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TESTIMONY OF JOHN A. PAPPAS

on behalf of

THE POKER PLAYERS ALLIANCE

Michigan State Senate

Committee on Regulatory Reform

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Chairman Rocca and distinguished members of the committee, thank you for holding this hearing and inviting 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 Michigan, we boast nearly 20,000 Poker Players Alliance activists. These individuals and taxpayers, along with countless more state residents, enjoy playing poker in their homes, in charitable games, at state-licensed commercial casinos and at tribal casinos. But we currently cannot play this great game of skill in a legal and regulated market on the internet in Michigan. Starting with this committee hearing, I am hopeful that this will change. I am pleased to serve as a resource to help you better understand how internet poker and other forms of internet gaming are already being regulated effectively in the United States and throughout the world, and why regulation is the best way to protect consumers as well as maximize economic benefits for the state and the existing gaming industry.

For more than a decade the PPA has been at the forefront of advocating for sensible public policy that authorizes and regulates internet gaming. We know a good bill when we see it and that is why I would like to thank Senator Mike Kowall for his leadership on this issue and for introducing S.B. 889. This bill establishes strong consumer protections for adults in Michigan who enjoy internet gaming, and it would provide the state with a new revenue stream *without* raising taxes. Additionally, I would like to thank Senators Hertel, Knollenberg, Johnson and Warren for their co-sponsorship of this common-sense measure and I urge every member of this committee to support S.B. 889.

S.B. 889 should not be viewed as an expansion of gambling in Michigan, but rather as an opportunity to protect consumers and add a new distribution channel for the state's existing, and tightly regulated, gaming industry. To be clear, 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 void in consumer protection is all too real for Michigan residents who played on Lock Poker, an online site based in Curacao, which abruptly shut down in April 2015, and took millions in player deposits. Sadly, because of zero regulatory oversight, there's nothing affected customers can do to get their money back and to hold this rogue website accountable. S.B. 889 changes this dynamic and puts Michigan in control of internet gaming by corralling the unregulated market and turning it into a state-based industry that is safe for consumers and accountable to regulators.

In order for Michigan to remain competitive in gaming, the state must embrace internet opportunities. More and more, Americans are turning to the internet for nearly all forms of recreation and activity. For example, banking is done mostly all online today, we can buy a car online and we even date online. Moving a poker game from the kitchen table to the computer table is just another part of the way the internet has transformed our lives. Extending oversight into internet gaming is simply a reflection of our modern-day society. Michigan can choose to ignore the internet, or it can embrace it for the benefit of its citizens and regulate it to protect them. We should remember that authorized internet gaming is not new to this state. For many years, Michigan horse bettors have been able to wager through the internet. The state has also – successfully and safely – begun offering lottery products for purchase through the internet.

Today, three states – Nevada, Delaware and New Jersey – have authorized and are regulating internet poker and internet gaming. Several others are currently debating legislation. Just last week a committee of the California Assembly passed a bill to authorize internet poker with unanimous support. Michigan is in a prime position to be on the leading edge of this industry and serve as a regulatory model for future states.

Every day that passes without internet gaming regulation, is another day Michigan doesn't realize its economic benefit. As a player organization our primary focus is on consumer protection and maximizing the player experience. With that said, regulation will bring new revenue, without raising taxes—revenue that the state of Michigan is not receiving today under the currently unregulated online gaming market. Based on a review of historical data and comparable tax revenues in New Jersey, it is estimated that 40 million in new tax revenue could be generated each year. Given the serious and immediate demands on the state budget, supporting Internet gaming as a new revenue stream is a common sense decision, rooted in sound public policy.

Moreover, in addition to direct gaming taxes that will contribute to the state budget, regulating online gaming will benefit Michigan 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 gaming 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 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 and online gaming in Michigan will not harm existing casinos’ offerings. In fact, I believe that online poker and casino games will help drive customers from the internet platform to the brick-and-mortar settings, benefiting both the consumer and the operators.

Online poker will also be a unique driver for tourism in Michigan. The coupling of the online game with the state’s tribal and state-licensed poker offerings will make Michigan the mid-west centre for regulated poker. It will bring first class poker tournaments to the state drawing players

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

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

from all over the country and even the world. This type of “Poker Tourism” will fill hotel rooms and restaurants and can be strategically planned to enhance commerce during times of the year when traditional tourism is off its peak.

Regulated internet gaming 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 prohibit minors and problem gamblers, ensure that the games are fair, and block players in forbidden 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.

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

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

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 gaming can be properly regulated and controlled in Michigan.

Of course, there are those who will advocate that you do nothing. This is a foolhardy proposition. The status quo is not acceptable and doing nothing 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.

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.

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 Michigan youth will not be playing on regulated online gaming sites.

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 gaming⁵.

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:

- 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.⁶
- 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.”⁷

⁵ “Expansion of gambling does not lead to more problem gamblers” University at Buffalo Research Institute on Addictions, 2014

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

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

- 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.⁸

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 players' 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.
- Prohibiting 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.

⁸ *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.”⁹

New Jersey again is an excellent example of the effectiveness of geolocation. With major population 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.

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 Michigan chooses to regulate internet gaming, it should require “best of breed” technologies to ensure the location of gamblers and limit it to those eligible to play in the state.

⁹ *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 internet gaming. While there is much more information I can make available to the committee, the information I have provided should give you confidence that it will be done in a way that best protects the consumer.

In closing, I would like to reiterate that this committee is not deciding whether Michigan citizens will gamble on the internet – today, thousands of Michiganders already gamble on offshore sites that provide absolutely no local oversight or protection. However, this committee is deciding whether or not to protect these consumers online. Today internet gaming is being successfully regulated throughout the world, online casino and poker games are regulated in three states and online lottery and horse bets are successfully regulated in dozens more. The only question before this committee is, will you support A.B. 889 to provide Michigan players and taxpayers with a safe and well-regulated place to play poker and other games on the internet, or will you leave them with an unprotected market vulnerable to fraud?

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.