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### **Internet Gambling Policy in Critical Comparative Perspective: The Effectiveness of Existing Regulatory Frameworks**

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#### **Abstract**

Following the rapid progression of Internet gambling, governments internationally are struggling to create and enact appropriate and effective regulations. A situation of inter-jurisdictional inconsistency exists and regulatory frameworks are constantly changing with international policies of prohibition, legalization or partial-legalization, or imprecise legal limbo. The ambiguity of the current situation and questionable effectiveness of policies in place makes it difficult for gambling operators, treatment providers, players and other stakeholders to formulate appropriate responses to online gambling. This article aims to bring some clarity and offer guidance for the effective implication of gambling policy by examining the comparative evolution of Internet gambling in Australia and Canada, and the respective social, legal, economic and political responses. The differences in the development of online gambling highlight the unique paths possible, yet the similarities between these jurisdictions provide key examples of how policy makers, gambling operators, researchers and consumers can respond to this phenomenon.

**Keywords:** Internet gambling, policy, regulation, Canada, Australia

## **1. Introduction**

Technological advancements, market consolidation, brand development, the potential for profit, and increasing public appetite, have led to a situation where Internet gambling is a thriving and firmly entrenched phenomenon. As of May, 2011, 2,313 online gambling websites were in existence (Online Casino City, 2011) and, coupled with the vast numbers of online gambling forums and millions of users, the reality and permanence of Internet gambling can no longer be denied. The term Internet gambling is often used interchangeably with online gambling and refers to all forms of gambling (including wagering) via the Internet, including gambling using computers, mobiles or wireless devices connected to the Internet. Interactive gambling is a slightly broader term, although again often used interchangeably with Internet gambling, and includes other forms of remote gambling generally conducted via digital means such as digital television.

The Internet gambling phenomenon has experienced a rapid progression since its initial origin as a handful of online casinos hosted in Antigua in the mid-1990s. An exponential growth of sites has moved into a period of market consolidation, in the face of fierce competition and fickle players, who can easily move between online sites (Church-Sanders, 2011). Subsequently, the industry has rapidly evolved, with larger companies purchasing smaller sites, experimenting with new formats, products and features which are adapted to the demands of Internet gamblers. However, governments and policy makers around the world have largely struggled to keep up with the changes and to create and enact appropriate and effective regulations. Public policy regarding Internet gambling is further complicated by the increasing omnipresence of the Internet, anonymity of users and operators, lack of physical boundaries between jurisdictions, and disparity in physical locations of players and providers (Gainsbury, 2010).

Due to the newness of the Internet gambling phenomenon, there is little historic precedent on which regulators can base policies, and there is certainly no “gold standard” or proven effective policy which has been implemented internationally. Some jurisdictions (e.g., Australia) executed rapid strategic responses to the emergent online gambling phenomenon, but many of these policies are becoming rapidly outdated and obsolete. Other jurisdictions (e.g., the U.K.) introduced regulation gradually, as needed, based on social and market developments. Still other jurisdictions have failed to establish any specific legislation (e.g., Canada), rather adapting existing gambling laws, despite the apparent need to address this new form of gambling. Thus, there is currently a situation of inter-jurisdictional inconsistency, with Internet gambling being prohibited in some jurisdictions (as interstate Internet gambling is in the U.S.), and either legalized or partially-legalized (as in Australia) or in legal limbo in others (as in Canada). Furthermore, some jurisdictions, including Australia and Canada, have intra-jurisdictional inconsistency in the availability and regulation of legal online gambling, due to the nature of federal versus provincial/state legislation. As a result of these various inconsistencies, policy makers, operators and other key stakeholders face much ambiguity about the best approach to legalizing, regulating, and implementing Internet gambling.

In light of persisting ambiguity surrounding Internet gambling policy, the present article aims to bring some level of clarity and guidance for stakeholders. In particular, this paper adopts a comparative focus, looking at the evolution of Internet gambling in Australia and Canada, as well as the respective social, legal, economic and political responses to Internet gambling in each society. The rationale for contrasting Canada to Australia is that these two countries have a unique relationship

in terms of the parallels found in the availability and utilization of gambling, as well as the attitudes and behaviours of the population. The differences in the development of online gambling in each country highlight the unique paths possible for stakeholders, yet the similarities between these two jurisdictions provide key examples of how consumers, industry and regulators can respond to this phenomenon. By comparatively evaluating the historical progression of policy development, market response, and social, cultural and political adaptations, this review aims to hypothesize the potential future of online gambling as well as the most appropriate policy responses to this growing phenomenon.

