

**TESTIMONY OF FRANK CATANIA**  
**BEFORE THE SENATE BANKING COMMITTEE**  
**HEARINGS ON INTERNET GAMBLING**

**MARCH 18, 2003**

Mr. Chairman and Members of the Committee, I would like to thank you for the opportunity to testify today with regard to Internet gambling. I have been actively involved in all aspects of gaming, having served as Director of the New Jersey Division of Gaming Enforcement, the world's largest gaming regulatory enforcement agency. I have also served as Chairman of the International Association of Gaming Regulators, Chair of the Forum of American Casino Regulators and immediate past president of the International Masters of Gaming Law. I am now president of a consulting firm that specializes in gaming issues.

Internet gambling is a controversial subject in the United States. Some opponents in Congress have advocated a total ban on Internet gambling in the United States. On the other side, supporters of legal Internet gambling have been steadily at work dispelling myths and lobbying against prohibitory legislation. As a result, very little consideration has been given to developing and proposing a practical and politically palatable regulatory scheme for legal and regulated Internet gambling in the U.S. Both supporters and opponents of legal Internet gambling agree that something must be done. It is my opinion that a serious discussion of regulation, rather than prohibition, is needed.

Gambling is one of the fastest growing forms of entertainment in the world, particularly now when governments are exploring other means to produce revenue. The application of gambling to the Internet has created a market force that cannot be stopped without pulling the plug on the entire World Wide Web.

The total number of Internet gambling sites is estimated to be 1800. The Internet gambling industry has a projected gross income of \$4.3 billion for 2003. Remarkably, in spite of all attempts to place a domestic ban on Internet gambling, approximately sixty percent of this figure will come from the United States. However, the proliferation of Internet gambling is not solely a U.S. phenomenon.

Internet gambling revenues are not just being generated by gamblers in the United States, but worldwide. Many countries are either embracing Internet gambling or tolerating it because there is no effective way to stop it, while some countries have concluded that modern technology has rendered their gambling laws obsolete.

The Financial Crimes Enforcement Network (“FinCEN”) recently completed a survey of how other countries are dealing with the issue of Internet gambling. FinCEN’s survey confirmed that most countries have arrived at the conclusion that legalized Internet gambling with oversight and regulation is a “workable solution” from both an economic and law enforcement standpoint. For example, Great Britain has recently publicly endorsed legalized and regulated Internet gambling.

## An Alternative: A Study Commission on Internet Gambling

United States Representatives John Conyers (D-Mich.) and Christopher Cannon (R-Utah) recently introduced legislation to create a commission that would recommend ways that the federal and state governments could potentially regulate Internet gambling.

It is my hope that members of this committee will recognize that legalization and strict regulation, rather than prohibition, could achieve important policy goals. A commission could learn about the Internet gaming industry and potentially develop sensible solutions for the protection of U.S. residents and businesses.

The debate on Internet gaming needs to include discussion on how regulation can reverse the current situation where monies from U.S. citizens leave the United States with no subsequent benefit, directly or indirectly, to our government or our citizens; one consequence of this is the fact that no funds are dedicated for protecting children and problem gamblers through education or other programs.

Money laundering is also a major concern today. Currently Internet gaming involves credit card transactions with a clear record of every wager. The proposed legislation, similar to Representative Leach's legislation in the House, would appoint the financial services industry as the Internet police. If credit card companies and associations decline transactions for Internet gaming, Internet gaming operators and players will be forced to use alternative payment methods. Money laundering is extremely difficult in a situation where cash is not an option and every electronic transaction is recorded. However, I would caution that a ban on credit cards and other financial instruments for Internet gaming will likely result in the development of settlement solutions that banks cannot recognize and block – anonymous e-cash.

This industry is a new phenomenon and requires thoughtful study. Some of the legal and technical issues a commission exploring potential regulatory schemes would look at, include: amending federal law, preserving states rights, cash transaction reporting practices and procedural safeguards to protect against money laundering, tax revenue sharing, random testing of games and software to ensure fairness and consumer protection, licensing requirements, background checks of qualified operators, enforcement of underage gambling statutes and methods of identifying and helping problem gamblers.

Taxation and tax preservation are major considerations for governments. Although Congress recently extended the ban on Internet taxes, it still receives revenue from companies that participate in e-commerce. However, as mentioned above, one area from which the federal and state governments are currently receiving no revenue is Internet gambling.

While many in Congress view study commissions as a strategy to delay legislation, in recent history there has not been an issue more deserving of further study than Internet gaming policy. The complexities of Internet gaming demonstrate the complexities of traditional, regulated businesses evolving to the new truly global marketplace created by the Internet.

Once again, thank you for the opportunity to testify. I have attached a one-pager summarizing some of the current issues related to Internet gaming, for the convenience of the Committee and staff.