

SEVENTY-NINE-NINETY-FIVE IS NO LONGER THE WINNING NUMBER

This is our follow-up editorial that takes a look at how payment solutions in the gaming industry differ from that in other industries, and what unique obstacles face this industry that aren't apparent in others... and should be!



THE UNLAWFUL GAMBLING ACT SCORES A TOUCHDOWN

Congress dealt a massive blow to US Internet gamblers in October 2006 when it passed legislation forcing US banks and credit card companies to block electronic transactions to Internet gambling businesses with immediate effect with financial penalties and even jail time for those implicated under the new Law.

Senate Majority Leader Bill Frist (R-Tenn.) attached the measure to the Safe Port Act Conference Report which had nothing whatsoever to do with this highly debated gambling legislation.

The bill also prohibits the use of checks to fund Internet gambling accounts. The bill passed 409-2 in the House of Representatives and on a voice vote in the Senate. According to Sen. Frank R. Lautenberg (D-NJ), no one on the Senate-House Conference Committee had even seen the final language of the bill. The Act is title VIII of a completely unrelated bill, the Safe Port Act, HR 4954, dealing with USA port security. It can be found on pages 213-244 of the Conference Report. It is based on the Leach and Goodlatte bills, HR 4411 and HR 4777.

"Gambling is a serious addiction that

undermines the family, dashes dreams, and frays the fabric of society," said Frist in a statement after the bill passed in the Senate. "Congress has grappled with this issue for 10 years, and during that time we've watched this shadow industry explode. For me as majority leader, the bottom line is simple: Internet gambling is illegal. Although we can't monitor every online gambler or regulate offshore gambling, we can police the financial institutions that disregard our laws."

The Washington State Gambling Commission publication on Internet gambling states that "Gambling involves three elements: prize, chance

and consideration (entry fee, wager, or anything of value). If one of these elements is removed, it is no longer a gambling activity. For example, if you pay a fee to play a game of chance (such as poker, blackjack, bingo, roulette, craps, slots, etc.) for a prize, it is a gambling activity. However, if you play these games for free (no entry fee or wager) it is not a gambling activity and is okay to play on the Internet." They further clarify that "players gambling on the Internet, whether playing poker, slots or other gambling games, run a risk of a felony conviction."

Indeed gambling is a serious addiction for some consumers, but there is nothing to prevent this same consumer from buying hoards of Power Ball Lottery tickets hoping to "win big" or going to Atlantic City and using their VISA or MasterCard (or even a cheque) at a the Taj Mahal and losing their home. They are using the same credit card they would online yet the irony is, there are better and tighter controls with online gambling including spending limit, that do not exist at physical casinos. So why is the online industry treated differently both morally and legally than physical casinos? Why did Congress not pass this 'Unlawful Gambling Act' for the brick and mortar casinos if they truly believed gambling is an addiction that 'undermined the family, dashed dreams and frayed the fabric of society?' Gambling addiction is clearly not just isolated to the Internet. That's the absurdity of all of this.

The industry I believe has been most impacted by MCC 7995 and UIGEA legislation is Bingo. There are many Wal-Mart sized bingo halls throughout the USA offering 24 hours of non-stop entertainment. Anyone can play Bingo and Churches, hospitals, and school PTAs have regular Bingo fund raisers, so why is Bingo even classified as gambling and lumped into this plethora of regulation? The answer lies squarely at the MCC coding of course. If Bingo was assigned its own MCC which was not blocked like 7995, the problem for Bingo operators would largely be solved and the requirement to implement alternative payment solutions to receive payment from consumers would no longer be important.

