Pennsylvania Online Gaming: Why Online Gaming is Important for Licensees and the Commonwealth

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CAESARS ENTERTAINMENT

Policy Environment

Milestones in the recent history of U.S. online gambling – the reality

- **Today's Reality** – Millions of Americans in all 50 states gamble on the Internet, notwithstanding laws that prohibit/regulate such activity.
  - **Other than in the regulated jurisdictions of Nevada, Delaware and New Jersey, online casino gambling occurs with no consumer protections**
    - **no protections against underage gambling;**
    - **no protections for problem gamblers;**
    - **ripe for fraud and criminal activity; and**
    - **no tax revenues for the Commonwealth**
- **Growth of Internet gambling consistent with growth of eCommerce** - period of growth beginning in the 1990s - Market was $300 million in 1997
  - Market grew to $4 - $6 billion by 2010 with some shrinkage post 2011 indictments
- **Illegal Operators** - Market dominated by rogue offshore operators in defiance of U.S. and state laws
  - **See for example Lock Poker** –an unlicensed US facing online gaming site that did not pay out any player funds, with a reported $1 million in unpaid withdrawals for over 400 players

Milestones in the recent history of U.S. online gambling - the law

- **Wire Act** - Since 1960's, the federal Wire Act had been applied to gambling that occurs across state lines via telephone and later the Internet. The Act had been broadly interpreted by DOJ to apply to and prohibit all forms of Internet gambling.

- **UIGEA** - Unlawful Internet Gambling Enforcement Act (UIGEA) of 2006
  - UIGEA focus is on financial institutions -- establishes penalties for banks and financial firms that process illegal Internet gambling payments
  - UIGEA expressly creates an exception for (i) authorized intrastate gambling subject to technology protections; (ii) bets and wagers under the Interstate Horseracing Act; and (iii) traditional fantasy sports
  - Defines a bet as taking place where the bet or wager is initiated and received (removing argument of offshore operators)

- **DOJ Memo** - In December 2011, the DOJ clarified its interpretation of the Wire Act:
  - "Interstate transmissions of wire communications that do not relate to a 'sporting event or contest' fall outside the reach of the Wire Act."
  - Consistent with Congress' will in UIGEA, the DOJ ruling allows states to pursue intra-state online gambling (non-sports).

Where is the law today? The states jump into the action post-2011

State Activity - State legalization has followed UIGEA and the DOJ opinion with differing models:

- Illinois and Georgia began selling lottery tickets online in 2012, and Michigan and Minnesota in 2014. Kentucky launched in 2016.
- Nevada launched internet poker in April 2013, limited to NV casino licensees
- Delaware launched all forms of casino gambling in September 2013; limited to Delaware racinos on a common platform
- New Jersey followed shortly thereafter in November 2013 with all forms of casino gambling; limited to NJ casino licensees
- Many other states are examining or have examined gambling, including California, New York and Washington
- Nevada and Delaware entered into a multi-state Internet gaming agreement in February 2014, which was recently enabled

KEY TAKEAWAY: The online gambling experience in the states has been successful from a regulatory perspective – minors can not gamble, the vulnerable are protected and consumer protections against fraud are in place and regualors enforce these just like in the brick and mortar space

Where is the law today? Most recent congressional activity

- **Efforts by a single casino operator to seek a prohibition – in past years**
  - –Restoration of America's Wire Act (RAWA)
  - –Hearings have been held n the House Judiciary Subcommittee on Crime, Terrorism, Homeland Security and Investigations as well in Energy and Commerce and the Oversight
  - –Congress has refrained from enacting RAWA - -respecting state rights

- Recently, there has been talk of the DOJ revisiting the 2011 Office of Legal Counsel opinion, but reversing an existing opinion is very rare; especially where the federal case law does not support such a change

- **The impacts of a federal ban if enacted:**
  - –states will lose the ability to authorize any form of internet gambling
  - –Federal government would be dictating to the states policy on what has historically been a 10th amendment state police powers
  - –the illegal environment operated by offshore parties targeting Americans will stay in place with no consumer protections and no tax revenue for states

Overarching Policy Issues

- **Internet gaming is here to stay -** simple prohibition has not and does not work

- **Whether the solution is state or federal, states should maintain their ability to define gambling policy within their borders consistent with UIGEA and the 10th amendment -** States should be able to determine whether to prohibit online gaming or regulate it – a basic function of state police powers.

