Formal Written Testimony on the Economic Benefits of Legal, Regulated Sports Betting and Online Gaming

Regarding the topic of legalized sports betting and online gaming, potential economic benefits and effective safeguards for consumer protection, on behalf of iDEA (iDevelopment and Economic Association), we submit the following:

iDEA is a nonprofit association which seeks to grow jobs and expand the online interactive gaming business in the United States. We represent all sectors involved in the growing industry of internet gaming, sports betting and entertainment, including operations, development, technology, marketing, payment processing, and law. iDEA Growth’s members share the goal of expanding American consumers’ access to secure and regulated online gaming. As part of its mission, iDEA Growth studies the effects of online gaming in jurisdictions that have permitted or expanded it.

Our research clearly shows that internet gaming produces significant economic benefits, provides better safeguards than in-person gambling through the use of digital technology, and can be effectively regulated on the state level.

I. Independent peer reviewed research and the wide ranging experience of our company and all of iDEA’s members clearly show that mobile entertainment offered within a strict regulatory framework offers significant economic benefits through increased employment and tax revenue.

New Jersey’s experience with legal and regulated online gaming is a prime example of successful implementation which is bringing millions of dollars every month to the local economy with no evidence of an increase in fraud or the other dangers imagined by today’s witnesses.

In November 2013, New Jersey became the third U.S. state to permit the legal operation of Internet gaming. To date, New Jersey iGaming clearly has been the most successful of the three states, which include Nevada and Delaware. The State of New Jersey’s iGaming laws allow licensed Atlantic City casinos to operate all games allowed in their brick and mortar facilities. In addition, the casinos are able to partner with approved technology providers to operate multiple iGaming websites.

New Jersey iGaming has experienced strong and steady growth since its inception.

While New Jersey’s favorable outcome has been in part due to its larger population, a primary contributing factor has been its broader iGaming business model. Since its first full year of operations, revenue has grown at a compound annual growth rate of 27%. In calendar year 2016, iGaming generated total gross gaming revenue of $196.9 million, a 32% increase from 2015. Net gaming revenue, after subtracting all promotional gaming credits, totaled $188.1 million, a 38% increase over 2015 revenues.
This upward trend has continued. In August 2018, according to New Jersey’s Division of Gaming Enforcement, online gambling revenue amounted to $24.8 million in August compared to $21.3 million in the prior period, reflecting an increase of 16.6%. Total revenue exceeded $20 million for the 18th consecutive month.

As a result of the upfront capital investment in New Jersey iGaming facilities, equipment, and technology, and the ongoing annual operation of iGaming, there have been significant positive impacts on the New Jersey economy. From its inception in late 2013 through calendar year 2016, New Jersey iGaming has directly and indirectly generated:

- $998.3 million in output (i.e., value of sales);
- 3,374 jobs (i.e., full-time equivalents);
- $218.9 million in wages to employees; and
- $124.4 million in tax revenue to state and local governments (including $83.5 million in iGaming taxes).

II. Rationally regulated online gaming provides significant safeguards for consumers through real-time tracking and age monitoring tools; stringent auditing and constant monitoring track and prevent online fraudulent activity.

a. Geolocation

Contrary to fears expressed by opponents about the efficacy of geolocation in preventing cross border play, the research shows that the technology today is remarkably accurate.

The first concern facing regulators when iGaming was introduced to New Jersey was that the enabling legislation permitted Internet wagering only within state boundaries. In order to fulfill this obligation, geolocation software needed to be developed for compliance purposes to pinpoint with great precision the location of an iGaming customer and only allow them access to the iGaming site if they were physically within the state’s borders. Geolocation was a particularly thorny issue for a state like New Jersey, where the most populous areas of the state are in close proximity to two of the largest urban concentrations in the nation, New York and Philadelphia.

Several geolocation vendors entered the New Jersey market, creating a new technology virtually from the ground up. Before U.S regulated iGaming, the success of compliance geolocation technology was measured in miles and half-miles. After implementation in New Jersey, it became measured in yards and meters. David Rebuck, Director of the New Jersey DGE, stated in his one-year anniversary update letter on the industry that geolocation in 2014 was performing at a 98% success rate, with the 2% failures being false negatives (i.e., incorrectly rejecting people that were properly within the state’s borders).

b. Know Your Customer

To protect the integrity and safety of iGaming, it is necessary for players to adequately identify themselves during the registration process. In order to be certain of the iGaming player identities, New
Jersey regulations require the most rigorous KYC protocols of any iGaming jurisdiction. These identification requirements are essential measures intended to prevent underage gambling, fraud, and money laundering.

During the registration process, players must enter their first and last name, date of birth, gender, social security number, valid New Jersey street address, phone number, and a security question, and declare that they are over 21 years of age. This information, once entered, will constrain anyone else from using their account and ensure that the player does not hold a New Jersey casino key license or is otherwise prohibited from wagering in New Jersey.

