



Testimony of:

Parry Aftab,
Executive Director of WiredSafety

House Committee on Financial Services
2129 Rayburn House Office Building
Washington, D.C. 20515

Thursday December 3rd, 2009

Hearing on "H.R. 2266, Reasonable Prudence in Regulation Act, and H.R. 2267, the Internet Gambling Regulation, Consumer Protection, and Enforcement Act"

Thank you Chairman Frank, Ranking Member Bachus and the members of the House Committee on Financial Services for giving me the opportunity to testify today on this important topic.

My name is Parry Aftab and I am the Executive Director of WiredSafety, the largest internet safety and help group in the world. WiredSafety operates entirely through its thousands of unpaid volunteers, worldwide. I founded and run the charity as an unpaid volunteer as well. WiredSafety covers all cyber-risks for digital technology users of all ages. While best known for our work in child protection and digital literacy, we protect senior citizens from scams and fraud, and adults from cyber stalking and harassment equally as often.

WiredSafety served as one of the 29 members of the Harvard Berkman Center's Internet Safety Technical Task Force (the "ISTTF") which was commissioned to render a report to the 49 of the state attorneys general on children online. I was recently appointed to serve on the 24 member working group established by an act of Congress run by the NTIA to render a report for Congress in June of 2010 on cyber safety issues impacting children. The UN and UNESCO, as well as the FTC and FCC have turned to us for advice and help.

Internet gambling is not a new issue for us. In addition to volunteering my time as Executive Director to the charity, I am also an Internet privacy and security lawyer and the author of The Parents Guide to the Internet first published in 1997. It was the first book written for parents on cyber safety and the Internet. It was designed to help parents understand the scope of the benefits and risks of Internet use by their children. The book addressed pornography, sexual predators, privacy, security and all aspects of safety, including online gambling risks. An entire chapter was devoted to online gambling and its risks to children. It was entitled "Are We Raising Riverboat Gamblers?"

The style of the book and its successor, *The Parents' Guide to Protecting Your Children in Cyberspace* (McGraw-Hill 2000), was lighter reading for the digitally-challenged parents, but the issues raised were serious. Perhaps I am best known for seeking practical and workable solutions to risks. I see cyber-risks requiring a multi-stakeholder approach, empowering parents and young people, providing law enforcement with the technology, skills and laws to enable them to keep our citizenship safe online, helping regulatory agencies and policymakers find the gaps that need to be addressed and ways to address them, enforcing best practices and risk-management from the industry, and helping our educators educate.

Minors and online gambling has been a problem since we first began our work in 1995. Even then, kids were gambling online - illegally, but gambling nonetheless. Teens would use babysitting, paper-delivery and birthday money to place bets online. Teens themselves would contact us when the websites failed to pay out, or they suspected fraud. Parents and grandparents would contact us when they discovered their teens gambling online, or wanted help keeping them away from online gambling sites. We helped them when we could; reviewing filtering and blocking technologies, reaching out to the credit card companies and phone companies used as payment intermediaries, and would sometimes even contact the sites themselves.

But minors' gambling remains a problem, as does illegal and fraudulent practices by many unregulated gambling websites. These issues range from scams and fraud perpetrated by the gamblers and those perpetrated by the website operators. Rigged games and collusion using old-fashioned and digital methods are common place among unregulated websites. There may be no safeguards against criminals from using these sites to launder money or illegally transfer funds. Problem gamblers can face enhanced problems when the websites are not using best practices to address these special issues. Online gambling abuse has become a main stream consumer issue. It is WiredSafety's role to address problems affecting our consumer constituency online. Gambling is one of those problems we must address.

After more than a decade analyzing the risks posed by unregulated internet gambling, it may be ironic but I have reached the conclusion that the best way to protect families and consumers in connection with cyber gambling is by legalizing it, not outlawing it entirely. Current laws prohibit the use of any financial institution for placing illegal online bets. But this approach won't work in isolation and can't work in a digital environment. The Internet was designed to route around obstructions. If a region were destroyed by nuclear disaster, the Internet will just reroute the communications and connections. It was, perhaps, its most important early feature. Laws are often seen as just another obstruction. They must be part of a holistic scheme that includes all stakeholders. The current approach has been to "see no evil...hear no evil." But while we pretend that online gambling is outlawed and therefore unavailable to US residents, the statistics reflect otherwise:

- It is estimated that Americans spend approximately \$6 billion per year on Internet gambling and that figure is expected to increase even under the current legal framework.
- Surveys indicate that more than 300,000 young people between 14 to 22 gamble at least once a week on the Internet, and over 700,000 do so at least once a month.
- 3.3% of male youth or more than 1 million individuals play cards online for money at least once a month.

