

An Overview of Internet Gambling Regulations

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Executive Summary

There are currently more than 2,000 Internet gambling sites worldwide (Schwartz, 2005). Revenue from these sites is estimated to reach \$18 billion by the end of 2008 (Dresdner Kleinwort Wasserstein, 2005). Due to its exponential rate of growth, market impact, and the risks associated with gambling excesses, Internet gambling is a cause for apprehension from many perspectives.

Through regulation, a jurisdiction is able to protect those parties engaged in the risks of the activity. Some jurisdictions have established regulatory frameworks with supporting standards and policies, while others have not. The result is that regulatory frameworks are widely divergent. What follows is an overview of regulatory standards in jurisdictions around the world. For the purpose of this report regulatory frameworks are organized into 3 distinct tiers: Tier 1 regimes are focused on maximum player protection and compliance; Tier 2 regimes are characterized by a more flexible approach aimed at attracting a higher number of operators; and, finally, Tier 3 regimes are those that allow companies to conduct Internet gambling in an unregulated environment.

The current climate for Internet gambling is unstable, a result of both the disparity of regulation among jurisdictions and the resulting aura of public mistrust this disparity has engendered. An internationally-recognized regulatory framework would help address this instability by impartially resolving cross-border disputes and mandating a high standard of customer service and game integrity. A variety of regulatory approaches could be applied to accomplish the same goals; and such a framework would make it possible to evaluate divergent regulatory practices from a politically independent perspective.

Introduction

The terms “Internet gambling”, “online gambling” and “e-gambling” generally refer to using a personal computer to connect to a gambling website in order to place a bet using real money. Of the remote communication options available, including telephone and television, the Internet is the most commonly used medium and is expected to retain its dominance of the remote gambling space. Global Betting and Gaming Consultants estimates the Internet’s share of the remote gambling market to be 80% (Dresdner Kleinwort Wasserstein, 2005).

Historically, governments have opposed gambling for moral, ethical and social reasons (Kearney, 2005). Limited forms of gambling have been permitted (such as lotteries and on-track horserace wagering), but it has not been allowed to spread as a commercially independent industry and has been fiercely restricted. In addition, some states have monopolized gambling to generate non-tax revenue. The Internet has eroded this position by destroying natural barriers. The technological advances that have allowed gambling opportunities to be offered across international borders have turned Internet gambling into a global issue

The number of Internet gambling sites has increased from 30 in 1994 to more than 2,000 in 2005 (Swartz, 2005). Revenue has grown from \$6.7 billion in 2003 to \$9.2 billion in 2004 and is estimated to reach \$18 billion by the end of 2008 (Dresdner Kleinwort Wasserstein, 2005). Factors driving growth in the online gambling market include: the increasing popularity of western sports worldwide, the broadcasting of events and tournaments to fill time on an increasing number of sports channels, as well as the worldwide market penetration for televisions, credit cards and computers with Internet access (Dresdner Kleinwort Wasserstein, 2005). The most common types of Internet gambling sites are sports betting, lottery ticket sales, and casino games such as poker, blackjack and slots. Sports betting currently accounts for the largest percentage of revenue but is expected to be overtaken by poker in the near future ((Dresdner Kleinwort Wasserstein, 2005).

Internet gambling is a very real concern from many standpoints (Griffiths, Parke, Wood, Parke, 2005; Ladd and Petry, 2002; Shaffer, 2005; Williams and Wood, 2007). For individuals with gambling problems, the anonymity and social isolation that comes with this type of gambling works only to exacerbate their problems. Coupled with the convenience of access and the potential for unlimited and unmonitored play, unregulated or poorly regulated Internet gambling lends itself quite effectively to the burdens of its excess. Depending on the entry barriers the gambling site requires individuals to overcome, underage individuals may also find opportunities for illegal access to some gambling sites. Gambling sites themselves are as volatile as the server they are stored on. Service providers may simply shut down after taking gamblers' money and fail to pay winnings. At the unfortunate intersection of criminal intent and technological aptitude, security of personal information, credit card details and players' funds, in transit and storage, are susceptible to new and sometimes undetected forms of identity theft, money laundering and larceny (Clarke and Dempsey, 2001; McMullan, 2007; Stewart, 2006).

