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TESTIMONY OF JOHN A. PAPPAS

on behalf of

THE POKER PLAYERS ALLIANCE

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Chairman Bonacic and distinguished members of the committee, 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. In the state of New York we boast nearly 40,000 Poker Players Alliance activists. These individuals, along with countless more state residents, enjoy playing poker in their homes, in charitable games, at tribal casinos, and soon they will also test their skills at state-licensed casinos. But we currently cannot play this great game of skill in a legal and regulated market on the Internet in New York. I am pleased to serve as a resource to help you better understand how Internet poker is already being regulated effectively in the United States and throughout the world, and why regulating Internet poker is the best way for the New York Legislature to protect consumers.

As an organization, the PPA has been at the forefront of advocating for sensible state and federal policies that license and regulate Internet poker. It is my hope that New York will respond by taking up legislation that seeks to establish strong consumer protections and accountability for Internet poker. At this time, I would like to thank the chairman for his leadership on this issue and for introducing S. 5302, a bill that would establish a regulatory framework for Internet poker in the Empire State.

Any effort to regulate Internet poker should not be viewed as an expansion of gambling in New York, but rather as an opportunity to better protect consumers. Today, citizens of this state have access to online poker, online casino games and online sports betting – but they play on foreign sites, none of which are properly licensed or regulated by this government. This reality is all too

real for New Yorkers who played on a site called Lock Poker, which abruptly shut its doors in April of this year taking with it millions in player deposits. Sadly, because of the lack of regulatory oversight, there is nothing the affected customers can do to get their money back and hold this rogue website accountable. This is why we need to corral the current unregulated marketplace and turn it into a system that is safe for consumers and accountable to regulators and our government. Any regulatory effort should mandate technologies to protect consumers from fraud, eliminate underage access, mitigate compulsive gambling behaviors and establish funding for the treatment and prevention of problem gambling.

In order for New York to remain competitive in gaming the state must embrace Internet opportunities. Now is the time for New York to act. As you know three states – Nevada, Delaware and New Jersey – have authorized and are regulating Internet poker and Internet gaming. Nearly a dozen more states are currently considering legislation, including neighboring Pennsylvania. We should remember that authorized Internet gaming is not new to this state. For many years, New York horse bettors have been able to wager through the Internet. The state also makes certain lottery products available for purchase through the Internet.

Establishing a regulatory regime for online poker in New York should focus on an open and competitive market that fosters innovation and keeps consumers interests at the forefront. Because of the popularity of poker in New York, we would expect a robust market that could support multiple operators. However, it is vitally important for New York to establish a system that allows for it to share players with other regulated jurisdictions. In poker, a critical mass of online players, often referred to as “liquidity,” is not only key to enhancing the consumer experience, but for maximizing the profitability of the operator and ensuring the state receives its desired tax

revenue. Players want to be able to play the games they like, at any time, and at any stake. New York can maintain its regulatory integrity over iPoker licensees and still work with other jurisdictions to achieve maximum liquidity.

Others testifying today will be able to provide you with more detail about potential gross gaming revenue and state tax revenue from Internet poker. As a player organization we do not focus on revenue, rather the protections that regulation will provide the consumer. With that said, regulation will bring new revenue, without raising taxes—revenue that the state of New York is not receiving today under the currently unregulated online poker market. In addition to direct gaming taxes that will contribute to the state budget, regulating online poker will benefit New York in many other ways. For example, it will lead to the creation of new jobs that are both directly and indirectly related to the new regulated industry including local marketing and customer and technical support services. Further, by imposing a licensing fee, the state will receive an immediate and significant revenue source and ensure that only financially qualified operators, who will continue to invest in the state, will be eligible for licensing.

While some may fear that the advent of Internet poker would destroy or “cannibalize” brick-and-mortar offerings, the actual experience shows the opposite. A recently published study¹ suggested that states that draw revenue from casino gambling should regulate online gambling as a complementary offering to their land-based games. The study explains that there is little overlap between online and offline player demographics, but those online gamblers represent a valuable subset of potential brick-and-mortar casino players which will create a complimentary

¹ *Consumer spending in the gaming industry: evidence of complementary demand in casino and online venues*, Philander, Abarbanel and Repetti, June 2, 2015

impact. Statistics from New Jersey casino companies align with the study's findings. According to the president and CEO of Boyd Gaming, "about 85 percent of our online players have not rated play at the Borgata in the last two years, showing there is little overlap with our land-based business."² Further, an executive with Caesars Entertainment recently testified that 91 percent of their online players in New Jersey are new customers and because of their online offerings they have seen increased play and visitation to their land-based properties.³ Given all of the evidence, it is clear that moving forward with online poker in New York will not harm existing, or future, casino poker offerings. In fact, I believe that online poker will help drive customers from the Internet platform to the brick-and-mortar setting benefiting both the consumer and the operators.

The adoption of regulated Internet gaming in the states means New York policymakers can no longer consider regulated Internet poker as 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 authorized 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. Regulations require that these operators employ "best of breed" technologies that protect minors and problem gamblers, ensure that the games are fair, and block players in prohibited jurisdictions. Additionally, regulated operators are accountable to the

² Kevin Smith, President & CEO, Boyd Gaming, *Press Release: Borgata Online Gaming Revenue Grows 14% in January*, February 12, 2014

³ David Satz, Senior VP Government Relations and Development, Caesars Entertainment Corp, *Testimony before the Pennsylvania House Democratic Policy Committee*, May 1, 2014

players, regulators, and law enforcement, and they are continually reviewed to ensure they are meeting (and exceeding) the prescribed technical safeguards.