## **2. Current State of Internet Gambling**

Information regarding expenditure, revenue, player participation and behaviour is very difficult to estimate. This difficulty largely stems from the lack of regulation and corresponding corporate responsibility of Internet gambling operators, the difficulty in determining the physical location of players, and the use of electronic fund transfers. Furthermore, this market is so fluid and dynamic that any figures collected are limited to the particular context in which they were gathered, and such figures rapidly become obsolete. Therefore, caution is required in interpreting any information on Internet gambling with considerations given to the potential limitations of the data.

According to the independently verified Online Casino City (2011), the majority of online gambling sites are for slots (electronic gaming machines; EGMs, in their various configurations) (56%), followed by casino games (33%), poker (22%) and sports/race books (19%), with bingo (16%), lotteries (4%) and skill games (2%) making up a smaller proportions of sites. These figures are based on constant monitoring of online gambling sites, which are classified based on the primary mode of gambling offered, as many sites offer more than one type of gambling. The number of sites is not always representative of market share as industry estimates suggest that betting (including sports, race, exotic wagering and betting exchanges) lead the global Internet gambling market, accounting for 39% of online gambling revenue (H2 Gambling Capital, 2011; Henwood, 2011). Casino games (including slots) account for 26% of the online gambling market, followed by poker (14%), lotteries (9%), bingo (8%), skill-based and other gambling (4%; H2 Gambling Capital, 2011; Holliday, 2010).

Of the 2,313 Internet gambling sites available, 94% accept play from Australia and 90% accept play from Canada, despite the majority being located offshore and provided by operators illegally (Online Casino City, 2011). The sites are provided by 642 different owners, located in 74 jurisdictions, with 27 based in Australia, and seven sites based in Canada (Online Casino City, 2011). The seven Canadian sites do not include sites located in Kahnawake, the world's fifth largest provider of online gambling sites, with 226 sites hosted in this territory located just south of Montreal.

Internet gambling revenues reportedly increased from approximately US\$2.2 billion, in 2000, to U.S.\$15.2 billion, in 2006, and were predicted to reach U.S.\$24.5 billion, by 2010 (Christiansen Capitol Advisors, 2005; 2007). Accounting firm KPMG released a more recent report suggesting the global online gambling market will grow about 42 per cent from 2008 levels, to reach US\$30 billion, by 2012 (KPMG International, 2010). Increases in participation and expenditure have occurred in Canada where less than one per cent of adults gambled online in 2004, which rose to 2.1 per cent in 2007 (Wood & Williams, 2009). In 2010, a telephone survey of 1,724 Canadian adults found that 8% had gambled online in the past year and 3%

played once a month or more (Ipsos Reid, 2010). According to recent estimates, Canadians purportedly spend CAD\$1 billion per year gambling online, mostly on privately owned sites (CBC News, 2010).

Mirroring the Canadian context, a small proportion of Australians are engaging in online gambling, with industry estimates and prevalence surveys suggesting between one and four per cent of the adult population gamble on Internet sites each year (Productivity Commission, 2010). However, according to the Australian Internet and Technology Report, 30% of Australians over the age of 16 gamble online, although only 8% regularly use Internet gambling sites (Nielsen Online, 2010), and Internet gambling was one of the top six activities conducted online, by all age groups (Nielsen Online, 2008). In 2008 it was estimated that Australians spent approximately US\$670 million on online casino games and poker (Productivity Commission, 2010) and this figure rose to a predicted USD\$868 million in 2010 (Global Betting & Gaming Consultants, 2010). The amount Australians spend on legal online gambling is difficult to determine, in part, because revenues made from wagers through the Internet are not separated from wagers placed through more traditional means. Preliminary figures from one company that offers online wagering, Tabcorp, indicate that interactive wagering revenues are increasing; in 2006-07 over AUD\$1 billion in Internet sales were recorded, which further increased by 17.4% in 2007-08 (Tabcorp, 2007, 2008). Despite the lack of reliable data, it is increasingly apparent that Internet gambling in all forms is growing in popularity and this will have significant impacts on society, industry and policies.

