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TESTIMONY OF MS. SUE SCHNEIDER

CHAIRMAN, INTERACTIVE GAMING COUNCIL

before the

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATION

of the

HOUSE COMMITTEE ON FINANCIAL SERVICES

“INTERNET GAMBLING: GOOD GAMBLING OR BAD BET?”

July 12, 2001

Madam Chairwoman and Members of the Committee, my name is Sue Schneider and I've served as Chairman of the Interactive Gaming Council since its formation in 1996. I'd like to applaud you for holding this hearing to educate yourselves on the public policy issues regarding Internet gambling and particularly for inviting the affected industry to present comments. It's a complex topic that requires open debate.

The Interactive Gaming Council (IGC) is a not-for-profit trade association with over 100 member companies from around the world. These companies are operators, software suppliers, e-commerce providers or ancillary services providers like my own company, which offers information services. The mission of the organization is to provide a forum for what we consider to be the legitimate participants in the industry; to provide uniform standards for those participants, and to provide a unified voice to advocate for the interests of our members and the consumers who enjoy their services.

The IGC has noted the concerns voiced by many in Congress regarding consumer protections with respect to on-line gaming. The IGC shares these concerns and has therefore created a Code of Conduct (Appendix A), Responsible Gaming Guidelines (Appendix B) and most recently, a Seal of Approval program (Appendix C). We believe that neither governments nor consumers will long tolerate an industry which does not

extend adequate protections to its consumers. Thus, our members feel that we must work with those governments globally in an effort to offer solid regulatory environments.

Having discussed briefly what we are, I suppose I should devote a little attention to what we are *not*. IGC members are *not* the sort of “fly by night” operators who set up an operation, place a few banner ads, accept a few million in wagers, fail to pay out winnings, and shut down two weeks later – indeed our organization is meant to be the antidote to that. We are *not* advocates of a sort of “wild west” approach to Internet gaming where the only governing principle is that of *caveat emptor*. Finally, we are *not* unaware of, or insensitive to the issues of underage or problem gaming. We believe that regulation – first industry self-regulation, and ultimately rational government regulation, are the solutions to these problems.

There are currently 54 governments which offer some form of interactive gambling regulatory infrastructure (Appendix D) and the number is growing. Countries such as Great Britain and South Africa are now exploring regulatory structures. One of our initiatives is to work with the international body of gambling regulators so that baseline standards are developed that address concerns such as underage gambling, compulsive gambling, game testing, money laundering and others. I'd be happy to give you more details on these frameworks in the question period.

You're likely aware that some states in the US are beginning to explore the development of regulatory structures to govern this activity. Most notable is Nevada, which last month

passed enabling legislation authorizing its Gaming Commission to explore the situation. Additionally, some state lotteries have expressed interest in providing tickets online, and in the closing days of the 106th Congress, Congress extended protection for the horse-racing industry to accept online bets.

This fledgling segment of the gambling industry is one of the few profitable business sectors on the Internet and it is growing. Estimates are that it is currently a US\$3.1 billion industry this year, expected to grow to US\$6.3 billion in 2003. (Appendix E) Globally, approximately 325 operating companies and governments offer their products through these new electronic delivery systems on 1,400 websites. These include sportsbetting, casino games, lotteries, racing, bingo and the newest entry, person to person betting. The nature of the business is shifting with an increasing number of terrestrial gambling operators now bringing their products online as an adjunct to their land-based business.

Somewhat surprisingly, 50%-90% of the market demand for these services is coming from the US. This is expected to drop as a percentage of the whole in the future as Internet penetration grows in other parts of the world, particularly those areas where gambling doesn't have the stigma which it has here. (Appendix F)

There are clear public policy challenges in this discussion. Among these are:

- State vs. federal oversight
- The location of where the gambling transaction occurs (important for tax collection)
- Multijurisdictional harmonization of regulations

This Committee's specific concern is the role of financial transactions in this industry. Clearly, these are the lifeblood and without them, deposits can't be made nor players paid. I would hope that you refrain from putting financial institutions and processors in the role of policemen because of the precedent it will send out to the world regarding the US attitude toward e-commerce. If financial instruments are treated as the regulatory chokepoint for e-commerce, it seems quite likely that governments at every level and around the world will seek to have financial institutions enforcing a patchwork of laws and regulations that could make e-commerce completely unmanageable. Such a move will only speed up the evolution of truly anonymous e-cash services as an alternative for those players who want to play, something that is not desirable by governments or responsible participants in the industry.

