

4 June 2007

INTERNET GAMBLING REGULATION AND ENFORCEMENT ACT 2007, H.R. 2046

Committee on Financial Services' hearing: 8 June 2007

1. The purpose of this note is to provide evidence to the Committee to assist it in determining whether internet gambling can be regulated to protect consumers and the payments system.

Introduction

2. In order for the Committee to assess how much weight to attach to this submission it would be sensible to set out some background about the Remote Gambling Association (RGA) and its expertise in this field.
3. The Remote Gambling Association (RGA) became operational on 1 August 2005 as a result of a merger between the Association of Remote Gambling Operators (ARGO) and the Interactive Gaming, Gambling and Betting Association (IGGBA). Although we are based in London we have engaged with several different regulators and governments and this reflects the international nature of the industry and our members' interest in diverse markets.
4. It is a trade association whose role is to promote the interests of its membership, which includes the world's largest and most well known remote gambling companies. A full list of members is at Annex A.
5. As a condition of membership, all of our members must be licensed for gambling purposes in Europe and they must agree to abide by our codes of social responsibility. This is for reasons of probity and customer protection.
6. Further information about the RGA is available on our website at www.rga.eu.com
7. On a personal note I have been Chief Executive of the RGA since its establishment and before that was General Secretary of ARGO (see para 3 above). Prior to that I spent 6 years as an official in the British

Government advising Ministers on policy matters relating to horseracing, betting, and remote gambling. During that period we addressed many of the issues that are being reviewed by the Committee on Financial Services. In addition I have experience of working in the British betting industry and am also currently a Director of the Responsibility in Gambling Trust (RIGT), the charity that was established at the request of the British Government to channel donations from the gambling industry towards problem-gambling related research, education and treatment.

8. For ease of consideration we have deliberately focused here on a number of key issues, but if the Committee would find it useful to have evidence on other related areas we would of course be glad to supply it.

Crime & money laundering

9. The main areas of risk are criminal infiltration, fraud and money laundering. However, despite statements that have been made by opponents of online gambling there is no evidence that this sector is more prone to criminal activity than any other.
10. The United States is renowned for having robust regulatory standards to combat crime in the bricks and mortar gambling industry, especially in States such as Nevada. It also has effective regulations in the finance sector for dealing with online and cross border financial transactions.
11. The obvious case in point is the use of credit cards, which are still the preferred form of payment for most online gamblers. Within the United States vast amounts of credit card transactions take place on a daily basis. The system is well established and well policed in order to counteract fraudulent and criminal transactions. From a crime prevention perspective we would argue that it is irrelevant whether the transactions involve payment for gambling services or any number of other products. The point is that the same protections apply and are as equally effective. The removal of cash gambling from the equation is understood to significantly reduce its attractiveness to potential money launderers.
12. Taken together with international experience, for instance in Britain, this demonstrates clearly that there are effective tools and procedures to ensure that:
 - Probity checks can be made to prevent criminal elements becoming licensed operators;

- That those checks and ongoing regulation will prevent licensed operators from perpetrating fraud; and
 - Money laundering can be stamped out in the same way that it has been in other industries where the United States has chosen to regulate the activity. In this respect it is worth noting that all online casinos that are based in the European Union are subject to the Money Laundering Directive as well as the legislation in each Member State (for example, in the UK online casinos will be bound by the Money Laundering Regulations 2007 which will go before Parliament for approval later this year).
13. Particular requirements could include procedures to:
- Establish and record the identities of all customers
 - Record all transactions over a certain level
 - Have a named director or employee to take responsibility for compliance with money laundering rules
 - Have staff trained to a standard where they can ensure compliance with measures of this kind.
14. Added assurance can be gained from the knowledge that in a regulated US online gambling market all of the transactions would go not just through the gambling operators but also through the regulated financial services sector with all of the augmented checks and balances that would be entailed.
15. In short, there is nothing unique about gambling in general or online gambling in particular. As with all other industries and sectors it is capable of control in order to prevent it being used as a source of crime.
16. The only circumstance in which crime can flourish is if the activity is unregulated.