### **3. Australian Response to Internet Gambling**

The seminal 1999 Productivity Commission gambling inquest reported that Internet gambling offered the potential for consumer benefits, as well as new risks for problem gambling. It advised managed liberalization, including licensing of sites, consumer protection measures, and taxation, to meet the majority of concerns provided that the Federal, state and territory governments were actively involved. Australia was one of the first countries to implement legislation directly addressing Internet gambling with the introduction of the Interactive Gambling Act (IGA) in 2001. In contrast to the recommendations of the Productivity Commission (1999), the Netbets review by the Senate Select Committee on Information Technology (2000), and initiatives of state and territory governments, the IGA prohibits the provision of Internet gambling to Australian residents, with the exception of licensed lotteries and wagering. This overarching Federal legislation allows States and Territories to independently regulate Internet gambling in an effort to preserve individual economic policies and regulatory practices.

Although Australia was initially recognized internationally as a forerunner in Internet gambling regulation, the IGA has now proven outdated and relatively ineffective (Gainsbury, 2010). Despite evidence that Australians are gambling on illegal sites, no Internet gambling providers have been prosecuted and there is rising dissension from land-based operators, who are worried they are losing revenue to offshore sites that do not pay taxes or abide by corporate responsibility and customer protection regulations. As mentioned, Australians can currently wager legally on the outcomes of sports and racing events using licensed interactive mediums including websites, mobile phones and interactive television. However, in addition to the disagreements between industry operators (online and offline) and policy makers, Australia has experienced increased discord based on inter-provincial competition. In 2008, a decision by the High Court of Australia overruled State or Territory laws that

restrict or control interstate gambling operators from competing within State/Territory gambling operators. This decision has further implications for laws including requirements for approval or fees to publish or use race fields, restrictions on advertisements, and restrictions on out-of-State/Territory betting. The value of license costs for betting on races and events and gambling tax rates have also been debated, resulting in several court cases within Australia.

The lack of recent regulatory changes and policy implementation in response to the changes in Internet gambling provision, accessibility and participation has resulted in a lack of cohesive policies. One example of this is in regards to advertising standards, which have largely been ignored or left to be monitored by voluntary codes of conduct. In contrast to scrutiny of tobacco, alcohol and even junk food advertising, online gambling providers have been allowed to sponsor sporting teams and major sporting events, send targeted SMS advertisements and offer incentives, such as free credit, to encourage individuals, including minors, to establish online betting accounts (Monaghan, Derevensky & Sklar, 2009). The potential negative implications, particularly for youth (Monaghan & Derevensky, 2008; Monaghan et al., 2009) and problem gamblers have been noted, yet policy makers are still to respond to these emerging trends.

The introduction of Internet gambling has been accompanied by increased allegations of match fixing, player collusion and players and officials making bets. Reports indicate that 19% of rugby league footballers know of players who have bet on games (Lutton, 2011). Charges have been made in relation to claims that a rugby league game was fixed following suspicious betting patterns on a the first penalty goal in a game and Australian Football League players have been fined and suspended after providing information to family members about a starting line up and placing small bets on games in which they played (Lutton, 2011). Identification of player accounts and the ability to trace bets placed is one argument advanced in favour of increased regulation of online gambling. However although this is a reasonable argument, the multitude of offshore sites offering anonymous play available to gamblers coupled with privacy concerns and legislation limits the effectiveness of any such information sharing between Internet gambling sites and relevant authorities.

Following a national inquiry into gambling, the Productivity Commission (2010) again recommended that Internet gambling be legalized and regulated. This proposal was made on the basis that regulation, rather than prohibition, would significantly reduce the risks posed by Internet gambling by requiring sophisticated harm minimization and probity measures to be provided. Furthermore, it would also increase competition in gambling, providing better outcomes for consumers, supply Australians businesses with greater commercial opportunities and yield tax revenue. The Productivity Commission stated that the Australian Government should monitor the effectiveness of harm minimization measures as well as the performance of the regulator overseeing the national regulatory regime. In an attempt to minimize inconsistencies between online gambling regimes, the Productivity Commission (2010) recommended Australia implement a national regulatory approach. Furthermore, where possible, regulation should align with that of similarly liberalized countries such as Canada and the U.K., as well as non-government organizations that promote international standards (such as eCommerce and Online Gaming Regulation and Assurance, eCOGRA). The Federal Government rejected the Productivity Commission's recommendations in regards to Internet gambling and stated that it plans to continue with the current regulatory regime. However, in August 2011, the Department of Broadband, Communications and the Digital Economy announced that

they would be conducting a review of the IGA, to be completed in the first half of 2012.