➢**We strongly advocate state and federal laws working in tandem in a manner that:**

(i) respects the right of states to either prohibit or authorize Internet gaming;

(ii) establishes strong consumer protection standards and strict regulatory controls; and

(iii) provides effective law enforcement tools to drive bad actors out of the marketplace

Specific Considerations for State Policy:

- **Allow licensed gaming operators in a state to offer Internet gaming**
  - Avoid the fate of other industries that have ignored the Internet (record industry, book stores)
  - Based on experiences to date in regulated U.S. jurisdictions, online gaming is likely to increase – not cannibalize – overall revenues and taxes – and a younger demographic
  - Online gaming will create cross marketing opportunities for licensees and improve distribution channels for operators to all customer segments

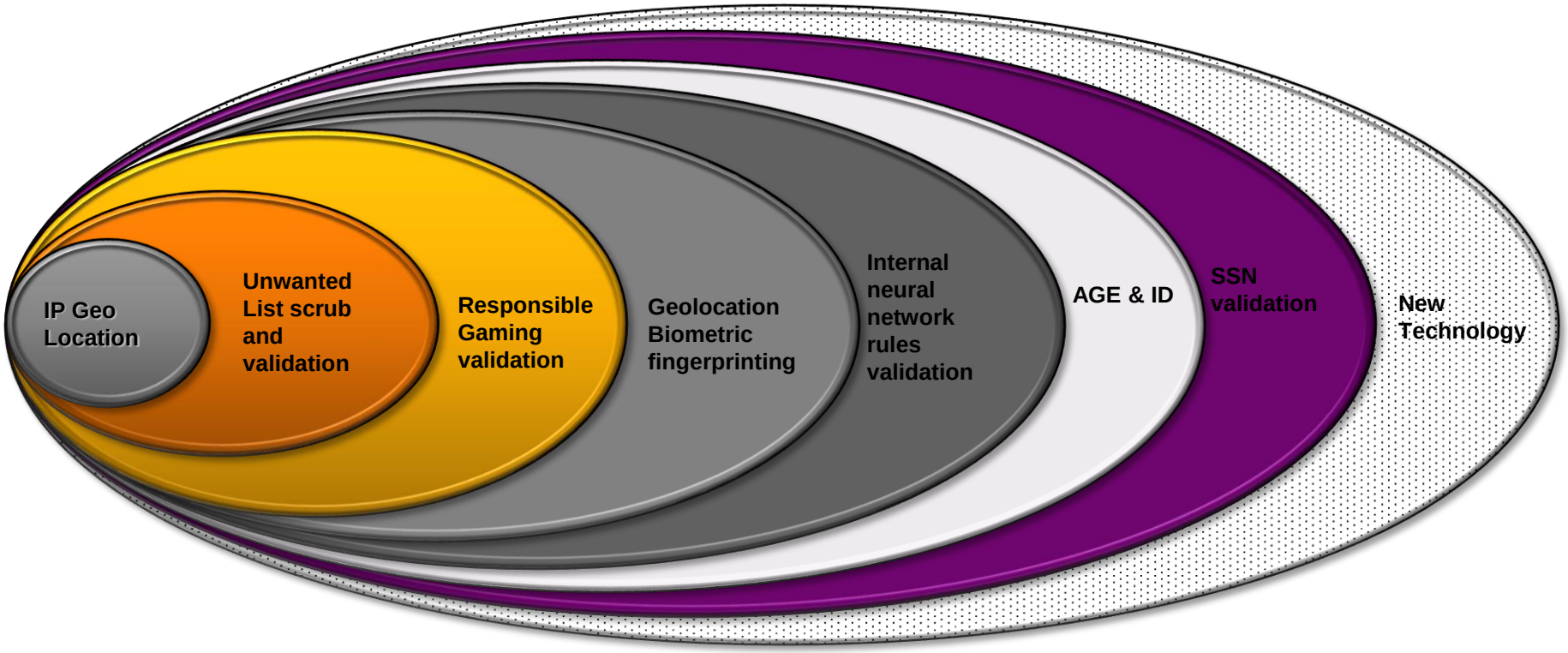
- **Establish a strict regulatory framework and strong consumer protections** to:
  - Prevent minors from playing, with robust age and ID checks
  - Ensure players within borders with strong geo-location technology
  - Impose tools to deal with problem gambling (e.g., responsible gaming policies, allow self-imposed limits on deposits, losses, and time)
  - Ensure that games are fair and honest -- strict regulatory scrutiny and testing

