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**TESTIMONY OF JOHN A. PAPPAS**

*on behalf of*

**THE POKER PLAYERS ALLIANCE**

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**UNITED STATES HOUSE SUBCOMMITTEE**

**on**

**Commerce, Manufacturing and Trade**

**“The State of Online Gaming”**

**December 10, 2013**

Chairman Terry, Ranking Member Schakowsky, and distinguished members of the subcommittee, I would like to thank you for holding this hearing and allowing me to testify. I have the great honor of serving as Executive Director of the Poker Players Alliance (PPA), an organization of 1.2 million American poker enthusiasts. These individuals, along with countless more Americans, enjoy this great game of skill in commercial and Tribal casinos, in their homes, in bars, in charitable games, and on the Internet. Much has changed since the last time this subcommittee met to discuss Internet gaming. I am pleased to serve as a resource to help you better understand how Internet poker and Internet gaming are already being regulated effectively in the United States and throughout the world.

Poker players are passionate about the freedom to play this game and I have little doubt that every member of this subcommittee has heard from poker activists in their home states urging Congress to enact a sensible federal policy that licenses and regulates Internet poker. As an organization, the PPA has been at the forefront of advocating for strong consumer protections and accountability. It is my hope that the committee will respond by taking up legislation introduced by Congressman Barton, H.R. 2666, the Internet Poker Freedom Act. The PPA stands in strong support of Congressman Barton's bill and I would like to take a moment to congratulate the Chairman Emeritus for his leadership on this issue.

The Internet Poker Freedom Act is not about the expansion of gambling in America. It focuses on corralling the current unregulated marketplace and turning it into a system that is safe for consumers and accountable to regulators and our government. The bill mandates technologies to protect consumers from fraud, eliminate underage access, and mitigate compulsive gambling

behaviors. It provides for an open and competitive market that will foster innovation and ensures Indian Tribes have the same rights to apply for a license as other entities.

A key component of Mr. Barton's bill is that it preserves states' rights. The bill does not force any state to participate in an interstate Internet poker system and, equally as important, it allows states to implement their own online gaming regulations. This is especially important given that this year, three states – Nevada, Delaware and New Jersey -- have authorized and are regulating Internet poker and Internet gaming. Further, just last week, North Carolina joined a handful of other states that offer their lotteries over the Internet. And of course, for many years, horse bettors have been able to wager through the Internet in more than two dozen states. While the PPA would prefer the passage of a federal Internet poker bill, like H.R. 2666, that would unify multiple states under a single system, we strongly support the rights of states to pursue Internet gaming opportunities and our membership is urging state governments to do just that in the absence of a federal law.

The activity of the states is significant. It reflects the realities of our modern-day society. More and more, Americans are turning to the Internet for nearly all forms of recreation and activity. Just a decade ago, at this time of year, Americans would be picking up their family holiday photos from the local drugstore or photo center. On the way home, they might stop at the video store and pick up a movie for the family to enjoy that evening. Long past are those days. Americans now turn to the Internet for a variety of services. From creating their holiday cards online and streaming Miracle on 34<sup>th</sup> Street to playing in a Texas Hold'em poker tournament, the Internet has transformed the way we live.

While some may fear that the advent of Internet gaming would destroy or “cannibalize” brick-and-mortar casinos, the experience in Europe shows the opposite. In the United Kingdom, where online gaming is *not* tied to the land-based industry and has become a multi-billion dollar industry, the brick-and-mortar industry has still shown strong year on year growth. The gross gaming yield of the offline casino industry has risen from £597.7m in 2001 to £803.4m in 2011.<sup>1</sup> This is also the case in Belgium, where online gaming is tied to the land-based industry; and since the regulation of online gaming in the country, there has been a 77% increase<sup>2</sup> in turnover of the total gaming market.

A recent analysis of U.S. state and Canadian provincial casino revenue from 2006 to 2011 showed that online poker and offline casino gaming are complementary, suggesting that the presence of online poker increases the demand for offline gaming. The researchers found that a market with an additional \$1 million in casino revenue would receive an additional \$2.7 thousand in online poker revenue, revealing that the larger the online poker market, the larger the offline gambling market and vice versa. It also shows that a reduced online poker market has a negative effect on the size of the offline gaming industry.<sup>3</sup>

Establishing a regulatory regime for online gaming in the U.S. will result in an open and competitive licensed market which would be attractive to both local casino licensees and worldwide operators. It would also minimize unlicensed activities, generate significant tax revenue for the federal government and states and create thousands of high tech jobs. In New

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<sup>1</sup> H2 Gambling Capita, *UK Gambling Turnover* (April 4, 2012).

<sup>2</sup> H2 Gambling Capita, *Belgium Gross Gambling Turnover* (January 1, 2013).

<sup>3</sup> Kahlil Simeon Philander and Ingo Fielder, *Online Poker in North America: Empirical Evidence on its Complementary Effect on the Offline Gambling Market* (March 14, 2012).

Jersey, where regulated online gaming launched in November, Governor Chris Christie is predicting that it will generate \$1 billion in casino revenue by July of 2014.