Regulatory standards allow a jurisdiction to better protect its residents by requiring that online gambling businesses operate according to such rules as: preventing underage gambling; giving gamblers tools to control expenditures; and requiring the delivery of responsible gaming information to online players (Stewart, 2006). However, regulatory policies and standards surrounding online gambling remain unclear in many parts of the world. Attempts to prohibit Internet gambling in some industrialized countries such as the United States have resulted in Internet gambling sites being established in small nations with little or no government regulations. At the same time, there are a number of small nations, including Alderney and Gibraltar, which have gone to great lengths to protect customers of sites established there. Other jurisdictions like Australia have made it illegal to provide certain types of gambling via the Internet to their own citizens, as part of their regulatory framework.

At present, there are approximately 100 jurisdictions¹ which license or otherwise tolerate online gambling (www.gamblingcompliance.com). Regulatory structures vary in terms

¹ See Appendix for a listing of jurisdictions

of the scope of regulation, consumers and types of gambling activities. This paper explores the wide variation of regulatory standards in the Internet gambling industry and identifies elements commonly found within effective regulatory regimes. Efforts were made to include examples of regulatory frameworks across the continuum of no regulation to the highest possible level of standards. Key information sources in this endeavor were the regulatory overviews of the 100 jurisdictions covered by gamblingcompliance.com as well as the lengthy discussion of numerous jurisdictions provided in River City Group's tenth edition of the Internet Gambling Report.

The Situation in Canada

In Canada, provincial and territorial governments have exclusive jurisdiction over the operation of most forms of legalized gambling. A gambling activity is deemed legal if it falls under the list of exceptions to prohibited gambling activities in the Canadian Criminal Code (“Code”). Officially permitted activities include casino-style gaming, electronic gambling (gaming or betting operated on or through a computer), ticket lotteries, horse racing, charitable gaming and private bets between individuals who are not engaged in the business of gaming (Kelley, Todosichuk, and Azmier, 2001; Lipton and Weber, 2007; Yegendorf, 2007).

Sections 201, 202 and 206 of the Code make it illegal for any entity other than a provincial government to conduct and manage gaming or betting which includes sports betting and casino style games such as poker, blackjack or slots. It is challenging to determine whether offshore-based entities offering online gaming are subject to the jurisdiction of the Code, and depends on the connection the offshore entity has to Canada. In determining if jurisdiction exists, courts would take into account such factors as the targeting of Canadians by accepting bets in Canadian currency or on Canadian teams or events. However, the Code does not prohibit a resident of Canada from engaging in internet gambling. What the Code does prohibit is the operation of an enterprise or business that seeks to profit from the gambling of others (Lipton and Weber, 2007; Yegendorf, 2007).

While the Code does not prevent provincial governments from offering Internet gambling, there are restrictions. First, provincial governments cannot license others to conduct and manage Internet gambling. Therefore, in order to have Internet gambling in Canada the provincial governments must conduct and manage the lottery scheme themselves or engage others to operate the remote gambling or lottery scheme for them under Sec 207 (1) (g) of the Code. Second, any province that chooses to offer remote gambling cannot accept bets from residents of other provinces without the approval of the other province. Finally, only gambling that is already legal can be offered remotely. As

such, single event sports betting, the most popular form of remote gambling, is prohibited (Lipton and Weber, 2007; Yegendorf, 2007). This last point is contained under subsection 207(4)(b) of the Code. There is no rationale for this last restriction other than it was thought that parlay betting would make it more difficult to fix games.

The existence and regulation of Internet gambling in Canada varies by type of game and by jurisdiction. For instance, horse-race betting in Canada is regulated by the Canadian Pari-Mutuel Agency and is not subject to the same jurisdictional restrictions associated with other forms of gambling with respect to accepting bets from other provinces. Woodbine Entertainment Group, a horse-racing track operator in Toronto, Ontario, accepts online horse-race bets from people across Canada who can bet on races simulcast from tracks throughout Canada and the United States. Jurisdictional variations include the fact that members of the Atlantic Lottery Corporation (ALC) (four Maritime Provinces) and the British Columbia Lottery Corporation (BCLC) offer residents of their respective provinces online sports betting, lottery tickets and interactive games. The Kahnawake Mohawk Nation, located in the province of Quebec, has been a major host of online gambling sites since 1999. While the Quebec government has indicated that they consider the Kahnawake gaming operation illegal, to date there have been no charges. Other Canadian First Nations have ventured into online gambling, but none have been of the magnitude of Kahnawake.