- **Empower law enforcement officials with stronger tools** to shut down the illegal sites (white lists, unambiguous crimes, seizure rights over domain names)

- **Offer the state a new source of revenue** and capture state revenues that currently are evaded

Regulatory Overview

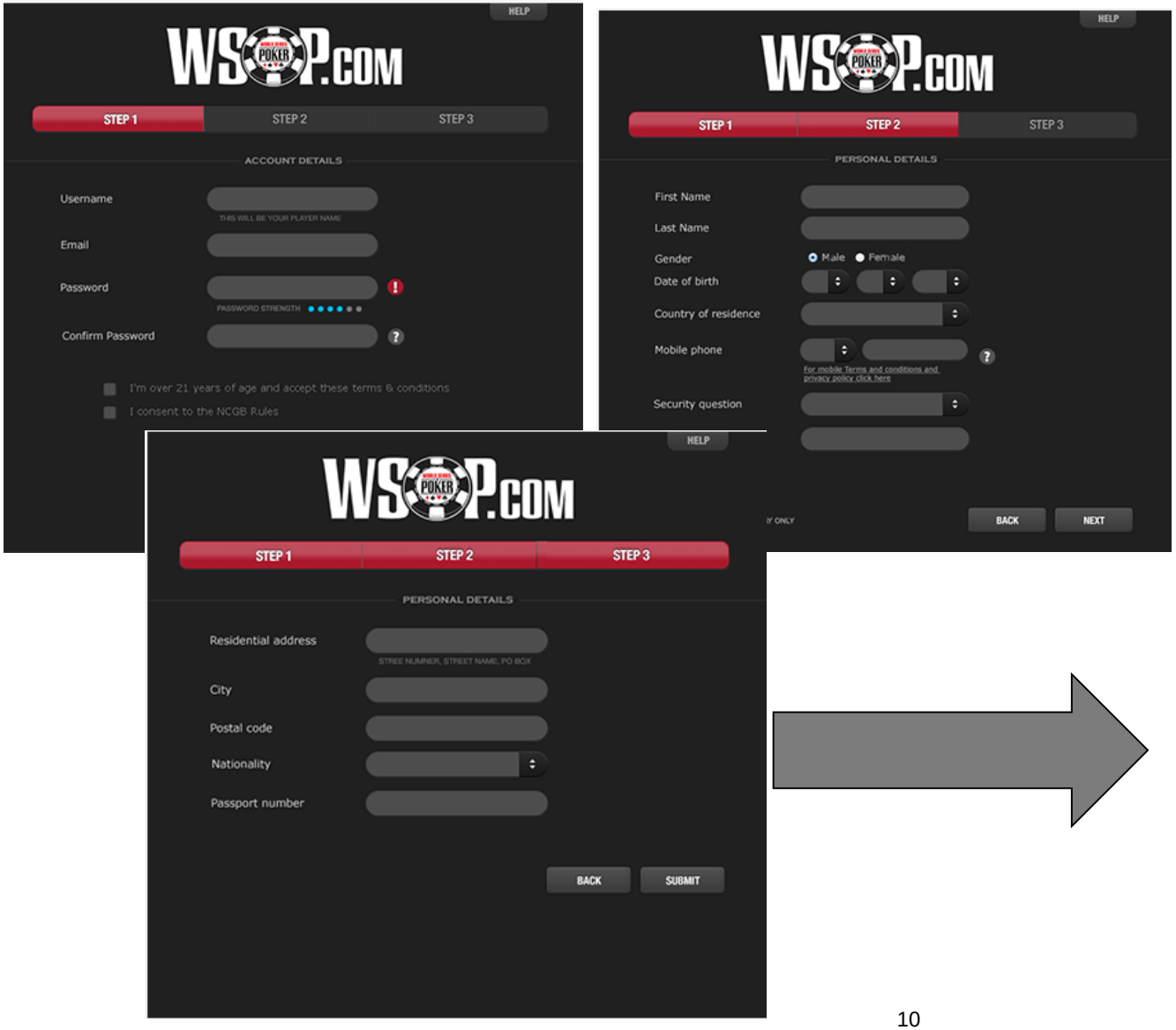
Registration Process



Registration Process

This is a core requirement prior to any real money gaming taking place

Should any of these checks fail the account will be placed into suspension



Match Code Description:	First/Last/Home Address/Home city/Home State/Home Zip/Phone/DOB(mm/dd/yyyy)/ID