#### **4. Canadian Response to Internet Gambling**

Unlike the Productivity Commission inquiry initiated by the Australian federal government, no national commission has been established in Canada to examine gambling or Internet gambling. An unbiased inquiry would be useful in providing advice to the Federal and Provincial governments on how to effectively respond to Internet gambling. In Canada, most forms of gambling are regulated by the Criminal Code of Canada (1985), with legislation focusing more on the act of providing gambling than on the activity of gambling itself. In fact, this legislation does not explicitly mention Internet gambling. However, the legislation gives permission for Governments of a province alone or in conjunction with other provinces to conduct and manage a lottery scheme, suggesting that Internet gambling operations are legal, provided that they are operated and regulated by provincial governments.

Guided by this legislation, there have been several Canadian forays into online gambling, lead initially by the Canadian Pari-Mutuel Association, which established Canada's first internet-based horse race wagering website. This initiative was followed shortly after by the Atlantic Lottery Corporation (ALC), which began to offer limited forms of Internet gambling in 2004. In the subsequent years, the provinces of British Columbia and Quebec also made Internet gambling available to provincial residents, who can now access a wide range of Internet-based games and betting platforms, including sports betting, casino games, bingo, keno, themed interactive games, lottery ticket sales, and several versions of poker. Moreover, demonstrating the possibility of collaborative initiatives between Canadian provinces, as well as the feasibility of revenue sharing, in February 2011 the British Columbia Lottery Corporation announced that residents of British Columbia and Quebec would be able to compete against each other in online poker games, via the Playnow.com website (Canada Newswire, 2011). It appears that the province of Ontario will be the next to embrace Internet gambling, following the Ontario Lottery and Gaming Corporation's announcement, in August of 2010, that it planned to launch an online gambling site in 2012, following an 18 month period of consultation and study.

While many Canadian provinces have embraced Internet gambling, several other provincial governments have chosen to opt out, at least for the time being. For example, in October of 2010, commenting on the province's future gaming strategy, the Premier of Nova Scotia, Darrell Dexter, announced that Nova Scotia would not offer any Internet gambling services for its residents, claiming that Internet gambling is not "consistent with our goal of trying to reduce the harm that is done by gaming"(Jackson, 2010; Matthews, 2010)). This announcement followed an earlier claim, made by Danny Williams, the Premier of Newfoundland and Labrador, stating that he opposed government-sanctioned online gambling in his province (Jackson, 2010). Likewise, in 2011, the Alberta Solicitor General announced that the province will not proceed to offer Internet gambling options to Alberta residents, nor are there any plans to do so in the near future (CBC News, 2011).

For those Canadian provincial operators which have entered into online gambling, the journey has been marked by a number of problems. British Columbia's PlayNow.com admitted that the financial information of some players was compromised and the site was taken offline for several weeks, in July 2010, while the problems were rectified. In the Quebec context, critiques have been levelled that online gambling is being implemented by the government without adequate

appreciation for any attendant social costs. An independent review of the Quebec Internet gambling site raised concerns with the use of credit cards, which may allow players to spend more than they can afford, up to CAD\$9,999 per week (Wood, 2010). In response, Quebec politicians employed a discourse of necessity and protection, suggesting that the government operated website will cannibalize business from the many “illegal” sites being operated out of the Kahnawake Mohawk territory (Moore, 2010). Responsible gambling measures are offered on the Quebec site, including self-selected time and money limits and self-exclusion and customer identification is required to establish an account (Wood, 2010).

Although it is clear that provincial governments can operate Internet gambling sites, a question with a more ambiguous answer is whether or not it is legal for Canadian residents to place bets at offshore Internet gambling sites. The Canadian criminal justice system builds upon the fundamental idea that unless a law prohibits a given activity, then that activity is not illegal. There is indeed no law specifically prohibiting Canadians from placing bets at an offshore Internet gambling website. However, the criminal code of Canada does render it illegal to be “found in a common betting house.” This being the case, if offshore Internet gambling websites were properly defined as “common betting houses” then it would be illegal to place bets at such virtual establishments. In any case, the issue remains somewhat of a grey area, as no legal precedent has been established.

