

Growth—but not expansion—in US Internet gambling market

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Internet gambling is slowly growing—but not expanding—after 2 1/2 years of online betting in the United States.

Online gambling revenue is increasing in at least two of the three states that currently offer it—New Jersey and Delaware. The third, Nevada, doesn't report Internet revenue separately.

But a hoped-for wave of expansion has not happened as many states sit on the sidelines and assess the costs and benefits of the nascent industry.

"Internet gambling revenue in Delaware, Nevada and New Jersey badly missed initial forecasts, which themselves were overly aggressive," said

Chris Krafcik, research director for Gambling Compliance, which tracks gambling legislation nationwide.

New Jersey Gov. Chris Christie's administration, for example, had initially estimated Internet gambling would bring in \$1 billion in its first year. It did about 12 percent of that.

"The negative P.R. that resulted, fair or not, really took the wind out of the expansionary sails," Krafcik said.

San Francisco-based Gambling Compliance predicts either California or Pennsylvania will approve Internet gambling next year, followed by New York and Mississippi in subsequent years. In 2016, the group projects, nine states will consider legalizing it, though not necessarily act to approve it.

The industry still faces some nagging issues, as well as looming threats—including an effort in Congress to ban Internet gambling nationwide. The Restoration of America's Wire Act has been introduced in both chambers this year, backed by billionaire casino mogul Sheldon Adelson, and could come up for a hearing next month.

New Jersey began offering Internet gambling on Nov. 25, 2013, and took in \$122 million in its first full year. Over the first 10 months of this year, the Atlantic City casinos have already equaled that total, with their Internet gambling revenue up 17.6 percent from the same period last year.

Delaware won \$1.4 million in fiscal year 2014; \$1.8 million in 2015, and \$500,000 so far this fiscal year, which runs from July through June.

Nevada stopped reporting Internet gambling revenue as a separate item at the end of 2014. Online poker, the only brand of online gambling

Nevada offers, is just a drop in the bucket of the state's \$11 billion gambling market.

Online poker is the most popular form of Internet gambling, although the small number of states offering it has kept prize pools low. New Jersey has sought to partner with other states that might legalize it to offer larger, joint prize pools.

PokerStars, the world's largest Internet poker site, will begin operating in New Jersey in the first half of 2016, and many industry executives expect it to grow the market, though how much remains to be seen. In March, Morgan Stanley cut its estimate of the potential U.S. Internet gambling market by nearly half, pegging it at \$2.7 billion by 2020, down from an initial estimate of \$5 billion.

At first, one of the main impediments to people getting online to gamble was funding their accounts. Many credit cards wary of running afoul of a law banning banks from funding illegal Internet bets were reluctant to process transactions, but that has changed. New Jersey says MasterCard is approving 70 percent of attempted Internet gambling transactions in the state, while Visa is at 62 percent. PayPal also recently agreed to participate.

From a legal and consumer protection standpoint, Internet gambling has proven to be reliable and transparent, said David Rebeck, New Jersey's top gambling regulator. Technology to ensure a player is actually within the state's borders have reduced false rejections—initially a problem—to a negligible issue. And it's keeping most outsiders from gambling illegally: only two people were found to have successfully placed bets from outside New Jersey since 2013, Rebeck said. Officials confiscated the money in their accounts, totaling about \$1,000.

In New Jersey, Internet gambling was seen as a lifeline to Atlantic City's

struggling casinos. Less than a year after it began, four of its 12 casinos went out of business. But for those that remain, Internet gambling often makes the difference between an up or a down month.

"The market was smaller than a lot of people predicted, but the market is growing pretty nicely now," said Tom Ballance, president of the Borgata, Atlantic City's top casino and its leading online winner.

Internet gambling has generated \$6 million in earnings for the Borgata over the first three quarters of this year, Ballance said.

"In Atlantic City, \$6 million in profit is not easy to come by," he said. "We'll take that anytime."

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