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You've also asked us to address the issue of money laundering. This is a critical issue internationally, especially since many of the licensing jurisdictions are currently "offshore" in Europe, the South Pacific and the Caribbean. For consumers, trying to launder any quantity of funds via an online gaming site is fairly cumbersome and raises

red flags with operators. Of more concern is a pseudo-operator who may be laundering money. Again, with solid and consistent international regulatory requirements such as background checks, this can be controlled.

Madam Chairman, I would ask that you keep two pieces of history in mind as you explore this issue. One is the Volstead Act, the 1920s alcohol prohibition, in which the federal government attempted to curb a highly popular activity among the American people. That act set out to protect America against the ravages of alcoholism. However, then as now, the vast majority of people who drank were not problem drinkers. Its primary impact was to create an underworld crime organization which has lasted for years. It failed further in that it prevented responsible drinkers from enjoying the pleasures of a social drink, but did almost nothing to keep alcohol from the problem drinkers it set out to help. I would suggest that attempts to prohibit Internet gaming would see similar results – it would frustrate those who currently wager harmlessly online, and it might set precedents which would do much harm to all of e-commerce, but it will do little to help those it seeks to help.

The other historical example is that of Las Vegas. What began as an unregulated oasis in the desert has slowly evolved into a highly regulated and successful tourism spot with tax revenues which support an entire state. Government and industry work together to allow people access to an activity they enjoy, and at the same time, to minimize the harmful side effects of that activity. The IGC and its members are eager to work with policymakers at any level of all governments to see Internet gaming follow this path.

This committee and this Congress must choose which of these historical precedents to follow. The IGC and its members would urge you to choose the latter.

Once again, I thank you for the opportunity to testify, and look forward to the questioning period.

CODE OF CONDUCT

1. Regulatory Compliance: All IGC members will abide by the law and regulations of the jurisdiction where they propose to do business. Any IGC member issued a bona fide gaming license from a sovereign jurisdiction shall provide evidence of that license and will be presumed to be operating under the authority and within the scope of that license. IGC members shall use best efforts to obtain any binding legislative or judicial determinations which prohibit or limit operation in another jurisdiction and shall abide by those limitations to the greatest extent technically feasible.

2. Accountability: To enhance customer confidence in gaming system integrity, IGC members making their service available in a jurisdiction voluntarily agree to make their systems, algorithms and practices available for inspection and review by any legitimate gaming commission or governmental authority or to any independent testing authority recognized by the IGC, in accordance with generally accepted methods for protecting proprietary information.

3. Consumer Privacy and Data Protection: IGC members will design and operate their services to afford customers privacy and confidentiality and will post their confidentiality practices and procedures. Each IGC member will institute controls to detect and eliminate fraud and to protect data and the system from internal and external breaches.

4. Truth in Advertising: IGC members shall be truthful in all promotions and publish only accurate information about their operations. Gaming and Wagering Operator Member rules, registration procedures and payout percentages will be made available to the public.

5. Dispute Resolution and Audit Trails: In order to provide prompt and efficient dispute resolution each IGC member will retain detailed transaction records which will be archived, accessible and auditable by any legitimate gaming commission or government authority.

6. Limiting Access by Minors: IGC members will institute adequate controls to prohibit minors from accessing their gaming systems. The controls will require customers to affirm that they are of lawful age in their jurisdiction, and the IGC member shall institute reasonable measures to corroborate this information.

7. Controlling Compulsive Gambling: IGC members will implement adequate procedures to identify and curtail compulsive gambling. The procedures instituted shall include posted loss limits, and provision of referral and direct access to help and counseling organizations.

8. Banking and Transaction Processing. IGC members will conduct their banking and financial affairs in accordance with generally accepted standards of internationally recognized banking institutions. Members will follow and adhere to all jurisdictional laws pertaining to transaction reporting.

9. Prize Payouts: Interactive Gaming and Wagering Operators will ensure that there is adequate financing available to pay all current obligations and that working capital is adequate to finance ongoing operations. IGC members will pay winnings and account balances promptly on demand.

10. Corporate Citizenship: IGC members will endeavor to design and implement their services in order that they preserve and protect environmental resources, avoid depiction of violence and so that the services are user friendly and generally accessible to the handicapped. IGC members will endeavor to support public service initiatives in harmony with the jurisdictions in which they provide their services.

For further information please do not hesitate to contact Rick Smith or Keith Furlong by email at executive.director@igcouncil.org or keith.furlong@igcouncil.org respectively.



