

Scope of Illegal Internet Gaming – U.S. and Iowa Statistics

When considering the impact of illegal gaming in Iowa, some revealing figures can be found in annual statistics compiled here in our state. Each fiscal year, the Iowa Department of Public Health provides a profile of gamblers admitted to treatment through the Iowa Gambling Treatment Program.

In each of the past five years, some Iowans who have received treatment for problem gambling have identified sports betting and Internet gambling as their primary form of wagering in the six months prior to their admission. Neither type of gaming is legal in Iowa, yet for the past five years, at least some people in our state have used them to such excess, they needed to seek help.

The various sources analyzing illegal Internet gaming agree that it is a multi-billion-dollar business in the United States. Some pari-mutuel betting on horse races and state lotteries are currently authorized to operate online, but other forms of gaming on the Internet are being criminally prosecuted.

In a 2011 white paper focusing on online gaming, the American Gaming Association (AGA) estimated that Americans spend \$4 billion a year to gamble online, even though the businesses offering such gaming are typically illegal, unregulated and offer no consumer protections. The AGA, which represents the nation's commercial casino industry, estimates that 1,700 offshore sites accept bets from Americans on the Internet.

Given that Iowa's population of 3 million is about 1 percent of the U.S. population, one can estimate from the AGA figures that about \$40 million of annual online gaming comes from Iowa.

The U.K.-based H2 Gambling Capital, a leading data source regarding worldwide gaming, estimated that global online gambling revenue in 2010 was nearly \$30 billion, with less than 15 percent of that coming from the United States. If one again considers that figure in relation to Iowa having about 1 percent of the total U.S. population, it can be estimated that perhaps \$42 million of global online gambling revenue in 2010 came from Iowa.

H2 Gambling Capital further estimates that North American spending for online gambling in 2013 will total \$5.59 billion.

Determining a direct impact on the Iowa Lottery, Iowa casinos or other businesses is difficult, given that much of the gambling being done online today is an unreported, illegal activity. It can be stated, however, that consumers who make online gambling expenditures do not have those dollars to spend for other activities.

Other reports regarding Internet gambling are from earlier years or are specific to individual states, but still provide an intriguing look at the illegal activity. A 2006 survey by the California Department of Alcohol and Drug Programs found that 1.1 percent of that state's population 18 and over had gambled online within the past year. A 2007 telephone study of 1,000 Nevada residents by the International Gaming Institute found that 3.7 percent had gambled online in the past five years. A

2009 online survey by Poker Players Research estimated that 2.8 percent of the U.S. population had played online poker for real money at least once a month that year.

Another way to analyze the impact of illegal Internet gaming is to review the sanctions against those prosecuted. Here are just a few of the larger recent U.S. cases of note:

- In 2011, the Federal Bureau of Investigations seized the domain sites and other assets of three Internet poker sites. Four people have pled guilty. There were seizures from 76 bank accounts associated with 14 foreign countries and 9 U.S. States. The United States Department of Justice (DOJ) is asking for \$3 billion in civil forfeitures.
- In 2010, the former owner of PartyGaming pled guilty to violating the federal Wire Act and agreed to pay \$300 million to avoid jail time. PartyGaming also agreed to not provide Internet gambling to customers in the United States.
- In 2009, Douglas Rennick, a Canadian citizen, was indicted on federal charges in New York for conspiracy and bank fraud for allegedly laundering \$350 million for foreign Internet gambling businesses through his payment processing business. He agreed to forfeit \$17.1 million.

Recent legislative discussions here in Iowa also have focused on illegal Internet gaming. During the 2011 session of the Iowa Legislature, one gaming industry representative estimated that 150,000 Iowans are already illegally playing online poker.

And in its December 2011 report to the Legislature regarding Internet poker, the Iowa Racing and Gaming Commission noted that it had reviewed three separate revenue studies based on aggregate projections of unregulated Internet poker play alone in the United States. By analyzing the projections and applying them to the population of Iowa, IRGC staff concluded that operators would take in a "rake" of about \$13 million to \$60 million annually. (The rake is the gross gaming revenue of the poker site.)