The adoption of regulated Internet gaming in the states means policymakers in the U.S. can no longer consider regulated Internet gaming as a theoretical. It is not a theory; it is reality. Not only can we now reference the current U.S. regulated Internet gaming market, we also have the benefit of learning from Europe, where Internet gaming has been regulated for more than ten years. Today, in the U.S. and in regulated markets throughout the world, it is required that Internet gaming companies consent to audits, implementation of anti-money laundering compliance programs and multi-step identity verification processes, bot detection, and other regulatory measures. These operators employ “best of breed” technologies that protect minors and problem gamblers, ensure that the games are fair, and that sites block players in prohibited jurisdictions. Additionally, regulated operators are accountable to the players, regulators, and law enforcement, and they are continually reviewed to ensure they are meeting (and exceeding) the prescribed technical safeguards.

Of course, there are those who will advocate for a ban on Internet poker and Internet gaming. Let me tell you that this is a foolhardy proposition which would only serve to harm the vulnerable populations that regulation properly protects. As a player organization, the Poker Players Alliance takes consumer protections very seriously. Given the unjustifiable position of Internet gaming prohibitionist; I would argue that we are advocating for a far more reasonable and effective approach to consumer protections than those who would simply stick their heads in the sand.

I would like to take a moment to address some of their allegations head-on and provide the subcommittee with facts, not rhetoric, on how a combination of regulation and technology can meet these challenges.

Restricting underage access to Internet gaming websites is something that all regulated operators address. The U. S. states that currently regulate Internet gaming and regulated markets in Europe require very high standards of identity verification. Gaming site operators are required to undertake age verification before accounts are opened and bets settled. Therefore, anyone who is placing a bet on a website will have to have proved that they are over the age of 21 in the U.S. and 18 in Europe. These requirements are a condition of operators' licenses issued by their various regulators; and regulators can and do regularly test the efficacy of operators' age verification mechanisms. Failure to undertake rigorous age verification could result in the loss of the license and closure of the business.

All online betting companies require customers to open an account to make a bet. Let me be clear: to open an account for real-money play, a player does not have to merely prove that he or she is an adult; the would-be player has to prove that he or she is a specific adult whose identity can be verified through existing third-party databases, such as credit reporting agencies. Identity verification and know-your-customer requirements in the regulated online gaming space are as robust as those in the online banking space. The suggestion by some that you can open an account as "John Smith" just because you have John Smith's credit card information is simply wrong. In all likelihood, you will need to know, for example, the date and amount of John

Smith's last mortgage payment and other similarly granular information. The reason for this is obvious; it is the same incentive banks have for securing their websites to protect against stolen funds. If someone can log-in to an online gaming site pretending to be someone they are not, they will likely steal money which will ultimately have to be paid by the operator. Age verification is an important element of identity verification because, in a regulated environment, failure to do so will result in a revoked license.

While the U.S. market is still very new, it is notable that in Nevada, which began accepting Internet poker play in April of this year, there has not been a single reported incident of underage access. Even more impressive, however, is what we have learned from Europe's history of regulation. In late 2011, the European Commission sought feedback on the effectiveness of its online age controls as part of its review of Internet gaming.<sup>4</sup> A response was submitted by the Children's Charities' Coalition on Internet Safety. Their response stated:

*"Since the online age verification laws came into force in the UK in September 2007, the children's organizations have not been made aware of a single instance where a child has beaten the system and got online to gamble. There have been instances where a child has "borrowed" a parent's credit or debit card and has been able to pass themselves off as the parent, but that raises different issues ... However, we are not aware of any instances where a child was able to lie about their age and get away with it in an online environment, as they used to do quite easily before the law was changed. By comparison it may not be so difficult to "PhotoShop" a fake ID to use in a real world setting."*

The age verification technologies available today, coupled with hard evidence that shows that underage access to online gaming sites does not even register, should give this subcommittee supreme confidence that American youth will not be playing on regulated online gaming sites.

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<sup>4</sup> European Commission *Green paper on on-line gambling in the internal market 22, 2011* ("EC Green Paper").

Another important matter is ensuring we are appropriately addressing problem gambling. First, it is important to point out that extensive research conducted in recent years proves that online gaming does not increase the social risks and damage of problem gaming.

Moreover, comprehensive research on the issue concludes that online gaming operators have more effective and sophisticated tools to prevent and combat problem gaming compared to the measures that are available in brick-and-mortar casinos. Such measures have been adopted in jurisdictions around the world that specifically regulate online gaming and have proved themselves to be highly efficient.

Here are some key findings that clearly demonstrate that there is no linkage between online gaming and an increase in gambling addiction:

- The European Union concluded in a formal report that "it is difficult to draw a direct link between remote gambling and the likelihood of becoming an addicted gambler."<sup>5</sup>
- A British Gambling Prevalence Survey found that addiction rates for online gambling in the UK were lower than for some types of off-line games.<sup>6</sup>
- Researchers at Harvard Medical School's Division on Addiction Studies have summarized the evidence of the UK study as follows: "The case of Internet gambling provides little evidence that exposure is the primary driving force behind the prevalence and intensity of gambling."<sup>7</sup>

Most regulated online gaming markets have required their licensees to ensure that measures are in place to prevent and combat issues associated with problem gaming. These measures have

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<sup>5</sup> European Commission *Green paper on on-line gambling in the internal market 22, 2011* ("EC Green Paper").