Personal Details

Field	Submitted	Verified
First Name	Nick	✓
Middle Name		✓
Last Name	Sample	✓
Address	200 Golden Gate Ave.	✓
City	San Francisco	✓
State	CA	✓
Postal Code	94101	✓
Country	United States	✓
Date of Birth	09/18/1982	✓ (DD/MM/YYYY)
Phone	4157812099	✓

✗ - Further investigation required

Registration Process

Geo Location

- Geo-location is defined as the identification of the real-world geographic location of a party
  - *Used to determine State and Country*
  - *Connection Type (eg: broadband or dial up connection)*
  - *whether a proxy server or anonymizer is being used and more*
- *Both Cellular triangulation and WIFI triangulation are the core mechanisms for location control and player location*

Sanctions check

- *PEP: Worldwide Politically Exposed Persons*
- *DPL: Denied Persons List –US Dept. of Commerce.*
- *OFAC watch list – Office of Foreign Assets Control, US Department of Treasury*
- *Mortality check and more*

Responsible Gaming

- Validation against "Self excluded list"
  - *Proprietary Operator List*
  - *Operator brick and mortar self excluded list*

Age & ID

- By using leading third party providers we are able to determine the age and ID of a player in **real time**
- Player matching is done on SSN, full name, address, zip code and DOB to validate age and residency

Anti spoofing technology

- We leverage state-of-the-art anti spoofing technology to assure the player cannot mask their location by using or leveraging 3rd party software

Fraud & Collusion

- Fraud and Collusion rule sets function very similarly to payment processing authentification. They are independent rule sets that are triggered based on game play and player actions on the system. These rules out-sort and flag players:
  - Who regularly play at the same tables
  - Who frequently lose to the same members
  - Who is potentially using unfair software to gain an advantage over other players
  - Who has been playing for an amount of time that is deemed suspicious or “robotic”
  - Whose mouse clicks are in the same or nearly the same pixel area on the screen i.e. clicking an action button in the same area consistently
- Reviewing game-play of members whose play is reported by others as being suspicious
- Chip dumping
  - Players are flagged depending on the amounts they have deposited in relation to their current balance and level of games played
  - Players who lose large amounts of money over a short period of time are identified as this represents the typical pattern of behavior for intentional chip-dumpers
- Poker collusion
  - An automated process that runs on the poker platform, highlighting players who have certain predetermined ratios with regards to hands played, raise ratios and rounds they play with the same players

Anti Money Laundering

- Every transaction is recorded which allows the flow of money to be easily tracked

- In order to prevent money laundering there are a number of reports and checks which are designed to identify possible money laundering activity

    - Reviewing unusual deposit patterns
    - Reviewing unusual cash-out patterns
    - Identifying poker members who frequently play with the same members
    - Identifying poker members who frequently lose to the same members

- Should there be any evidence to support a suspicion of money laundering, the account is immediately suspended pending a full investigation

- Operators leverage the Know Your Customer (KYC) protocols that all banks must comply with in order to issue credit or debit cards and bank accounts to their customers

- Any suspicious findings will be submitted to the authorities through the STR (suspicious transaction reporting)

- All deposits have wagering restrictions (for example, minimum number of hand requirements) so depositing a large sum and trying to cash-out without meeting these restrictions will automatically suspend the cash-out and place the account under review.

Responsible Gaming

- As is the case with bricks and mortar gambling, as an online gambling provider, we only want customers that are gambling for entertainment purposes to play, not those with gambling problems

- Online gambling technology provides players with the ability to manage their game play in real-time:

  - Setting *daily*, *weekly*, *monthly* deposit limits
  - Setting session limits to advise when a time threshold has been hit
  - Setting a cool-off period
  - Allowing players to self-exclude from the site for a defined period of time or forever
  - Fully auditable transaction history (deposits and withdrawals and hand history)

- Operators would leverage the expertise of the problem gambling services community and guide people who may feel they need expert assistance

Online Gaming's Importance for Licensees and the Commonwealth

Online Gaming will likely increase – not cannibalize – overall revenues and profits

Online poker has catalyzed growth in US offline markets

- Poker market in land-based casinos has grown since the onset of online poker
- Offline poker revenues have grown since the inception of online poker
- **CIE's NJ experience: 80 % of online players are new customers; 42% who were TR customers were inactive customers who re-activated after signing up online**

Retail experience shows that online drives sales overall

- Retailers that have embraced online channels have grown both online and offline
- Multi-channel shoppers are more valuable than single-channel shoppers
- Those retailers that have rejected the internet have faded (recording industry, newspapers etc.)