Despite the restrictions of Internet gambling in Canada, Canadians are gambling online. Prevalence studies tend to indicate that approximately 1% of Canadians 18 years and older gamble online (Canadian Partnership for Responsible Gambling, 2007). This represents all forms of Internet gambling.

Dresdner Kleinwort Wasserstein (2005), an investment banking institution, examined the global participation in poker by country. They report that during 2004, almost 46% of the total value of the global online market was generated by players based in North America, and that this figure will essentially remain unchanged in 2008. They also assert that the online poker market will grow from US \$1.4 billion in 2004 to US \$5.9 billion by the end

of 2008. They predict that poker will account for 32.2% of the total online market. The table below gives online poker statistics for Canada (Dresdner Kleinwort Wasserstein, 2005).

Canadian Online Poker Statistics

	2004	2008 Estimated
Poker Penetration of Population	0.2%	1.2%
Market Size (US\$m)	47.9	237.2
Market Share	3.4%	4.1%
Average Revenue per Customer (US\$)	904	909

According to this analysis, Canada will be the third largest poker-playing nation in the world in 2008 with an estimated market size of \$237 million. To put that in context, the US is first at \$3.75 billion followed by the UK at \$721 million (Dresdner Kleinwort Wasserstein, 2005). Both these regions dominate Internet gambling culture globally through market impact and regulation. They both also heavily influence Canadian popular culture. Despite the restrictions under the Code, Internet gambling will continue to grow in popularity amongst Canadian participants. This fact underscores the importance of creating an effectively regulated climate in which Internet gambling can take place.

Components of Effective Regulation

A comprehensive regulatory structure seeks to implement rules that benefit and protect the interests of the government, the industry, and the player (Cabot, 2007). There is wide variation by jurisdiction in the components of regulation and where the emphasis lies (Basham and White, 2002). The variation among jurisdictions will be addressed in more detail in later sections of this report.

In terms of government protection, this includes rules and procedures similar to those imposed on financial institutions that require strict record keeping and player protection. Generally these rules serve to ensure that the government receives all taxes and prevents sites from laundering money from other criminal activities. Regulations can also protect the interests of the industry by providing a system that assures potential players that the games are fair and honest, and that players will get paid if they win. Allowing unscrupulous operators to cheat players damages the perception of the entire industry. Another important function of regulation that works to protect the industry is the detection and prosecution of cheating by players. Player protection can occur at many levels including strategies to promote responsible gambling and problem gambling prevention, fairness and honesty of games, prevention of underage access, and the protection of players' privacy (Cabot, 2007).

Adoption of regulations involves establishing rules that govern the conduct of the Internet gambling industry. Although the individual elements may vary from one jurisdiction to another, the most effective regulatory schemes share common elements that bear a close resemblance to those offered in highly-regulated land-based gambling operations. Regulations typically cover extensive licensing processes and inspection criteria, operational requirements (including minimum bankroll and financial contingencies, as well as software and technical standards that must be met), mechanisms to handle disputes and complaints, and audit and accounting rights and accesses, including internal controls and disciplinary procedures. Effective regulations must fairly govern the conduct of the regulated and clearly define the powers of the regulators (Cabot, 2007).

Common Elements within Effective Regimes

What follows are some specific examples of elements commonly found within effective regulatory regimes.

Social Responsibility Measures:

Consumer Restriction

1. Involves taking measures to prevent access to residents from jurisdictions that have prohibitions or restrictions on remote gambling.
2. Most Internet gambling jurisdictions establish a minimum gambling age of 18, although some will accept bets from anyone who has reached his/her own country's "age of majority".