The prevalence rate of Internet gambling in Canada remains relative low, estimated to be 2.1% (Wood & Williams, 2009). However, it seems that government expansion into Internet gambling may have had some impact. In British Columbia, the prevalence rate of Internet gambling is 5.0%, and ranges from 3.1% to 8.2% in the various Atlantic Provinces (Wood & Williams, 2009). The small proportion of Canadians that gamble online raises questions for the potential for Canadian profit under the current Canadian regulatory framework and, by extension, the viability of provincial expansion into Internet gambling. In particular, while provincial governments have experienced some success in offering residents online access to provincial lotteries, it remains unclear the extent to which casino-style provincially sponsored websites could be successful. To be sure, many would-be Internet gamblers do not gamble online, due to a fear of unfair practices, potential lack of security, and general lack of regulation. Many of these people might shift into Internet gambling, with the legitimacy and perceived security afforded by government endorsement. However, since Canadian gamblers can currently place bets, at will and regardless of legality, at offshore websites, a heavily regulated Canadian model may not have the flexibility to compete with the plethora of dynamic, attractive, and long-established offshore Internet gambling options. Moreover, even with explicit legislative changes, in a practical sense it would be impossible to prevent Internet gamblers from seeking offshore options, even if provincially sponsored options are available. Thus, the only recourse for enforcing prohibition of offshore Internet gambling would be to criminalize (as in the U.S.) the financial intermediaries who facilitate the transfer of money from Canadian citizens to offshore Internet gambling providers, and vice versa.

## **5. Impacts of Legalization and Regulation of Internet Gambling**

### **5.1 Participation**

Although prohibition does not appear to be effective in preventing all individuals from gambling online it is likely that legalizing and regulating Internet gambling would substantially increase participation. Jurisdictions where Internet gambling is



legalized and regulated have higher participation rates; for example, 6.5% of the adult population gambles online in Norway and 10.5% in the U.K. (Gambling Commission, 2010; Sandven, 2007). Internet gambling provides advantages for consumers in terms of increased accessibility, convenience, multiple payment methods and the availability of multiple forms of gambling and choice of operators as compared to land-based gambling (Wood, Williams, & Lawton, 2007).

Managed liberalization of online gambling would not increase an individual's ability to access both unsafe and safe international websites (Productivity Commission, 2010). However, by legalizing and regulating Internet gambling, governments are providing tacit approval for this activity, with citizens making the assumption it is a safe product. This may result in similar problems to those that have arisen in Canada and Australia with respect to EGMs and have resulted in public condemnation and a class action lawsuit lodged against the Quebec provincial government.

For those already engaging in online gambling, regulation may reduce the utilization of illegal Internet gambling sites by providing consumers with access to online gambling sites that include player protection standards and corporate responsibility measures (Productivity Commission, 2010). For example, Australian online wagering sites require customers to provide evidence of their identity and address before they can withdraw funds from sites to reduce underage gambling. The Quebec gambling site also includes responsible gambling features including deposit and time limits that are designed to help players manage their expenditure (Wood, 2010). Legalization would also provide more options for consumers, in terms of available Internet gambling sites and market competition that would likely drive improvements in games offered and consumer pricing. Sweden provides a good example of this as following the implementation of a state-owned online poker site that included responsible gambling tools, this site accounted for 35% of the online poker market (Stymne, 2008). This also indicates that regulated site must be competitive with unregulated sites to capture and retain players, which limits the extent to which restrictive harm-minimisation strategies can be included.

It is important to note that Internet gambling appears to be more popular among adolescents and young adults, as compared to the general population. Several studies from Australia, Canada, the U.S., and the U.K. have found that these age groups are more likely to gamble online (Delfabbro, Lahn, & Grabosky, 2005; Dowling, Jackson, Thomas, & Frydenberg, 2010; Griffiths, Wardle, Orford, Sproston, & Erens, 2008; Jackson, Dowling, Thomas, Bond, & Patton, 2008; McBride & Derevensky, 2009; Petry & Weinstock, 2007; Wood & Williams, 2009). Young adults aged 18-24 also appear to have significantly more gambling-related problems than any other adult age cohort (Delfabbro, 2008; Dickson, Derevensky, & Gupta, 2004; Welte, Barnes, Wieczorek, Tidwell, & Parker, 2001). As Internet gambling has been associated with increased likelihood of gambling-related problems (Griffiths & Barnes, 2007; Griffiths, Wardle, Orford, Sproston, & Erens, 2009; Petry & Winestock, 2007; Volberg, Nysse-Carris, & Gerstein, 2006; Wood & Williams, 2009; Wood et al., 2007), youth involvement with online gambling may lead to serious negative consequences for many individuals, families and society. It is important that the impact of legal and illegal Internet gambling on youth be addressed with a combination of youth-specific education, prevention, harm-minimization and treatment options. If Internet gambling is legalized and regulated, efforts should be made to protect this vulnerable population from harm, for example by ensuring

stringent age verification and youth-specific responsible gambling strategies are implemented.