But don't just take my word for it. On January 2, 2015, the Division of Gaming Enforcement (DGE) for the state of New Jersey, the regulator that oversees Internet gaming in the state, released a report card entitled "New Jersey Internet Gaming One Year Anniversary—Achievements to Date and Goals for the Future."⁴ In the report DGE Director David Rebeck concludes, "From a regulatory standpoint, our system is working. There have been no major infractions or meltdowns or any systematic regulatory failures that would make anyone doubt the integrity of operations. The issues that have arisen have been dealt with appropriately just like in the brick-and-mortar casinos." This should leave little doubt in lawmakers' minds that Internet poker can be properly regulated and controlled in New York.

Of course, there are those who will advocate for a ban on Internet poker and Internet gaming. In fact, some in the U.S. Congress are seeking to advance legislation that would cut the legs out from under this state legislature and deny New York the ability to responsibly regulate Internet poker. We oppose this federal legislation and thank the members of this committee who have also publically opposed this 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. I would argue that states like Nevada, New Jersey and Delaware have created a far more reasonable and effective approach to consumer protections than those who would simply stick their heads in the sand.

⁴ ["New Jersey Internet Gaming One Year Anniversary – Achievements to Date and Goals for the Future" New Jersey Division of Gaming Enforcement, Director David Rebeck, 2015](#)

I would like to take a moment to address some of the concerns that have been raised about Internet gaming and its impact on society. I am fortunate to be able to provide the committee with facts, not rhetoric, on how a combination of regulation and technology can and does meet these perceived challenges.

Underage Access

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 extremely high standards of identity verification. Gaming site operators are required to undertake age verification before accounts are opened and bets settled. Therefore, anyone placing a bet on a website must prove 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. . Age verification is an important element of identity verification because, in a regulated environment, failure to do so will result in a revoked license.

It is notable that in the three states that offer regulated online poker and casino games, 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.⁵ 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 committee supreme confidence that New York youth will not be playing on regulated online gaming sites.

⁵ European Commission *Green paper on on-line gambling in the internal market 22, 2011 (“EC Green Paper”)*.

Gambling Addiction

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 – including a key report on American online gamblers last year from the nearby University at Buffalo Research Institute on Addictions – proves that online gaming does not increase the social risks and damage of problem gaming⁶.

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."⁷
- 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.⁸
- 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

⁶ ["Expansion of gambling does not lead to more problem gamblers" University at Buffalo Research Institute on Addictions, 2014](#)

⁷ European Commission Green paper on on-line gambling in the internal market 22, 2011 ("EC Green Paper").

⁸ Addiction rates among past year gamblers. *British Gambling Prevalence Survey 2007*, National Centre for Social Research, Sept 2007.

provides little evidence that exposure is the primary driving force behind the prevalence and intensity of gambling.”⁹

- According to the University of Buffalo Research Institution on Addictions study, despite a seven-fold increase in the numbers of Americans reporting gambling on the Internet (from 0.3 percent to 2.1 percent) between 1999 and 2013, the prevalence rate for problem gambling in the United States has not changed.¹⁰

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 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.
- Providing 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 unregulated market that protects no one.

⁹ Howard Shaffer and Ryan Martin, Disordered Gambling: Etiology, Trajectory, and Clinical Considerations, *Annual Review of Clinical Psychology* 2011. 7:483–510.

¹⁰ [Gambling and Problem Gambling in the United States: Changes Between 1999 and 2013, Journal of Gambling Studies, 2014.](#)

Geolocation

A common argument made by proponents of a federal ban on Internet gambling is that states could not possibly limit the activity to people within their own states. But the truth of the matter is that states are already doing this effectively. According to the Columbia University Science and Technology Law Review, “Geolocation technologies have the potential to make Internet gambling law both more effective and more efficient by enabling each state to enforce its own substantive regulations.”¹¹

New Jersey again is an excellent example of the effectiveness of geolocation. With major populations centers from other states on two borders (Pennsylvania and New York), New Jersey DGE employs some of the most sophisticated technologies to ensure compliance. Using satellite-based geo-positioning technology, the DGE verifies the location of Internet gamblers across New Jersey on digital maps and computer screens. Geo-positioning is so precise that it can distinguish between gamblers who are on the very edges of New Jersey’s boundaries and those just across the border in another state. The DGE report released on January 2 touts a 98% success rate with their geolocation technologies.

Similar technologies are being employed in Nevada and Delaware. There are multiple technology companies licensed in these jurisdictions that are dedicated to developing geolocation systems that stay ahead of someone trying to thwart the system. If New York chooses to regulate Internet poker, it should require “best of breed” technologies to ensure the location of gamblers and limit it to those eligible to play in the state.

¹¹ *Geolocation and Federalism on the Internet: Cutting Internet Gambling's Gordian Knot*, Columbia University, Kevin F. King, 2010

So far in my testimony I have outlined just some of the robust technologies that are in use today to ensure the safety, security and compliance of state regulated iPoker. While there is much more information I can make available to the committee, the information I have provided should give you confidence to proceed with regulated Internet poker and that it will be done in a way that best protects the consumer.

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 New York citizens will gamble on the Internet – today, thousands of them already gamble on offshore sites that provide absolutely no local oversight or protection.. Second, this committee need not ask the question of whether Internet poker 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 New York players with a safe and well-regulated place to play poker on the Internet. The answer today is New Jersey.

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.