Responsible Gambling Issues

1. Several jurisdictions require that online players be provided a mechanism to set their own loss or betting limits, or limits on the amount they can deposit into their online gambling account.
2. Ordinarily, regulations require that a player be permitted to exclude him/her-self from gambling with the online business, although such self-exclusions may be reversed quite easily.
3. Some jurisdictions promise to exclude a gambler from its websites in response to a petition from a person other than the gambler who claims a "close personal interest in the welfare of the [gambler]."

Legal Measures:

Money Laundering Legislation

All jurisdictions require some form of monitoring to prevent money laundering. Policies might include restricting customers to a single account with the online gambling business, or identifying and reporting suspicious transactions or changes in a player's pattern of transactions. Ideally, legislation includes detailed policies and procedures to prevent money laundering and to identify and investigate suspicious money transactions.

Fines and Penalties

Ideal regimes prescribe an established framework for disciplinary action. These policies are intended to protect the rights of the regulated and at the same time monitor and control the power of the regulators.

Licensing Measures:

Licensing Standards

In applying for a license, a prospective Internet gambling operator must submit a business plan that includes some or all of the elements in this list, depending on the jurisdiction.

Personnel

A strict policy of job-specific licensing, including comprehensive background checks, ensures key employees are of accredited capacity and integrity.

Cost of Registration

The cost of registering or licensing an online gaming site creates a barrier for smaller, less established businesses. Although this barrier restricts competition in the market, a high registration cost greatly reduces the likelihood that a particular jurisdiction will be pursued by operators who do not place player's welfare and game integrity as priority areas.

Market Concerns:

Taxes

Tax policy is an important component in all jurisdictions. In setting tax policy, a jurisdiction may take into consideration the industry and regional standards, the public and private interests of all parties, and such issues as whether or not the remote operator uses domestic resources for software development, call centre staffing, etc.

Credit

Certain jurisdictions ban the extension of credit to players

Advertising Restrictions

Fines and penalties are in place for illegal gambling practices. In addition, market sanctioning ensures clearly defined and fiscally effective consequences for regulatory breaches.

Checks and Balances:

Compliance Audits

Compliance audits provide the regulator with access to all data collected by the operator in order to regularly monitor whether the operator is adhering to standards.

Software Testing

Software standards and testing procedures are designed to ensure that all software meets a specified level of integrity for the protection of players.

Accounting

Accounting requirements for remote operators focus on the accounting of all monies received and disbursed, and on monitoring operators for compliance with internal controls and regulations.

Voluntary Standards

Some Internet companies have formed a voluntary standard-setting organization — E-Commerce and Online Gaming Regulation and Assurance, or “eCOGRA.” The organization establishes minimum standards for consumer protection (including data security issues and responsible gambling), fair gaming (including game rules, certification of equipment and maintenance of transaction records), and responsible conduct (including anti-money laundering steps and advertising restrictions). eCOGRA claims about fifty members.

Continuum of Regulations

At one time, Internet gambling was exclusively an offshore operation, targeting some of the world's leading gambling nations such as the US and the UK from islands that already specialized in offshore banking (Dresdner Kleinwort Wasserstein, 2005). The first jurisdiction to venture fully into the online gambling market was Antigua and Barbuda in 1997. Other Caribbean and Central American jurisdictions soon followed, as did a number of offshore locations in Europe and the South Pacific.

There have been a number of shifts in the jurisdictions selected to host Internet gambling operations. For example, following the initial move of the well established sports betting company Victor Chandler, Gibraltar and Malta became favourites with the UK bookmaking industry. Antigua experienced a major drop in shares as a result of actions taken in the US to crackdown on offshore sports books by charging operators with violation of the Wire Act and targeting payment transaction businesses. As a result, major Internet companies such as PartyGaming and 888 suspended business with US residents and moved operations out of Antigua. The key market for Antiguan sports betting began to dissolve, resulting in less business and fewer jobs. As a result, jurisdictions like Costa Rica, the Netherlands Antilles and Kahnawake have all seen their share of market increase (Dresdner Kleinwort Wasserstein, 2005).

There are approximately 100 jurisdictions around the world that currently regulate or tolerate some form of online gambling (gamblingcompliance.com). There is great variation in the games that are allowed, who is allowed to gamble, and the breadth and depth of regulations (Dresdner Kleinwort Wasserstein, 2005; Kelly, Todosichuk and Azmier, 2001; Williams and Wood, 2007). Examples of regional variations in games and customers are provided in the table below.