### 5.2 Harm-minimization

By regulating online gambling sites, governments would be able to offer a safer Internet gambling environment. Regulation would mandate strict standards for probity and harm-minimization, including prominently displayed account information, tools to enable pre-commitment to time and monetary expenditure, automated notifications and warnings regarding potentially risky behaviour and the ability to self-exclude. Other possible responsible gambling features include age verification checks that could be linked to a jurisdictional registry, restricted use of credit betting, provision of information about problem gambling, screening tools, and links to appropriate resources for help (Monaghan, 2009). Taxation revenue could be directed towards ongoing evaluation and monitoring of responsible gambling policies and harm minimization tools, and investigations of the impacts of Internet gambling on individuals and the wider community. Advertising standards and inter-jurisdictional gambling could also be regulated to protect consumers and the online and offline gambling industry. Regulation would also enable countries to be consistent with international gambling regimes and align with similarly liberalized countries and non-government organizations that promote international standards (such as eCOGRA).

### 5.3 Feasibility

It may be difficult to regulate Internet gambling to the same extent as land-based gambling (McMillen, 2000). There has yet to be a satisfactory model proposed, outlining how regulators would ensure that sites meet minimum standards of satisfactory business and responsible gambling practices, and prevent citizens from using unregulated sites that do not offer appropriate player protection or abide by taxation laws. There likely will always be some unscrupulous operators who seek to flout standards. However, there are some measures that can be enacted to encourage major international operators to comply with regulations. For example, the right to offer the product to residents and advertise in certain jurisdictions may be conditional on meeting standards for harm-minimization (as in the U.K.).

### 5.4 Existing Operators

In Canada, only provincial-sanctioned operators are able to provide gambling for residents and this has already been extended to Internet gambling. In the Australian context, licensed operators are able to provide interactive wagering and lotteries. This indicates that existing gambling operators are supportive of moves to legalize and regulate Internet gambling so that they may compete for customers. For example, in a submission to the Productivity Commission (2010), Clubs Australia, stated its belief that gambling is viewed and provided as a legitimate form of entertainment and online gambling should face identical regulation to that placed upon EGMs.

Prohibition of online gambling prevents any company from legally providing online gambling to residents in their own jurisdictions. Offshore operators have generally not been targeted in a meaningful way to prevent them from restricting access to residents, which has resulted in domestic consumption of online gambling services largely being provided by international companies. For example, Ontario's Finance Minister Dwight Duncan claimed that over CAD\$400 million was being spent by Canadians on foreign sites in justification for the need for a province-based Internet gambling site (Parness, 2010). Traditional operators have brand recognition

and customer loyalty that could be used to build a consumer base. Loyalty programs could be shared between land-based and online sites with cross-promotion opportunities available.

### 5.5 Economic Impacts

There appear to be strong economic incentives for governments moving towards a state of legalized and regulated Internet gambling. Gambling in general remains a significant source of revenues, and gambling revenues have increased dramatically with an increase in legalized gaming opportunities, availability and accessibility. For example, in 2006-07, Australian gambling expenditure was approximately AU\$18.2 billion, up from almost \$7 billion in 1988-89. This increase is largely attributed to the liberalization of gaming (Productivity Commission, 2010), and similar increases have been seen in Canada, with net gambling revenue increasing from CAD\$2.73 billion in 1992 to CAD\$13.75 billion in 2009 (Marshall, 2010). The potential revenues associated with Internet gambling would arise from two primary sources; gross revenue taxes and corporate income taxes (gaming institutions are also more likely to have an extra tax burden). A tax-revenue analysis conducted by Price Waterhouse Coopers concluded that taxation of Internet gambling in the U.S. expected to generate up to US\$51.9 billion in taxes for federal, state and local governments over a 10 year period (Sandman, 2008). Furthermore, licensing Internet gambling encourages operators to establish residence or at least corporate offices within the jurisdiction, which has the effect of keeping money within the country. Appropriate regulation may also reduce the occurrence of money laundering and inappropriate betting by improving the tracking of monetary transfers due to appropriate identification of online gambling customers.

Licensing requirements and taxation requires careful consideration as onerous requirements may reduce the ability of regulated sites to successfully compete with offshore gambling sites for market share. Due to the mobility of international online gambling providers, it is unlikely that Internet gambling operators could be taxed at equivalent rates as land-based operators. However, Internet gambling sites would benefit from being licensed within a particular jurisdiction, as this would signal to potential customers that they adhere to the appropriate standards and are accountable to jurisdictional laws. Discussion would also be required of where revenue would be collected, as taxes may be shared between federal and state or provincial governments. Internet gambling revenue may also need to be shared between the online gambling operator and operator of sport and racing events.