RESPONSIBLE GAMING

GUIDELINES

Interactive Gaming Council Responsible Gaming Issues are:

- The Interactive Gaming Council (IGC) will develop, advertise, implement and evaluate industry-wide Policies and Procedures for Responsible Internet Gaming.
- IGC members shall make every effort to identify possible compulsive and problem gamblers and shall further make a reasonable effort to address the consumer's potential problem.
- To facilitate an appropriate action, IGC members shall voluntarily seek training from professionals whose area of expertise addresses prevention, identification, intervention and referral of compulsive/problem gamblers to assistance programs. The Responsible Gaming Committee will provide assistance in identifying these professionals and programs and convey this information to IGC members.
- To show support of providing help to compulsive/problem gamblers, IGC members shall promote "the 20 Questions of Gamblers Anonymous" and/or other compulsive/problem gambling screening tools for their customers.
- IGC members shall make available information and links to guide compulsive/problem gamblers to supportive gambling helplines and information sites. The Responsible Gaming Committee will provide various methods of displaying these links for use on member websites.
- IGC members shall support and adhere to betting limits in an attempt to identify and limit compulsive or problem gamblers. This will include: oversight of the use of multiple credit card accounts by customers; the establishment of personal betting limits; and the monitoring of customers' account access experience. Such oversight and monitoring may provide for a 24-hour "cooling off period" when betting limits are reached, or more than three (3) account access attempts are made within a twenty-four hour period.
- The Responsible Gaming Committee will work with IGC members in establishing and refining techniques to discourage problem gaming. IGC members shall make every effort to implement security measures to prevent access to gaming accounts by underage Internet users, and shall post a voluntary Age Restriction Notice.
- When made available, IGC member sites will utilize rating standards that provide for content registration (for example, PICS rating standards), and blocking software to parents, in an effort to curtail access by underage Internet users. The Responsible Gaming Committee will provide assistance in identifying technologies in this area, and how they can best be used.
- When provided and approved by the IGC, member sites agree to adopt self-regulatory controls, and/or agree to adhere to the regulations established by the jurisdiction under which the member's license was granted.
- IGC members are encouraged to make donations to organizations who provide assistance, programs and services to compulsive/problem gamblers, and to report such donations to the Responsible Gaming Committee for press and/or public relation releases.
- IGC members shall make every effort to provide self-restriction controls in their customer databases for those compulsive/problem gamblers who submit such self-imposed restrictions to a gaming site in writing.

IGC members agree not to extend credit to gambling patrons.



SEAL OF APPROVAL

The goal of the IGC's Seal of Approval (SOA) program for the interactive gaming industry is to provide a foundation for greater public confidence, respectability and credibility.

By participating in the SOA a participant displays a commitment to business integrity and to complying with a set of established guidelines and IGC Code of Conduct.

SOA participants display a seal that indicates to consumers the site's willingness to adhere to a new, higher level of compliance as a supplement to existing government regulatory regimes. To be a successful SOA applicant a member will have to satisfy criteria pertaining to the applicant's good standing as an IGC member for a qualifying period of time as well as being subjected to a more comprehensive due diligence check.

A successful SOA applicant agrees to accept and adhere to the SOA program rules and guidelines and will be provided with a recognizable logo to display on their gaming site. The seal represents a participant's agreement to adhere to a higher set of standards toward an honest and fair gaming environment. An important component is a formalized dispute resolution process for dissatisfied players.

The Internet gaming industry is dynamic, exciting, and in many cases responsible. The IGC's Seal of Approval program will allow operators to show support for on-line gaming environments that are fair and honest.

One important issue that should be addressed is the issue of government regulation. The Seal of Approval is by no means designed to be a replacement for strict government regulation. In fact, the IGC has been actively advocating strict licensing and regulation by governments. It is the opinion of the IGC and its members that effective government regulation is the only way to move the Internet gaming industry to the next level of legitimacy. Further, the IGC believes that since access to Internet gaming sites cannot be effectively prohibited, the only true means of dealing with this form of entertainment is through regulation.

The IGC has commenced implementation of the SOA by targeting a few of the longer serving IGC members with proven good standing. The application fee is to be waived for applicants of good standing with the IGC as at May 31, 2000. An annual license fee of US\$2,500 will apply, while each additional registered web site will be liable for an application fee of US\$250 and an annual license fee of US\$250.

Through word-of-mouth and traditional advertising, the IGC intends to expand the program to include many of its member companies. Eventually, the program will be expanded to include other companies involved in the Internet gaming industry in addition to operators, such as software companies and information portals.

For further information on the Seal of Approval program please do not hesitate to contact Rick Smith or Keith Furlong at executive.director@igcouncil.org or keith.furlong@igcouncil.org respectively.