

TESTIMONY OF

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INTERACTIVE GAMING NEWS**

BEFORE THE NATIONAL GAMBLING IMPACT STUDY COMMISSION

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Good afternoon, Madame Chair, Commissioners, ladies and gentlemen. My name is Sue Schneider. I am the editor of both the consumer-based Rolling Good Times Online as well as the Interactive Gaming News, both electronic publications which cover internet gaming issues. I also serve as Chairman of the Interactive Gaming Council, a trade association comprised of over 55 companies around the world.

I believe I have something in common with each of the other panelists. Like Mr. Bell of the CATO Institute, I think that consenting adults have the right to place bets from the safety and comfort of their own home, without fear of reprisals from federal or state law enforcement agencies. Like Mr. Bell, I believe that small businesses like internet service providers should not have to bear the costs of an effort to eradicate online gaming - an effort which is doomed to failure from the very beginning.

But I also agree with the deputy Attorneys General, both of whom think that the current system of unregulated internet gaming is not good for Americans or anyone else. Like them, I believe that it is our industry's responsibility (in partnership with parents) to ensure that minors are not allowed to engage in gaming, either online or off. And like the Attorneys General, I agree that compulsive gambling is a problem, and must be addressed by the gaming industry.

Now, that I've told you what I agree on with the other panelists, let me tell you a little bit about the things we disagree on, and my reasons for disagreeing.

Unlike the Attorneys General, I do not believe that an outright prohibition of internet gaming is possible. Moving a web site is much easier than moving a 1920's era speakeasy. The internet was designed to survive a nuclear attack - an attack by law enforcement isn't likely to do much good - especially if web sites are located overseas. More importantly, however, I don't think that an outright prohibition of internet gambling is desirable, even if we could implement such a policy. The solution, I believe, is regulation.

Unregulated gaming presents some insurmountable hurdles. No matter how many honest operators there are out there, without a viable regulatory framework, the potential for fraud and abuse is quite significant. In the absence

of a regulatory framework with strong teeth, there will inevitably be some bad apples. The problem is not so much that unscrupulous operators exist - that's a given - the problem is how to tell the difference between the good guys and the bad guys.

There is a definite need for consumer protection. The industry has already taken steps to ensure that customers get what they are expecting. The Interactive Gaming Council has developed a Code of Conduct and is developing a Seal of Approval to designate those member operators who are fair, honest, and responsive to customer concerns. The seal of approval program can be helpful in steering consumers away from unscrupulous operators. And when fraud has been committed, existing consumer protection laws and civil suits for common-law fraud are just as applicable in the context of internet commerce as they are in land-based transactions.

But, obviously, that's not enough. One of the reasons why the gaming industries in places like Nevada, Atlantic City, and Australia have grown so much and have provided jobs and entertainment to millions of people around the world is because of the strict regulations imposed by the local gaming commissions. You can walk into any casino on the strip in Las Vegas, and be absolutely sure that the odds of "00" coming up on the roulette wheel are 1 in 38. Why? Because the Nevada Gaming Commission has tested that roulette wheel, and would have closed down that casino if it had found any cheating going on. There are few, if

any, unscrupulous operators in Las Vegas or Atlantic City. It doesn't pay. Why would consumers take a chance at some hole-in-the-wall, unregulated casino, which may or may not be fair, when they could go to dozens of licensed and regulated casinos they know will play it straight? House cheating doesn't occur very frequently in Las Vegas or Atlantic City for a very simple reason: it doesn't pay. If you run a straight game, you're going to make money. And if you're caught cheating, you're going to lose your license, and, most likely, your business.

That concept can be easily extended into cyberspace. If the federal or state governments are willing to license and supervise internet gaming sites the way they license and supervise land-based casinos, customers will know what they're getting. And, as a consumer, why risk your hard earned cash at www.flybynight.org, when you can do the same thing at www.licensedandregulated.com?

A strict system of licensure and enforcement will solve some of the other dilemmas inherent in internet gaming as well. One of the most vexing problems with internet gaming is how to ensure that minors don't get access to these sites.

In the current environment, even without a regulatory framework, there are still significant reasons for internet sites to verify the age and identity of their patrons. If, for instance, a 13 year old steals his parents' credit card and runs up a tab on an internet gaming site, that child's parents are not liable for the debts incurred.

Consumers are already protected from such fraudulent use of a credit card by existing consumer protection statutes. It is the casino that will have to make restitution for the fraudulent charges incurred.

In this situation, a regulatory framework gives sites one more very strong incentive to make sure that they're not breaking the rules by allowing minors to gamble: if you're caught, you'll lose your license. The financial incentives for keeping kids out are significant.

Consider what might happen, however, if a complete prohibition is imposed. Those honest operators who want to obey the law and treat their customers fairly will be legislated out of business. Only the unscrupulous will remain. Always trying to stay ahead of the law, for these operators, one dollar is as good as the next. If the Feds are going to try to shut you down tomorrow, why not take in as much as you can today-whether it comes from a 13 year old kid, or a 65 year old grandmother. And if you're not going to exist a week from today, why try to build up a relationship with your clients? If someone hits a big jackpot, just close up shop and walk away. If our motivation is to keep kids from gambling, and ensure that games are fair, an outright prohibition will undoubtedly backfire on us.

Does the technology exist to regulate what goes on in cyberspace? Of course it does. There is no fundamental technological difference between ensuring the

fairness of a video poker machine in Atlantic City and ensuring the fairness of web-based video roulette.

And, in fact, technology makes some of the industry's problems easier to solve, rather than harder.

Companies now exist whose sole purpose is to verify the age and identity of cyber-surfers. These types of services can be invaluable in the internet gaming context. And in the case of compulsive gaming, it's much easier to track an individual's betting history by computer than in person. If a man walks into a casino and places a \$10,000 cash bet, nobody knows whether he can afford it or not. But, if that same person places a large bet online, an operator can have instant access to credit records which would allow the operator to allow the Sultan of Brunei to place that bet - but not a compulsive gambler making only \$20,000 a year. Within the right regulatory framework, licensed sites would also be able to share information about customers, to ensure that people are only betting what they can afford to lose.

Let's talk about consistency. Current Congressional proposals that allow some types of internet gaming, but not others, don't make very much sense. Why allow a person to buy a state lottery ticket online, or place a bet on a horse, dog, or jai alai game, when he or she can't place a bet on the Superbowl? Proponents of this approach make a legitimate case: these types of bets are allowed because

those industries are tightly controlled and well-regulated. Rather than outlawing all other types of internet gaming and leaving consumers to take their chances with unscrupulous operators, why not raise the bar, and ensure that all internet gaming sites are tightly controlled and well-regulated?

Madame Chair, that is the extent of my prepared remarks. I would be happy to answer any questions the Commission might have.