What's all this mean for Pennsylvania?

- **Both the Commonwealth and its casino operators will benefit from regulated online gaming**
  - Most of the casino industry has converged to advocate for online gaming in order to grow Pennsylvania brick-and-mortar casino businesses
  - Independent analysis confirms the revenue potential for the Commonwealth – According to the May 2014 report by Econsult conducted for the Pennsylvania Legislative Budget and Finance Committee, the annual, **ongoing revenue potential for online gambling in Pennsylvania is $307 million**, which would mean tax collections of **approximately $43 million** applying a 14% tax
- **The market potential translates to an important new revenue stream for Pennsylvania**
  - Potential for upfront licensing fees
  - Taxes both on operator revenues as well as capture of income taxes
  - But online gaming tax rates must be aligned with business realities
  - As Econsult indicated, the illegal market limits the ability to extract high tax rates, and an overly burdensome tax would reduce the positive spillover effect on existing casinos
  - The global online gaming experience demonstrates that tax rates higher than 15% have stifled growth and adversely affected business sustainability

What's all this mean for Pennsylvania?

- **Research by H2 Gambling Capital confirms the Econsult findings**

•The Pennsylvania online gaming market is expected to gross between **$2.56 billion -** or an average of **$256 million / year** (base case), and **$3.58 billion -** or an average of **$358 million / year** (best case) over 10 years.

•At a reasonable **12% tax rate**, the amount generated for the Commonwealth could be in the region of **$31 million** (base case) to **$43 million** (best case) per year.

•An upfront license fee in the range of **$5m** is reasonable, and with 12 existing licensees applying equates to **$60m** in additional state revenue**.**

•Based on evidence both from the United States, and around the world, regulated online gaming in Pennsylvania is **unlikely to cannibalize** Pennsylvania's existing land-based casino market, and will help significantly to **eradicate** the existing illegal market.

•A regulated online gaming market in Pennsylvania will also deliver **player protection**, **security**.

Conclusions

Conclusions:

- The time to act on this is now
- Pennsylvania citizens illegally engage in Internet gaming today with no consumer protections and no regulatory oversight
- The technological and operational controls for online gaming are state of the art and have a proven track record
- Legalization is important to Licensed Operators in the Commonwealth to stay relevant with the “Internet generation” and to help create new marketing tools/channel of distribution
- The evidence from the U.S. and elsewhere supports the proposition that internet gambling will not cannibalize existing revenues
- There is significant revenue potential for the Commonwealth

As Pennsylvania considers the introduction of internet Gaming, GeoComply provides solutions to common misunderstandings about geolocation technologies, and speaks to its ability to maintain compliance with federal and state regulations with the correct implementation of regulations.

EXECUTIVE SUMMARY

GeoComply is a global leader in geolocation technology. Since launching in 2011, GeoComply has quickly become the iGaming industry's trusted solution for reliable, accurate and precise geolocation services.

With more than four decades of collective industry experience in the regulated internet gaming industry, GeoComply's CEO and Executive leadership bring unrivalled experience and expertise to the emerging US regulated iGaming market.

GeoComply's patented and proprietary geolocation solution is unparalleled in its level of accuracy and integrity, as well as in its depth of security and ease of implementation.

GeoComply's advanced and adaptive geolocation solutions can be uniquely tailored to match complex legal and regulatory requirements, providing regulatory officials, as well as operators, with assurance that their online gaming enterprises are fully compliant with the applicable laws and regulations.

Today, many of the world's largest Internet gaming operators and suppliers have selected GeoComply as their geolocation solution. In 2013, GeoComply debuted its technology to the US, going live with 10 brands in New Jersey from Day 1 of the state's iGaming market launch, and expanding since then to all fourteen brands in New Jersey as well as ten additional brands around the U.S. We continue to provide unrivalled geolocation services for regulatory compliance against the world's most stringent iGaming regulations in the US and abroad, and serve nearly 100% of the US iGaming market.

GeoComply currently holds licenses as a geolocation provider from regulators in the states of New Jersey, Nevada, and Delaware, as well as the Georgia Lottery.

HOW WE DO IT