Although the legalization of sites would generate large amounts of tax revenue, there are potential economic disadvantages also. Revenue from either direct ownership or taxation of land-based gambling venues may be threatened, as well as revenue of associated businesses, including travel, food and beverage establishments and entertainment. The gaming industry is a major employer across Canada and Australia. The Productivity Commission (2010) estimated that around 67,000 employees are directly involved in gambling activities, and a further 105,000 non-gambling employees work in casinos, hotels and clubs that offer gaming. Increases in Internet gambling have already been argued to be associated with reduced revenue from EGMs (Wills, 2010). However, the small amount of available research on Internet gamblers indicates that the majority of Internet gamblers are active in multiple forms of gambling (American Gaming Association, 2006; Griffiths et al., 2008; Wood & Williams, 2009). Furthermore, it has been argued that there are additional jobs associated with Internet gambling. For example, Washington

Democrat Congress representative, Jim McDermott, estimates legalization of Internet gambling in the US would create 32,000 jobs that now go offshore (Benston, 2010). Therefore, the economic impacts of legalizing Internet gambling are still largely unknown.

The economic benefits of legalized Internet gambling may have a potentially negative impact on the community if governments become dependent upon Internet gambling revenue. It has been alleged that the Australian State governments have become dependent on taxation revenue from legalized gambling (Anglican Diocese of Melbourne Social Responsibilities Committee, 2008), making it increasingly difficult for them to deal with problem gambling issues effectively. If governments were to legalize and regulate Internet gambling, the taxes generated, or profits in the case of direct ownership, may produce similar outcomes, whereby the governments become dependent on gambling revenues. This situation of dependence, in turn, may create difficulty in objectively regulating the industry, and in imposing responsible gambling controls that may subsequently negatively impact revenues.

Within Canada, the introduction of provincially-owned and regulated EGMs was seen as a means of limiting the proliferation of illegal gaming machines (Kelley, Todosichuk, & Azmier., 2001). However, EGMs have proven to be contentious, with strong association to problem gambling, and the primary criticism being they are easily accessible and addictive. Such notions may well also apply to Internet gambling (Kelley et al., 2001). Although the provincial governments have invested large sums of money for research, treatment and prevention, this has done little to abate the criticism. It is possible that if Internet gambling was to be legalized and regulated, even with the initial intention of reducing the impact of illegal online gambling sites and providing a safer, regulated environment, revenues generated may result in a biased ability of the regulators to adequately protect its citizens from harm. Internal checks and balances may be warranted.

### 5.6 Social Costs

Although governments can do much to mitigate and minimize the social costs associated with Internet gambling, it is important to note that this form of gambling is not without its risks. As mentioned, increased availability of legalized Internet gambling opportunities may increase participation, which may in turn increase incidences of problem gambling. Although there is speculation about an inoculation effect, such that players eventually habituate when immersed in a gambling environment (LaPlante & Shaffer, 2007), Internet gambling has been repeatedly linked with higher rates of problem gambling (Focal Research Consultants, 2008; South Australian Centre for Economic Studies, 2008; Volberg et al., 2006; Wood & Williams, 2007; 2009; 2011; Wood et al, 2007). Despite the apparent relationship between online gambling and problem gambling, a causal connection has not been established. It is plausible that problem gamblers may utilize Internet gambling sites when land-based venues are unavailable, although it has also been suggested that Internet gambling may attract individuals who would not play at or are unable to access land-based venues, which may lead to an increase in the prevalence of problem gambling (Wood et al., 2007).

Internet gambling possesses certain features that may increase the risk of gambling problems including: 1) increased accessibility and convenience; 2) the ability to pay with electronic funds, which may reduce the psychological salience of expenses, 3) the ability to play in a familiar and comfortable environment, which may extend sessions, 4) the potential lack of interruptions associated with solitary play; 5)

anonymity; 6) the reduced costs normally associated with travel and food; and 7) the availability of cheaper bets online (Griffiths, 2003; Griffiths & Barnes, 2008; McCormack & Griffiths, 2010; Monaghan, 2009; Wood & Williams, 2007). It is likely that a variety of factors interact to increase the incidence of problem gambling amongst Internet gamblers. Problem gambling has a high cost to individuals, families and society in terms of associated physical and psychological problems, family breakdowns, abuse and neglect, lost productivity and unemployment, bankruptcy, crime and suicide. It is critical that any regulatory policies take account of the likelihood of increases in associated gambling problems in the community. If governments make efforts to legalize and regulate Internet gambling, it is important that they do so only with a realistic appreciation of the concomitant social costs.