Variations among Internet Gambling Jurisdictions

Explicitly prohibits	Restricts specific games	Allows local patrons only	Bans local patrons	Restricts participation*	Completely legalizes or permits
Bermuda Greece, Pakistan, Portugal, Russia, Saudi Arabia, US**	Finland, Germany, Hong Kong, New Zealand Sweden	Austria, Canadian provinces, Finland, Netherlands	Australia, Papua New Guinea	Czech Republic, Denmark, France, Germany, Hong Kong, Hungary, Netherlands, Slovakia, Sweden	Antigua & Barbuda, Antilles, Gibraltar, Italy, Malta, Netherlands, Panama, United Kingdom

* Regional sites service local patrons but ban them from using sites outside the jurisdiction

** The US Dept. of Justice takes the position that Internet gambling including horse race betting is illegal under the Wire Act. In 2000, Congress enacted the Interstate Horseracing Act which exempted interstate horserace betting amongst certain states in the US from the Wire Act. The Dept. of Justice takes issue as to whether the Interstate Horse Act amends the Wire Act on the grounds that the Wire Act is criminal and the Interstate Horseracing Act is civil.

The policy variations that exist among these regions create widely divergent regulatory frameworks. What follows is an overview of common regulatory frameworks (Cabot, 2007). These remote gambling regulatory frameworks can be organized into 3 distinct tiers based on their standards and practices, or lack thereof.

- Tier 1 regimes are focused on maximum player protection and operator compliance. Their policies assure fairness and protection for players and operators and are characterized by an emphasis on numerous factors: probity of corporations and key personnel, extensive testing and auditing of software and gaming systems, mechanisms for verifying the age and geographic location of the player, controls for identifying and addressing problem gambling, restrictions for minimizing fraud and money laundering, and moderate to high market entry costs (e.g., taxes, licensing fees).

- Tier 2 regimes are characterized by a more flexible approach. They aim to attract a higher number of operators, provide much lower barriers to entry in terms of licensing fees and probity, ensure little or no tax money is collected, promote reliance on self-regulation, display a legitimate concern for fairness and consumer protection, but offer fewer resources and mechanisms to support the concern.
- Tier 3 regimes are those that allow companies to conduct online gambling in an unregulated environment.

Many Internet gambling operators are prepared to operate in an environment that is heavily regulated such as Australia or the United Kingdom. Operators who do not want restrictions can operate in jurisdictions such as Costa Rica and Panama. As Cabot (2007) argues, most proper Internet operators will accept a reasonable level of regulation to obtain the credibility that is essential to operating a successful business. If players value such regulation, then the unregulated operators will be at a competitive disadvantage. On the other hand, customers may be attracted to unregulated sites that offer better odds because they do not carry the costs of regulation or taxes.

It is estimated that there are over 2,000 online gaming sites, most of which are casinos (704), followed by poker rooms (512), sports books or race books (383), and bingo (293) (online.casinocity.com). These sites are concentrated in a small number of jurisdictions that account for the vast majority of Internet gambling. The table below provides the number of sites and regulatory structure (Tier 1, 2 or 3) of the major online gambling jurisdictions. The number of sites is based on 2007 data provided by Casino City, an independent directory and information service for online gaming (<http://online.casinocity.com/jurisdictions>). The Tier rating is based on the objective review of the legislation as well as subjective assessment (anecdotal evidence) regarding the regulation standards, level and quality of enforcement, and sanctions for violations.

Regulatory Structure of Major Online Gambling Jurisdictions

Jurisdiction	Number of Sites	Tier
Kahnawake	302	2
Malta	291	1
Netherlands Antilles	269	2
Costa Rica	234	3
Gibraltar	183	1
Antigua and Barbuda	115	2
United Kingdom	97	1
Alderney	66	1
Belize	35	3
Panama	32	3

Examples from the Continuum

Internet gambling regulation continues to evolve with participating jurisdictions setting, resetting and refining industry standards. Although most regulatory bodies are relatively new (the majority being established after 1996), some – namely the UK and Alderney – have highly developed and well -tested systems and processes that have been continually updated since their inception. For the most part, the interests of each region are generally the same, namely, protecting vulnerable individuals, ensuring fairness in games, and defending against money laundering and unfair payout schemes. However, the policies and procedures by which those interests are protected and enforced separate the regions into 3 distinct tiers.