Anyone who fails to provide this information is unable to establish an account and therefore is prevented from playing online. These rigorous KYC requirements discourage underage players and make it extremely difficult for cheaters to establish fraudulent accounts or for anyone to launder the proceeds of a criminal enterprise through a New Jersey iGaming site.

Generally, it is actually far easier to verify a player’s age, monitor their spend, and identify problem gamblers online than it is in person. States with legal online gaming also utilize digital algorithms in compliance with U.S. banking laws in order to monitor and enforce daily spending limits to address problem gambling.

c. Problem Gambling

Cambridge Health Alliance’s Division on Addiction at Harvard Medical School analyzed a large sample of Internet players extracted from the database of bwin, one of the largest international online poker operators, and found that the incidence of problem gambling behavior on the Internet is consistent with worldwide prevalence rates for other forms of gambling. These findings indicate that problem gambling is primarily a function of the human psyche rather than increased access to gaming.

Other research also shows that increased availability has not led to increased rates of problem gambling. The brick-and-mortar gaming industry has undergone a tremendous expansion over the past 30 years. Prior to 1978, when gambling was legalized in New Jersey, Nevada was the only state in the union where gambling was legal. Today a total of 40 U.S. states offer casino-style gambling in some form, hosting a total of over 1,300 commercial, racetrack, and tribal casinos and cardrooms.

Despite this explosive growth, research for the Ontario Problem Gambling Research Centre and the Ontario Ministry of Health & Long Term Care shows that the rate of problem gambling prevalence has remained around 1% to 3% in the U.S. over time.

In an effort to control problem gambling, the New Jersey iGaming regulatory regime incorporates a number of responsible gaming features designed to limit losses and to reduce the adverse impacts of problem gambling behavior:

- The regulations require each Internet gaming permit holder to pay $250,000 annually for state programs combatting problem gambling.
• Systems are in place that must contain logic to identify and report potential problem gamblers to the licensee, and all licensees are required to maintain records of all actions taken regarding those patrons identified as potential problem gamblers.
• All of the iGaming operating sites allow players to set deposit limits, loss limits, and time limits on their Internet gambling sessions.
• iGaming customers can also set a minimum 72 hour “cooling off period” to prevent chasing losses and those who have acknowledged a gambling problem can easily self-exclude themselves from gambling online for a period of one to five years.
• A mandatory player protection feature is also triggered once a player’s cumulative deposits exceed $2,500, after which they are required to acknowledge that they have the ability to set responsible gaming limits on their accounts and that 1-800-GAMBLER is available for assistance.
• Computerized systems provide on-demand activity statements for a minimum of 180 days of patron gaming activity, and all iGaming platform providers are required to maintain complete records of customer activity for at least ten years

III. Trying to revive the Wire Act ignores the realities of modern digital technology, in addition to the current judicial, regulatory, and economic climate.

This year the U.S. Supreme Court definitively ruled in Murphy v. NCAA that states – not the federal government - may decide for themselves whether to allow legalized sports betting within their borders. Since that ground-breaking decision, many states have already passed their own laws permitting sports betting and other forms of online wagering. Federal legislation would require the unwinding of state legislation in multiple jurisdictions, negatively impacting local businesses already invested in and profiting from sports betting.

State regulation has been endorsed by the Supreme Court and has been working effectively thanks to rational state regulation and digital technology. Federal legislation will only hamper the growth of this flourishing industry.

The federal government has historically left gambling legislation to the province of state and local governments. Even before the overturn of PASPA, states have typically overseen their own systems for permitting and regulating gaming and similar entertainments within their borders.

Gaming became legal in Nevada in 1931 though state legislation intended to encourage economic development in the wake of the Great Depression. In 1974 New Jersey legalized gaming in Atlantic City. Now thirty-eight states either have legalized commercial casinos or Native American-owned tribal casinos. Counting lotteries, nearly every state in the union has offered some form of legalized gaming for some time.

The Wire Act was passed during the Kennedy administration to target organized crime; it literally prohibits using “a wire communication facility for the transmission in interstate or foreign commerce of bets or wagers or information assisting in the placing of bets or wagers on any sporting event or contest.”
Some state sports betting laws such as New Jersey’s expressly contemplate the Wire Act in their language, by including provisions which exempt intermediate routing across states from creating federal jurisdiction. This appears to be the wave of the future for state sports betting bills.

As indicated by the majority opinion in *Murphy*, federal law is generally interpreted to support not preempt state laws.

New Jersey’s sophisticated technology demonstrates that interstate wagers may be more effectively monitored and prevented by digital technology than by interference by the federal government.

**IV. Conclusion**

iDEA’s members would be happy to testify or meet with your Committee further to demonstrate exactly how technology actually protects consumers through effective methods of geolocation, age verification and other protective measures. We can provide demonstrable objective evidence these concerns have in fact been addressed in states like New Jersey in ways that are working well to protect all the interests at stake.

We thank you for the opportunity to provide this testimony.