## **6. Future Trends**

There are a number of trends on the horizon for Internet gaming. The popularity and acceptability of Internet gambling will continue to grow and consumer demand will lead to continual changes and competition amongst Internet gambling sites. In the highly competitive market, only those sites that achieve customer loyalty, provide sought-after games and features, and demonstrate corporate responsibility will survive. It is expected that new demographic groups will enter the online gambling market, such as women and older adults, and new sites will cater to these populations. The types of gambling opportunities offered online will continue to expand to include casual games, which can be played over short time periods, and social games, that already exist as free play games, such as Farmville, but may incorporate gambling or wagering elements in the future to capitalise on this market. The nature of Internet gambling will continue to change with new technological advancements. For example, recent developments in applications for cell phones and mobile devices (particularly the iPhone and iPad), will allow people to access Internet gambling opportunities in practically every urbanized space around the globe. Given the finding that Internet gamblers mention convenience and ease of access as primary reasons for gambling online (as opposed to in land-based venues) (Wood et al., 2007), the emergence of mobile Internet gambling will likely increase the prevalence of Internet gambling.

It appears that an increasing number of jurisdictions will legalize and regulate Internet gambling in an attempt to provide a safer playing environment and collect taxes from corporations and citizens. Established gambling operators will enter the online market, and customers will have many choices, with competition increasing the quality of sites. This competition may also result in companies failing, and existing Internet and land-based operators will compete for market share. Mandatory and self-imposed corporate responsibility and harm-minimization policies will be implemented in response to government and customer demands for fair play and consumer protection. Offshore sites will always be able to offer cheaper games, and fewer restrictions on play and accepting money, and it will be very difficult for regulators to prevent all residents from accessing unregulated sites.

Ultimately, with more individuals playing online and increased prevalence of problem gambling amongst Internet gamblers, there will be a concomitant increase in the number of problem gamblers. Governments will have to provide some safety net for their citizens and allocate funds for the prevention of gambling problems and for the treatment of those afflicted. Internet-based responsible gambling features, and treatment programs and initiatives, should be increasingly developed, evaluated and utilised to provide appropriate assistance for Internet gamblers. In recognition of the

reality and increasing popularity of Internet gambling, regardless of legalization, it is essential that further research be conducted to understand key characteristics of Internet gambling and online gamblers and investigate the impact of Internet gambling on society.

## **7. Conclusion**

This review has highlighted how Internet gambling has presented governments, politicians, regulators, operators, and consumers with a whole host of challenges and opportunities and represents an important and real change to the provision of gambling services. Current regulatory policies internationally, including those in Canada and Australia, are largely ineffective and outdated and require careful evaluation. Policies should be based on evidence and respond to the impacts of Internet gambling, including social and economic impacts. In forming these policies, it is useful to consider the evolution of Internet gambling and how different jurisdictions have responded to determine the most appropriate regulatory regime to be implemented.

Evidence of the relative harms of online gambling, as well as on the efficacy of prohibition should lead to an evaluation of Internet gambling policy in many jurisdictions. The Australian Productivity Commission (2010) proposed that any evaluation of online gambling policy should consider:

- the relative harms and benefits of online gambling compared to venue-based gambling
- the effectiveness of current legislation
- the possibility for less restrictive regulation to minimize these harms whilst still allowing some of the benefits of online gambling to be realized (Productivity Commission, 2010, 15.7).

Efforts should be made to reduce inconsistencies between provincial and international jurisdictions. This is important as Internet gambling is a global market where geographical boundaries have little impact. By adopting a multilateral government and commercial approach this may enable an effective set of consumer protection standards for each country to be enacted.

Despite best practice recommendations, it is acknowledged that regulatory policy is often based on political will. Effective Internet gambling policies in particular require considerable support from elected officials, who must have the motivation to engage the controversial issues that surround this topic. Public opinion in both Canada and Australia is divided on the support for gambling with significant concerns expressed about potential negative impacts and problem gambling. Subsequently, stakeholders may be required to lobby elected officials and provide a strong rationale in support of effective policies and there are expected to be further barriers to the implementation of these.

Although Internet gambling appears to be extremely dynamic and dominated by offshore operators with few successful regulatory regimes implemented, it is important to protect domestic citizens, operators and government interests and to ensure that efforts be undertaken to render policies that are informed, up-to-date, and effective. This review is intended to guide policy makers in formulating regulation in response to an in-depth consideration of the current issues and historical responses to Internet gambling, particularly in Canada and Australia.

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