Tier 1

Tier 1 regimes are distinguished by their world leading standards and continued commitment to policy development. With several levels of licensing requirements, highly effective enforcement procedures (i.e. penalties and sanctions backed by legislation), and a deliberately transparent intent to set (and raise) industry standards in ways that directly impact the most lucrative markets (e.g. the “White List”)², jurisdictions like the UK and Alderney separate themselves from the rest.

UK

Internet gambling in the UK is regulated by the policies and procedures detailed in the *Gambling Act 2005* and enforced by the Gambling Commission (http://www.opsi.gov.uk/acts/acts2005/ukpga_20050019_en_1). It should be noted that, Northern Ireland, although still a part of the UK, has separate laws relating to gambling and does not fall under the jurisdiction of the Gambling Commission. The 2005 Act discussed in this section only applies in Great Britain (i.e. England, Scotland, and Wales).

² The “Whitelist” is a list of host countries whose Internet gambling licensees are approved to legally advertise in the U.K.

The 2005 Act is unique due to its understanding of the complex relationship between geographies (and corresponding laws) of the promoter, the server and the player who may all be in different jurisdictions at one time (Coles, 2007). The Act even has machinery in place to deal with specific issues of jurisdictional overlap. Where most regimes are content to just ban local IP numbers in semblance of public protection, the Gambling Commission reserves and exercises the right to oversee and investigate all applicable facilities, key personnel (namely those in management positions), and all necessary software before any licenses are granted. With several categories of licenses and many separate application processes, fees to operate any part of an Internet gambling operation in the UK can range from anywhere between CAD \$100,000 to CAD \$1,000,000 for the first year alone. Subsequent years may see annual fees that are even higher and all net income is subject to a 15% tax.

The high price tag and the relatively arduous licensing process is deliberately designed to cater to established brands or businesses with the fiscal means necessary to handle the highly lucrative UK market. Far beyond simply protecting local interests, the 350 sections and 18 separate schedules of the *Gambling Act 2005*, comprehensively address the grayer issues of online gambling with very specific rules, regulations, codes and procedures. In order to ensure that these policies have a direct and tangible impact on the market, strict advertising and marketing policies set in place by the 2005 Act limit which Internet gambling sites can lawfully advertise in the UK. A shortlist of countries including those in the European Economic Area as well as Tasmania, Isle of Man and Alderney appear on the famed “White List” (<http://www.culture.gov.uk/3310.aspx>). These white listed jurisdictions currently set the standard for Internet gambling regulation and make up the Tier 1 group of regimes.

Alderney

Alderney is the third largest of the British Channel Islands and has its own independent government that liaises with the UK through the Devolution and Crown Dependencies Division within the UK Ministry of Justice. The government is an elected parliamentary body known as “The States of Alderney.” In 1996, the States determined that Alderney

would be an ideal environment to offer Internet gambling, provided it was a highly regulated endeavor. The regulatory framework for Internet gambling operations in Alderney is detailed within the *Alderney eGambling Regulations, 2006* drafted by the Alderney Gambling Control Commission (AGCC) – an independent, non-political regulatory body strongly supported by legislation (<http://www.gamblingcontrol.org/index.php?page=25>). Although the UK is responsible for Alderney’s defence and foreign affairs (including their free trade relationship with the European Community), Alderney is not part of the European Union and, as such, Alderney licensees were not permitted to advertise in the UK. In the early part of 2007, Alderney submitted a detailed request to be white listed, seeking the privilege to advertise in the lucrative UK market. After amending the 2006 Regulations with criterion requiring licensees to make appropriate contributions towards research, education and treatment of problem gambling, Alderney was specified in Regulation 2 of *the Gambling Act 2005 (Advertising of Foreign Gambling) Regulations 2007*, making it legal for Alderney-based operators to advertise in the UK, effectively adding them to the White List.