Consumer protection - problem and underage gambling

17. Online gambling, as with all forms of gambling, brings with it the risk of problem and underage gambling. The industry willingly acknowledges that risk and its responsibility to deal with it in co-operation with regulators and specialists, such as academics and treatment providers.
18. Thankfully, again despite claims to the contrary, online gambling provides many opportunities to put in place protections that are not there in all traditional gambling environments. While technology may

be perceived by some as a threat the truth is that when it comes to combating crime and problem gambling it offers a whole range of additional solutions and protections.

19. There is not space here to list them all, but our own minimum standards are set out in our codes of practice on social responsibility and age verification. Both can be accessed at our website. These issues have also been at the forefront of the thinking of the British regulator, the Gambling Commission, as it has developed its new licence conditions and codes of practice. From September these will apply to all British-licensed online casinos and sports-books. Copies can be found at www.gamblingcommission.gov.uk.
20. To illustrate this point the following are examples of the measures that are commonly applied by our members currently:
 - Deposit and spend limits for customers
 - Facilities to allow customers to self exclude themselves from the gambling site
 - Information on the sites about responsible gambling
 - Links to sources of advice and counselling
 - Financial support for treatment services
 - Enabling websites to permit filtering software, such as that provided by the Internet Content Rating Association (ICRA), to enable parents to restrict their children's access to sites that they deem to be undesirable.
 - Use of third party suppliers, such as credit reference agencies or holders of related databases, to confirm the identity and age of customers

Consumer protection – fairness

21. In the same way that a roulette wheel in Las Vegas must be tested to ensure that the player is offered a fair game, online gaming products must also be tested. This is longstanding industry practice. There are various methods, but the most common is called output testing. The result in nearly every virtual game, be it poker, roulette or a simulated slot machine is determined by a random number generator (RNG). Output testing will be employed to ensure the randomness of a new product before it is introduced and will then be employed to ensure that it continues to operate in the way that it is intended.
22. This is underpinned by compliance regimes which are designed to prevent external interference with the systems.

23. Again, regulation can ensure that consumers are adequately protected and that appropriate safeguards are put in place.

Conclusion

24. We believe very strongly that any objective assessment of these issues will inevitably lead to the conclusion that online gambling is capable of being regulated to the required standard. There is also no doubt that a jurisdiction which has a viable regulatory and tax regime will be attractive to both consumers and businesses. This would certainly be the case for the United States where the establishment of a properly regulated online gambling industry would give American consumers a clear choice between gambling operators who are licensed and regulated by the Government, and those operators who for whatever reason choose to remain offshore. It is reasonable to expect that in such a situation the vast majority of US citizens would opt for US-regulated businesses and gambling products.
25. We appreciate that if and when the Committee satisfies itself that internet gambling *can* be regulated effectively it will then need to consider whether the United States *should* regulate it. We would welcome the chance to comment again at that stage in the process, but for now we would like to restate our offer to provide any help that we can as the decision making process develops. We have a great deal of first hand knowledge of the industry, the associated regulatory issues, and of operating in regulated environments. It is at your disposal should you want it.

Clive Hawkswood
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Remote Gambling Association

Annex A

Remote Gambling Association Membership

Barcrest
BellFruit
Bet 365
Betfair
Blue Square
Cantor Index
Cashcade
Chartwell Games
Club On The Park
CryptoLogic
Eurogaming
Gala/Coral Group
Inspired Broadcast Networks Limited
Ladbrokes
Leisure & Gaming
Littlewoods
Microgaming
Million21
Orbis Technology Ltd
Paddy Power
PartyGaming
Playtech
PKR
Ritz
Skybet
Sportingbet
Stan James
Stanley
Talarius
Totesport
Victor Chandler
Virgin Games
William Hill
32 Red
888.Com
