

# Credit Card Compliance

## CHALLENGES AND SOLUTIONS FOR IGAMING PAYMENTS

By Sara Craven

**C**redit card issuers and acquirers are hesitant to support iGaming transactions despite certain state legalization and the DOJ's clear declaration that online gambling is not illegal within the U.S. Players who register with licensed and regulated sites routinely experience great difficulty when depositing money, resulting in abandoned transactions, player dissatisfaction and – ironically – migration to unregulated sites where Visa and MasterCard are accepted.

This article will explore the issue of credit card compliance, why banks are hesitant to accept payments in the iGaming space, the legal consequences of inaction (i.e. potentially aiding unregulated sites) and explore what solutions and factors could persuade the credit card issuers and acquirers to support the industry.

The world of iGaming has introduced an entirely new set of challenges to the world of ecommerce and payments. Typically consumers expect that if they want to use their card to engage in a legal activity online they may do so. In the world of iGaming, there are far more checks and balances required before a payment can be approved. Even then, there is no guarantee that a consumer will be able to gamble online, although the consumer is located in a regulated and fully legal state.

Many ask why it is so difficult to gamble online in states where it is legal... and it all comes down to payments. Whereas a standard purchase online by a consumer is immediately processed and has an approximate approval rate of 97%, the average iGaming transaction requires additional checks and balances such as verification of age and Know Your Customer (KYC) as well as confirmation of the location of the customer via Internet Protocol (IP)

geolocation. All of this occurs before the payment can even be processed. Then, if the consumer chooses to continue, the transaction may still not be approved by the processor as the current overall approval rate is averaging 30% less than that of a standard ecommerce transaction. Because gambling is a regulated market where significant controls are put in place to protect consumers from a multitude of issues which include monitoring for excessive and/or under age gambling and confirmation of location of the consumer, the scrutiny required via KYC and IP geolocation is not surprising. On the other hand, the approval rates for processing the transactions are disappointing and causing a grave impact to legalized iGaming in the U.S.

The depressed approval rates stem from credit card issuers and acquirers who are hesitant to support iGaming. Since the U.S. Department of Justice (DOJ) issued an opinion in December of 2011 declaring that online gambling was no longer illegal, a few states including Nevada, Delaware and New Jersey have ventured to test the waters in an effort to be the first movers in the industry. Unfortunately, since issuers and acquirers tend to be extremely conservative and are heavily regulated on multi-

ple levels, the majority of them have stayed away from entering the industry. Interestingly, some credit card brands such as Visa and Mastercard have advised that they will permit transactions in states where online gaming is legal, but the ultimate decision on whether to approve or decline a transaction resides with the card issuers. Most issuers, on the other hand, have not been willing to test their luck in the iGaming industry as of yet. Most likely, this is due to the following: a) the banks and issuers want to see more state and consumer adoption before they are willing to take the risk of supporting what was previously a forbidden online businesses, b) they are waiting to see what happens with the few acquirers and issuers that have taken on what is believed to be a risk to support iGaming and c) the DOJ's opinion has not yet been litigated before the Supreme Court, and there is a great deal of ambiguity still left to be resolved. Unfortunately, the hesitance of the payments industry to join in support of these first moving operators is creating limited payment options for the operators who are now contemplating and leveraging alternative payment options such as wire transfers, Automated Clearing House (ACH) transfers, and brick and mortar deposit options; ultimately, the actions of the payment industry are driving consumers to play offshore and back to illegal gambling sites where the red tape is far less onerous.

To this end, there are a few things that would help create further adoption by payment acquirers and issuers. For starters, additional clarification and confirmation of the DOJ's original decision would likely allay many concerns. There has been no litigation as of yet and no clarification of the original opinion so those states that are actively engaged in iGaming are currently interpreting the DOJ's opinion slightly differently. Additionally, broader adoption by more states means more consumer traffic. More



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consumer action is really important as consumer traffic means revenue to the issuers and acquirers, and at such point that the market is large enough to move the needle for the issuers, they will have no choice but to join in support of iGaming. Last, but certainly not least, is education. The more education that can be provided to acquirers and issuers to show the value of supporting iGaming and to allay concerns associated with any potential risks, the better likelihood of broader adoption. Education by regulators, operators, and service providers is extremely beneficial. At the end of the day, for iGaming to survive and thrive in the U.S. market, the payments industry, regulators, and operators have to work collaboratively to address key concerns of all parties; at the same time further legislation at the State level approving iGaming will drive consumer adoption which ultimately persuades the issuers and acquirers to join the effort. ♣



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## MEMBERS IN THE NEWS

### Douglas Florence, Sr., Joins eConnect

Douglas Florence, Sr., CPP has joined eConnect as Vice President of Strategic Operations. eConnect provides fraud, theft and business intelligence to casinos for point of sale (POS) in all cash handling areas such as bars, night-clubs, retail and restaurants. Table Games and Slot operations also benefit from eConnects solutions as well. Executives can improve customer service, improve productivity and reduce losses to theft and fraud throughout their operations. This new role for Douglas is an evolution of combining video to business data for Food & Beverage, Retail and Gaming operations. [www.eConnectGlobal.com](http://www.eConnectGlobal.com)



Douglas Forence, Sr.

### U.S. Supreme Court Cites Research and Analysis of Economist & IMGL

On May 27, 2014, the U.S. Supreme Court ruled in *Michigan v. Bay Mills Indian Community et al.*, one of the most significant Indian law cases in recent years. In a 5-4 decision, the Supreme Court upheld the doctrine of tribal sovereign immunity by barring the State of Michigan's lawsuit against the Bay Mills Indian Community for opening a casino outside of Indian lands.

In her concurring opinion, Justice Sonia Sotomayor cited the work of Alan Meister, Principal Economist at Nathan Associates and a California-based member of IMGL. Rebutting a dissenting opinion's contention that tribes have "emerged as particularly 'substantial and successful' commercial actors," Justice Sotomayor referred to Dr. Meister's *Indian Gaming Industry Report* to show that the success of Indian gaming has not been uniform across tribes. Specifically, she cited data on the percentage of Native American tribes that operate gaming facilities (less than 50 percent) and the high percentage of gaming revenue that is generated by a small number of gaming facilities (approximately 70 percent of gaming revenue is generated by less than 20 percent of facilities).

The Court's decision can be found at the Supreme Court's website ([http://www.supremecourt.gov/opinions/13pdf/12-515\\_jq2i.pdf](http://www.supremecourt.gov/opinions/13pdf/12-515_jq2i.pdf)). Information on Dr. Meister's *Indian Gaming Industry Report* can be found at: <http://www.nathaninc.com/resources/indian-gaming-industry-report>.



Alan Meister

### New Book Release

William N. Thompson, Ph. D., announces the publishing of his compilation of essays on gaming in various international jurisdictions.

Section One of the treatise includes essays on the most critical element in the gambling formula—the player. The discussion covers a broad spectrum of players, including troubled gamblers and ordinary players and players on Wall Street.

The Second Section examines writings about several issues facing the industry, such as the economics of casino gambling, the effects of taxation on the casino industry, casino bankruptcies, problem gambling, crime and gambling, ethics of gambling, the gambling history in Las Vegas, public relations and gambling in art, casinos as monopolies, the politics of casino legalization, and Internet gambling.

Section Three is devoted to specific casino jurisdictions and individual casinos. Attention is also given to politics which guided the establishment of casinos.

The book, *Cultures of Casino Gaming: Answering Universal Desires*, is available from Amazon.