Alderney’s regulations provide mechanisms for licensing and certificates that control every level of Internet gambling protocol (Wilsenach, 2002; 2007). Key individuals, gambling equipment, software, and the internal systems that deal with financial reports and audits all fall within the regime’s jurisdiction, and are accompanied by provisions and processes for monitoring and investigation (<http://www.gamblingcontrol.org/index.php?page=15>). Policy enforcement of regulatory breaches is tightly controlled, with deviations subject to varying levels of sanctioning; however a comprehensive, “world class” regulatory framework keeps even those deviations to a minimum. Extensively developed internal control systems guide everything from corporate structures to accounting systems and computer controls, with highly specific provisions that account for the security and integrity of gambling transactions, as well as system and interface requirements. The operation of Internet gambling licensees are closely monitored and continually updated to meet the highest technical and social responsibility standards. As a result, Alderney has positioned itself as an attractive Internet gambling hub for the relatively small number of industry leading,

reputable operators who wish to protect their brand and specifically seek out tightly controlled regimes.

Fees for running an Internet gambling operation in Alderney can be in excess of CAD \$150,000 in the first year alone. However, Alderney businesses do enjoy the privilege of a relatively tax free environment (no capital gains tax, no gaming and betting taxes, and a phase-out process is already in place to remove any taxes on profits and income).

Tier 2

Tier 2 regimes are those that have some Internet gambling laws and some fundamental regulatory practices in place, but do not yet have an extensively developed regulatory framework that monitors, controls and enforces the policies required to be an industry leader. These regions tend to have an active terrestrial gambling community (although this isn't a necessary Tier 2 criterion) from which many regulatory practices naturally follow. However, key deficiencies in these regimes' concern social responsibility and the effectiveness of their enforcement policies when regulations are breached.

Kahnawake

The Kahnawake Mohawk Territory is a semi-autonomous aboriginal reserve located in the province of Quebec. It is home to 7,100 registered tribe members and more than 400 Internet gambling operations. The Kahnawake Gaming Commission is the licensing and compliance regime that oversees Internet gambling in the region. The Commission bases its policies on 3 founding principles:

1. Only suitable persons are allowed to play.
2. Games are fair to players.
3. Winners are paid.

[\(http://www.kahnawake.com/gamingcommission/\)](http://www.kahnawake.com/gamingcommission/)

Legislation in the region ensures some basic KYC (Know Your Client) checks, and requires that operators keep detailed records with respect to player accounts

<http://www.kahnawake.com/gamingcommission/Kahnawake%20Regulations%20Concepting%20Interactive%20Gaming.pdf>). Federal or provincial involvement is minimal, although disputes regarding the legality of Internet gambling in the region are unsettled at best. The sensitive political climate in the Mohawk territory makes the issue a volatile one to address from a legislative perspective. This relatively lax regulatory atmosphere, along with the relatively low licensing fees (CAD \$30,000 in first year) makes Kahnawake an attractive investment for smaller Internet gambling operations.

Kahnawake presents ample opportunity for small upstarts to make a lucrative entry into the world of Internet gambling. As a jurisdiction, however, it is highly susceptible to fraud, money laundering, and other inappropriate-use actions that more developed (i.e. Tier 1) regulatory frameworks are specifically created to control and/or prevent. Golden Palace, Absolute Poker and Ultimate Bet are examples of Kahnawake based Internet gambling operations that have run into policy-based conflicts in recent history (<http://www.kahnawake.com/gamingcommission/story.asp?show=all>). Golden Palace was publicly reprimanded for inappropriate marketing as a result of the nude demonstrator at the Athens Olympics, and then again for their Winter Olympics streaker (Mohawk Territory of Kahnawake, 2004). Absolute Poker and Ultimate Bet were charged with cheating players (Trask, 2007, 2008). The case history for these incidents indicate that they were handled internally, although a \$500,000 fine charged to Absolute Poker was made public in early 2008. Shortly after-ward, Kahnawake's request to be included in the UK White List was denied (Hamilton, 2008; Mohawk Territory of Kahnawake, 2008; Polson, 2008).