In my chapter I addressed some of the problems of online gambling, especially for minors. Because of the nature of online financial transactions, the many unregulated industry members and often unsophisticated online gamblers, WiredSafety has over the years identified the broad range of risks related to online gambling. While all gambling is, by its nature, risky, unregulated gambling is the most risky. Frankly, we need governmental help. We will have to legislate best practices, identify the good actors and the bad, and find ways to fund awareness programs and technology. Without regulations to handle underage gambling, addictive gambling, fraud, collusion, malware and malicious code, privacy and data protection, criminal involvement, disputes and online security threats, consumers and families are on their own. That is unacceptable.

One parental control technology provider has identified thousands of online gambling websites. A simple Google search of "gambling sites" reveals 9 million hits, many of which are online gambling sites advertising a wide range of gambling opportunities.

WiredSafety has always taken the position that education is preferred to regulation. And we have learned that existing laws can often fit new technology legal needs. But in this case it appeared that help was needed from Congress. We believed that the issues warranted further study and deliberation. Earlier this year, we commissioned a comprehensive study of the risks we had identified, existing and viable regulatory schemes and the ability of technology tools to address our top concerns. Would regulation of cyber-gambling work? Is there a way to address the most crucial cyber-risks under existing laws or using alternative methods? Is it practical? Will it improve the existing situation? What can be learned from other jurisdictions? How can we improve on existing approaches? Can risks be realistically mitigated? And if so, how much?

My colleague Professor Malcolm Sparrow will discuss this study in greater detail but I want to touch on a couple of its fundamental conclusions because they speak to the protection of consumers and children which is of prime importance to WiredSafety and to me personally.

The unintended but inevitable result of the current U.S. legal approach to internet gambling is to force millions of American consumers to offshore sites out of the reach of U.S. courts and regulators and exposing U.S. citizens to significant risks without legal recourse. Prohibition isn't working here any better than it did during the days of Al Capone. People will find ways to place a bet online or try their hand at games of chance.

As a result, the United States finds itself in the unfortunate position of incurring all the social costs of online gambling while having abdicated control over the gaming sites accessed by its consumers. With unregulated internet gambling there is no one to turn to for help when the player suspects fraud, or winnings are not paid. Where can they go if their personal information is shared with others? Who will make sure these sites are following established rules or using state-of-the-art security practices and technologies? How do we keep them from attempting to lure teens to set up accounts? Or what do we tell a senior citizen whose wife has been defrauded into gambling away all their retirement savings?

The status quo offers no meaningful assurances that consumers will be protected. The most important conclusion reached by the study is that legalization and regulation of online gambling would offer significant improvements to all the risks identified. Professor Sparrow concludes that the best way to address the risks of problem and underage gambling, as well as criminal activity and fraud, is through strict and smart regulation coupled with technology.

This is particularly true when it comes to dealing with preventing minors from accessing online casinos. A common concern about legalizing online gambling is that underage access to online casinos could increase because it may be difficult to utilize age verification controls utilized by brick and mortar casinos to exclude minors. This twists the question. We are not identifying minors through age verification. We are identifying adults. And if the multi-step verification system cannot prove that the applicant is an adult, that applicant will be denied an account.

However, what we found in our research was that there are a number of technologies routinely used in other industries that were easily adaptable to online gambling sites. They are real, proven and in use today. They are also improving by the minute.

And even if the risks are not fully eradicated, they will be seriously mitigated. While nothing is foolproof, we will be better off than we are today. In contrast to unregulated sites that offer no protections against underage gambling, well regulated overseas gambling jurisdictions require online operators to verify the identity, location, and age of their customers and use existing technologies to confirm an individual's information. In addition, these technologies when coupled with a strong regulatory environment, like those that exist in places like the United Kingdom, provide reasonable success in excluding minors from gambling sites.

In conclusion, if we are going to protect consumers, we need to recognize that online gambling is a reality and growing daily. We owe it to Americans to address it intelligently. Our study and our experience supports the conclusion that the best way to address the risks associated with online gambling is developing a strong regulatory regime that protects consumers and empowers parents to protect their children from risky gambling web sites. And only Congress can do that.

Thank you again for the opportunity to testify and I look forward to your questions and any help I can provide.