<sup>6</sup> Addiction rates among past year gamblers. *British Gambling Prevalence Survey 2007*, National Centre for Social Research, Sept 2007.

<sup>7</sup> Howard Shaffer and Ryan Martin, *Disordered Gambling: Etiology, Trajectory, and Clinical Considerations*, *Annual Review of Clinical Psychology* 2011. 7:483–510.

proven to be more effective than the measures available in the offline gaming market. Such measures include:

- Providing defined and clear deposit limits which are either set by the regulators or by the players themselves (for a certain period of time, for a certain number of games etc.). For example, if a player sets a limit of \$100 per month for himself/herself, regulations can ensure that no operator lets that player deposit any more than that amount in any month.
- Allowing easy and straightforward self-exclusion by players, whether on a temporary or permanent basis, when players realize that they may have a problem.
- Ensuring that comprehensive information regarding the player's play history is made available to the players at all times, in order to allow the players to fully control their play and the money spent by them.
- Prohibition on extending or granting credit to players.
- Links to problem gambling help lines and websites.

While gambling addiction is indeed an issue, I believe it is best addressed through proactive regulation that seeks to mitigate the problem, rather than be left to an ill-advised prohibition that protects no one.

Finally, opponents of Internet gaming have claimed that the activity is vulnerable to fraud and criminality, even going as far as to say it could serve as a tool for money laundering and terrorist financing. Let me first say that prohibition will just play into the hands of the criminal element, just as it did in the 1920s when alcohol was banned. It is far better for the players' financial fate if the safety and security of Internet gaming transactions are in the hands of the U.S. banking system and the responsible and regulated American gaming corporations. If anything, a prohibition would make the likelihood of money laundering or other fraudulent activity far greater because it would be forced underground without any oversight or control.

With that said, under a regulated market, the opportunity for a fraudulent money laundering scheme to flourish is minimal. To date, looking again at Europe, there have been no significant instances of money laundering through Internet gaming sites. A study conducted by Dr. Michael Levi, professor of criminology at the Cardiff School of Social Sciences<sup>8</sup>, concluded that, “compared to methods of customer identification and monitoring in the off-line gaming and financial services sector, the scope for substantial abuse of e-gaming for laundering purposes is modest.” The study pointed to both the ability to record and track Internet gaming transactions and banking regulations to which authorized companies would be required to adhere. Further, the sophistication of identity verification and the requirement that regulated sites implement these technologies would make it extremely difficult for someone to move money anonymously on an Internet gaming site.

Studies aside, the money laundering argument still seems to resonate with some because of historic concerns about brick-and-mortar gaming and money laundering. It is true that, as a cash-intensive business, brick-and-mortar gaming has had to go to extraordinary lengths to protect against money laundering. (And, as Mr. Freeman can tell you, those efforts have been quite successful.) However, Internet gaming does not involve cash at all. Additionally, every deposit, every withdrawal – indeed, every bet, raise and fold – is recorded and available for review.

The one instance that some alarmists point to as a particular Anti-Money Laundering (AML) vulnerability would be the instance where one player in a poker game attempts to lose money to

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<sup>8</sup> Michael Levi, Ph.D., D.Sc. (Econ.) *Money Laundering Risks and e-Gaming: A European Overview and Assessment*. 2009

another player intentionally as a way to launder that money as poker winnings. However, licensed sites utilize sophisticated software surveillance tools that continuously monitor play to identify unusual betting patterns. This is done in part to prevent player collusion, which is a form of cheating, but also to prevent money laundering. This is a vast oversimplification, but for example, if the software “sees” me fold my pocket kings – the second-best possible starting hand in Texas Hold’em -- to your pocket aces pre-flop, it will flag us as likely colluders and all of our play -- prior and future -- will be subject to intense scrutiny. Similarly, if it “sees” me fold my pocket aces to your deuce-seven, it will flag both of us as potential money launderers; if it continues, we will be blocked from the site and a suspicious activity report will be filed with proper authorities.

In closing, it might be useful to focus on the questions that are NOT before this committee right now. First, this committee is not deciding whether Americans will gamble on the Internet – millions of them do, and except in the few states where the activity is licensed, they do it on offshore sites with uneven regulation at best. Second, this committee need not ask the question of whether Internet gaming can be successfully regulated; today, it is successfully regulated in many European jurisdictions, online casino and poker games are regulated in three states, and online lottery and horse bets are successfully regulated in dozens more. As I see it, the question before this committee is who, if anyone, will provide U.S. players with a safe and well-regulated place to play poker on the Internet. We continue to urge Congress to enact the Barton bill and thus accomplish this federally; at a minimum, we urge Congress to do nothing to prevent states from licensing and regulating Internet poker.

Once again, Mr. Chairman and Members of the Committee, I thank you for this opportunity to testify on behalf of my members and your constituents, and I will be pleased to answer any questions you may have.