Tier 3

Tier 3 regimes are marked by a distinct incapacity to control the spread of rogue Internet gambling sites due to their lack of Internet gambling legislation and lax licensing processes. Most have basic public protection laws in place, but these do little more than ban locals from playing on sites registered locally. Some even have applicable terrestrial gambling laws. However, the systems and structures required to effectively enforce these laws are yet to be developed.

Costa Rica

Costa Rica has an estimated 450 Internet gambling operations running servers within the Central American country's borders. The 4.1 million people that populate the country (more specifically, the 1 million Internet users' IP numbers) are banned from participation on any Internet gambling site registered locally (Gamblingcompliance.com, 2007). Apart from this minor stipulation, the regulations regarding Internet gambling in Costa Rica are effectively non-existent (online.casinocity.com/jurisdictions/jurisdiction.cfm?Id=1; Petersen, 2001). There are no licensing requirements that pertain specifically to gambling related businesses. Site operators need only to incorporate their business (costing approximately \$1500), obtain a "data processing license" (\$150), and open an offshore account to collect funds before they can begin doing business. However, the lax regulatory climate in this region does not mean that all gambling activities are legal. In fact, quite the opposite is true.

In 2006 the US Department of Justice made it a point to underline the precariousness of Costa Rica's status in the online gambling industry. In July of 2006, the CEO of BetOnSports, David Carruthers, was arrested due to his Costa Rican based company taking bets from US gamblers (CBS and American Press, 2006). He has been released on bail pending the resolution of charges against him. Peter Dicks, CEO of Sportingbet PLC – another Costa Rican based operation – was arrested in Texas on a number of charges issued by the State of Louisiana (Liebman, 2007). Dicks was ultimately released on the basis that there was a lack of jurisdiction. These well-publicized cases have raised some valid concerns about the self-regulatory approach to Internet gambling operations that Costa Rica has thus far maintained. These concerns extend beyond the borders of Costa Rica. In some jurisdictions Internet gambling is illegal; in others the same activity is legal. Further while the activity may be illegal in some jurisdictions, monitoring and enforcement of the prohibition vary from one regime to another. The global nature of Internet gambling means concerns from a more lax regime will inevitably spill into a stricter one at some point. A lax regulatory framework offers very little protection for its registered companies in these instances.

Due to the increasing gap between the regulatory practices of Tier 1 and Tier 3 regimes, policy developers in Costa Rica are under significant pressure from the media as well as the market. A number of proposals to fully regulate its online gambling sector and update its taxation practices have been published for public comment, but thus far no changes have been made.

Discussion

The expansion of remote gambling throughout the world and the widely varying policies that currently exist to regulate it, coupled with the borderless nature of the Internet, inevitably result in some jurisdictional overlap. Some regimes (e.g. Alderney, UK) have developed mechanisms to handle these instances of overlap in an attempt to stabilize the volatile nature of such gray-area disputes. Others, however, are greatly lacking in this regard, leaving disputes and issues largely unresolved or entirely mishandled. This unstable political climate necessitates an internationally recognized regulatory framework that impartially manages cross-border disputes.

Similar to eCOGRA (the member-based community of standard setting remote gambling operators), an organization of regionally representative policy makers intent on pursuing a fair and sustainable framework for remote gambling, in the global context, is needed (Wilsenach, 2006). Although a few privately owned companies throughout the world already work to evaluate the various regimes and their policies, they do little to set standards and have no authority to demand adherence. An internationally recognized board with both regionally representative officials and the resources to develop policy and propose market-effective solutions or consequences (i.e. sanctions, fines, penalties, restrictions backed by regional legislation) would help to create a fair and equally accessible forum for policy debate and development. Divergent regulatory practices, evaluated from a politically independent perspective, may prove to be in pursuit of the same ultimate goals. All regimes, after all, value the productivity of its industries and the security of its people. An objective point of view may bring these commonalities to light.

Lessons learned from the terrestrial gambling industry tell us that effective gaming laws can both provide a significant source of income and, at the same time, provide protections. For all parties involved – the jurisdictional regions, the operators and the players – strict regulating systems offer the best hope for a fair and protected gambling environment.

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Appendix: Index of Online Gaming Jurisdictions

Source - igamingnews.com

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