and measure its effectiveness.

**The disadvantages of prohibiting remote gambling appear to outweigh the advantages.** Prohibiting remote gambling could reduce the social costs of gambling and also prevent revenue from leaving the country (provided international agreements are in place to prevent citizens from placing bets with offshore operators.) However, the internet is inherently difficult to regulate because of its ubiquity and governments lack the power to punish operators outside of their jurisdiction. For this reason, some sort of regulated free market approach looks to be the most sensible.

**The likely trend in macro-regulation is towards some form of regulated free-market.** Despite the recent developments in the USA, most jurisdictions appear to be opting for some form of regulated free market rather than prohibition. This trend is likely to be driven by three factors:

- Increased pressure of general deregulation within most western states;
- The ideology of decreased state interference in what most people view as a citizens' personal matter (i.e. placing a bet) – certainly true of most western countries;
- The need for a common international approach to tackling money laundering, criminality and problem gambling.

**The remote gambling industry is theoretically very fluid; operators tend to locate where the regulatory burden is lightest.** There are low barriers to entry and exit within the remote gambling industry – this means that operators will probably move to jurisdictions that take a laissez-faire approach to macro-regulation if the regulatory burden in the host country becomes too onerous. Although there have not been any recorded examples of companies moving jurisdictions due to onerous regulations, most operators are located in places like Antigua & Costa Rica that take a more liberal approach to regulation.

### 6.3 Micro Regulatory Approaches

The Gambling Commission in Great Britain has three key objectives:

1. Protecting children and vulnerable people (i.e. tackling youth and problem gambling);
2. Keeping crime out of gambling (i.e. combating money laundering and fraud by operators);
3. Ensuring that gambling is conducted fairly and openly.

Micro regulation affects all of these issues – we will analyse the possible regulatory options in these areas below.

**Industry experts interviewed believe age verification controls already in place are sufficient.** This was also confirmed by our research. The Interactive Gaming & Interactive Wagering Regulations in Antigua require operators to ensure that participants are aged 18 or over. However, the regulations leave it to the discretion of operators to adopt the most appropriate age verification systems and controls. Not only has this approach also been adopted by the Gambling Commission in Britain, it has seemingly been accepted and welcomed by one of the two trade bodies that represents British remote gambling operators – the Interactive Gaming Council (see press release of 7<sup>th</sup> June 2006). Our interviews with industry experts have revealed that operators believe their checks and balances to be stringent:

“Youth Gambling is NOT a problem on my sites; customers have to undergo a credit check and also have to submit passport ID before we let them gamble. This is a sufficient check and prevents underage gamblers from accessing the games.”

**Anon, Industry interview August 2006**

However, as we noted in section 6.4, several studies have demonstrated that the checks in place are not sufficiently stringent. There is a gap in the literature concerning the effectiveness of regulations, such as age verification controls, in preventing youth gambling. Testing age verification controls will require the cooperation of remote gambling operators, due to the large differences in verification controls and software across the industry.

**The key to tackling problem gambling is to address the issue of continuous and repetitive play.** The British Gambling Commission noted in its partial regulatory impact assessment study of March 2006 that “there has been little research providing conclusive evidence about the causes of problem gambling and the effectiveness of measures intended to tackle it.” However, we know that allowing players some control over their playing environment can mitigate the risk of problem gambling; for example, breaking up continuous and repetitive play on gaming websites can be an effective tool to combat problem gambling by offering less opportunities to place impulsive bets. The problem with introducing measures to do this is that the quality of the game might be affected and this could lead to customers using sites that are unregulated and outside the host jurisdiction. In some jurisdictions the only regulation that addresses problem gambling is the requirement that operators must display on the entry screen a warning of the addiction possibilities of gambling and information on sites to assist compulsive gamblers.

Our industry interviews revealed that operators collect enough data and information to be able to identify patterns of problem gambling. Those that do, do it because reputation is important in such a competitive industry. The issue for regulators is acquiring the power to compel operators to intervene in the event of identifying a problem gambler.

The technical provisions in the Britain for remote gambling relating to social responsibility are in the process of being drafted. Assessment of the effectiveness of micro regulations in curbing problem gambling has yet to be done.

**There is no greater risk to the remote gambling industry in regard to money laundering as there is to any other e-commerce business.** The draft licence conditions and codes of practice drawn up by the Gambling Commission in Britain are quite typical of the regulations in other jurisdictions, in that operators must have documented policies and procedures in place as part of their internal controls and financial accounting systems in order to combat money laundering. A specific example of a micro regulation targeting money laundering is contained in Antigua's Interactive Gaming & Interactive Wagering Regulations. These state that no payment in excess of \$5,000US may be made from a player account unless satisfactory evidence of the player's age, place of residence and identity has been provided to the licence holder (passport & satisfactory credit check). Payments to players over \$25,000US must be the subject of a significant transaction report to the supervisory authority within 48 hours of the payment being made. This micro regulation is a good example of how remote gambling offers more of an audit trail of financial transactions than traditional cash-based industries.

**There is no common approach between jurisdictions to make remote gambling 'fair and open', i.e. through the use of a standard kite-mark.** Licensing authorities have their own kite-marks to signify licensees offer 'fair and open' gambling. The division of gaming in Antigua provides each licensee with an official seal to denote that:

- Directors & shareholders have met corporate and personal due diligence requirements;
- The software making the odds for the games on the site meets internationally recognized standards of fairness;
- The company has physical headquarters and servers on the island.

The Gambling Commission in Britain has recommended in its draft licence conditions and codes of practice that operators must provide clear information about their rules, odds, house edge, average return to player and disputes and complaints procedures. Some sort of display of licensed status will be available to British remote gaming operators.

**Regulating white sites may be difficult because it is often unclear who owns the IP rights to the site as a whole.** This business practice is becoming increasingly common and has major implications for regulation, i.e. who does the regulatory burden fall on? Is it the company who built the site, or the company that operates it?

## 7 Recommendations

The British Government should consider:

1. **Co-operating more with other governments** and possibly harmonising regulations to effectively curb problem and youth gambling. Political sensitivities mean this collaboration may involve adopting similar micro regulations rather than macro regulations. It is particularly important that jurisdictions known for their light-touch regulation are included in talks.

2. **Co-operating with the remote gambling industry.** The industry can provide vast amounts of transactional data which could be used to:
  - a. Ensure fair and open play;
  - b. Build a more comprehensive picture of remote gamblers, including patterns of play and amounts wagered etc;
  - c. Better understand the prevalence of criminality
3. **Conduct studies regarding participation in remote gambling, youth gambling and problem gambling** on a more frequent basis, in order to:
  - a. Build up an accurate picture of remote gamblers;
  - b. Monitor the effects of this relatively new and evolving market.