EWALLETS, NETELLER, FIREPAY, ECHEQUES AND ALTERNATIVE PAYMENT SOLUTIONS

2000 was the Chinese year of the Golden Dragon. It was also the year of the golden e-wallet. This was the year the online gaming industry invented digital cash, acquirers were primarily coding the transactions under MCC 6051 and issuers were happy to authorize them for the gaming industry. The industry term 'uncoded' soon followed and became the popular reference for all Resellers and merchants looking for payment solutions. eWallet companies rose up by the hundreds trying to claim their stake in the booming online gambling and adult business and so did the acquiring banks. Processing volumes were staggering. Fraud became the largest problem with these solutions and further regulation, monitoring and

compliance changes were implemented by VISA and MasterCard. Today, if you Google 'Gambling eWallets', a list of 4,600 site links display. This clearly demonstrates the continued industry demand for alternative payment solutions for online gambling.

The card issuing world has dramatically changed to accommodate issuer products and services that support virtual and prepaid card payments over the past five years. Consumer applications can be completed online with scanned KYC documents, and virtual debit and credit card numbers are generated and funded online instantly with another credit card. If you consider other online businesses including the adult industry, alternative payment solutions are not as popular because they are not necessary. Anonymity in the adult industry drives consumers to reach out to

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alternative payment solutions like PayPal, not regulation and legislation. Card issuers still authorize payment transactions for the online adult industry including illegal activities such as child pornography. Why is the US Congress not looking at ways to prohibit online payments for child porn like they do online gambling? If anyone tuned into the Oprah Winfrey Show on July 17th, 2008 they would have been shocked to learn a 13 year old boy was victim to online pedophile predators who watched him through a webcam in his bedroom. By the time the victim was 16 he had more than 1000 adult subscribers paying a monthly fee to watch him perform in live webcam sex shows. The subscribers used PayPal to deposit funds into the victim's account. PayPal is largely funded with credit cards and ACH. It was that easy. He did not get caught, but he was saved by a New York Times investigative reporter who located him in Mexico and blew the case wide open. If he had never been able to open a PayPal account

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(as a minor) in the first place chances are the extent of this illegal child porn business may have ceased.

Telemarketing is another business where out-of-control fraud continues to occur. Hundreds of millions of dollars of fraud and consumer deception has taken place over the past 8 years as the Internet has made it too easy for telemarketers to peddle their useless products like advance fee loans, credit repair services, and low interest rate credit cards online. Even though the Federal Trade Commission presented the updated Telemarketing Sales Rule changes to Congress in 2007, the fraud in this specific industry continues to astonish everyone and FTC financial penalties are lengthy reactive, not pro-active, legal actions. Merchant acquiring banks still set up telemarketing merchants even though the Card Associations classify them as very high risk with chargeback ratios reaching as high as 60%. Card issuers still authorize inbound and outbound telemarketing transactions, even those properly MCC coded. The US Region's "zero cardholder liability" compliance policies protect issuers from chargeback losses shifting the liability to the acquirer and by no means solving the problems in this industry. The US Department of Justice has a website dedicated to telemarketing and cross-border fraud (<http://www.usdoj.gov/criminal/fraud/telemarket/>) yet there is no legislation pending to 'force' financial institutions into blocking online or MO/TO credit card payments for telemarketing merchants to reduce the consumer financial losses.

The fundamental differences between all other online businesses and gambling is that consumers have the ability to earn "taxable" income from online gambling activities (as well as losing it). They do not earn income from telemarketers who rip them off. They do not earn income from watching online porn. The MCC coding is in place to identify to issuers the type of transactions the consumers are performing (at least that's the idea), and telemarketing and adult transactions have their own monitored, individual MCC codes. The fundamental difference in payment acceptance occurs at the card issuer level. Online gambling credit card transactions are blocked because of tough new Government legislation, yet land based casino transactions performed with the same credit card are not? Telemarketing merchants can happily continue to defraud low income consumers out of billions of dollars a year, yet no one is writing legislation to tackle this problem industry. And unfortunately there is nothing to prevent someone using their MasterCard to pay for online child porn because again there is no legislation to require Issuers to block these transactions, nor acquirers from setting up the merchant accounts in the first place.

So, you can't use your MasterCard online to play Bingo... But predators can use their MasterCard online to access child porn - Priceless! ■