Internet Gambling: Legalizing Online Sports Betting will break up Agent Credit Networks

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Several bookmaking operations have been taken down by various local law enforcement agencies in New Jersey, New York and Arizona in recent weeks. All of the busts have been the direct result of vast networks of agents exchanging cash on American soil with bettors phoning in or placing internet bets via a sportsbook set up in some offshore jurisdiction. These networks are called “credit” sportsbooks and were the original framework in which the online sports betting industry started back in the early 1990s.

Local bookies, some of which had affiliations with Mafia factions, fearing arrest moved their call centers from wire rooms throughout the United States to islands in the Caribbean and Central America. These phone rooms use to be filled with clerks that were trained to write in a form of gambling short hand on paper betting slips. The clerks would call out the bets to a person in front of them that stood on an elevated stage in front of a large chalkboard. The chalkboard was used to put the daily point spreads available for each game. Various colored sharpies were used to change the betting lines as the action poured in.

The clerks stopped writing tickets after the last game of the night started or went “off the board”. Then they would go rest, eat and in the morning come back and grade the tickets. The tickets would be proofed by another person to see if the figures matched, which was called reconciliation. The final figures were then written down next to the corresponding player account number on sheets of paper that were photocopied. Those photocopied player balance sheets were then past out the next day to all the clerks and the process started all over again.

Players would bet on credit throughout the week that ended on “settlement day” which was every Tuesday, just after Monday Night Football but the day of the week stays the same all year. The sportsbook managers would tabulate the weekly figures and pass along the player balances to agents in the United States that would pay and collect from the bettors. The only way you had access to bet on credit was to find an agent via a referral. An agent is responsible for making sure you settle your debt on your bets or would pay you out if you happened to be lucky that week. If the bettors stiffed that week, the agent was responsible for the money regardless. Let’s just say that in the old days, people use to get hurt if they could not settle their balances with agents using whatever means necessary to collect funds.

The United States government is spending millions of their citizen’s tax dollars trying to break up these networks. This is a complete waste of time and waste of valuable resources if you ask me. Law enforcement agencies should be focusing their limited resources on finding real sleeper cell networks looking to harm Americans or terrorists looking to cross the Mexican-US border in places like Arizona.

If the US government really wanted to break these vast networks of agents up, all they would need to do is regulate online sports betting and the entire internet gambling industry. Instead of regulating and taxing vice similar to what takes place in Las Vegas which has sports betting, Arizona Senator Jon Kyl and others think prohibition is the best solution. Apparently he and his colleagues did not pay attention in history class when the teacher discussed the Alcohol Prohibitions of 1920-1933 or the 21st Amendment which ended Prohibition and basically acknowledged that you cannot deny the will of the people.

Keep in mind, the internet is in a constant state of evolution and sportsbooks were among the earliest businesses to pioneer cyberspace. The sports betting industry was a direct benefactor of the technology explosion in the mid and late 1990s. What use to take 30 people one day to complete now takes seconds to figure out and the information is in real time as the bets come in online. The point spreads are all computerized and punched into software that can be viewed by millions of viewers simultaneously and lines can be managed by a staff of 5-10 people depending on the size of the operation. As technology evolved and the industry matured a new bread of bookie emerged and created the “post up” sportsbook. No longer are these establishments run by organized crime, just the opposite, college educated sportsbook operators are common, some even have MBA’s. None of which deal in cash or credit, instead they prefer having bettors send funds through credit cards and e-checks and other financial instruments.

Barney Frank was dead on when he said that Kyl’s baby, the Unlawful Internet Gambling Enforcement Act of 2006, was the “stupidest law ever passed”. Ironically, it did nothing more than cut off transparent money flows to publicly traded entities and create more cash based credit agent networks driving the industry more underground. The entire publicly traded sector pulled out of the US market on the day President George W. Bush signed the bill into law. Recently, Kyl congratulated President Bush as he bragged about wiping out over $7 billion of market capitalization from the sector as he urged the President to strictly enforce UIGEA since the 270 day enforcement review period is ending in June. Some of the $7 billion was lost by American investors, tax payers and most importantly voters.

Yes all of the operators are set up internationally, however, all of the operators I have spoke with would be willing to pay taxes in return for direct access to the US market along with fair regulations. Just like the the sportsbook industry which is evolving from a “credit” to “post” up business model, so to should the thought process of the prohibitionists in Congress and the laws of the United States of America. The World Trade Organization released a 215 page report last month declaring that the United States failed to change legislation that unfairly targets foreign internet gambling websites. While the news is a clear victory the Caribbean Island nation of Antigua & Barbuda and the industry as a whole, Washington is still resisting the WTO ruling stating that they never intended to allow internet gambling services as part of market-opening commitments it made when it signed the GATS Treaty in 1994.

Antigua's Minister for Finance and the Economy, Dr L. Errol Cort stated, “It is almost incomprehensible that the United States would take such an action in the face of an adverse dispute resolution ruling. This is going to have very severe consequences for the global free trade movement.”

Savvy private internet gambling operators that still cater to the US market have already adjusted their payment processing platforms to be able to continue to cater to the strong demand from United States citizens. The multi-billion dollar industry is growing a over 20% per year with no signs of letting up.

If the industry was regulated and taxed, which it is willing to do, 50% of the tax revenue can go to fight terrorism and the other 50% could go towards education. Seems like a win/win to me.

The United States of America was founded on the principle of no taxation without representation, remember the 1773 Boston Tea Party? Congress are you listening? The internet gambling industry needs comprehensive structures and laws that work for everyone and the current version of Barney Frank’s repeal bill (HR 2046) is inadequate if it expects to properly regulate the industry. HR 2046 asks that operators be required to put controls in place to curb underage gambling, compulsive gambling, fraud and money laundering. All of which are already in place with reputable operators that would apply for US licensure.

One of the areas where HR 2046 falls short is in allowing the Director of the Financial Crimes Enforcement Network (FinCEN) to exclusively oversee the applications requesting a license. The one man committee to exclusively grant licensure is no way to go.

“A one man approach would not work in my opinion. Just like the drug czar doesn’t work, nor will a gambling czar,” stated Russ Hawkins, Founder of MajorWager.com.

The industry overwhelmingly agrees and prefers a multi-member committee approach. Something more appropriate would be for the Director fo FinCEN to chair a committee that oversaw the applications and regulations. Nevada and New Jersey have true committee style regulations for gambling in Las Vegas and Atlantic City. This is the model to follow but the only question is: Should it be at a state of federal level and how should the tax dollars be split up? We will get to this later.

Another shortfall in HR 2046 is that sports league have the option of prohibiting bets on their particular league. All of the American based professional sports leagues have written a letter to Members of the House Financial Services Committee urging them to “reject proposals to reverse itself on this issue”. If you can bet on every sports league in Las Vegas you should be able to do it from the comfort of you own home. Somehow, I doubt Sin City would stop taking bets on the Super Bowl.

Some think that certain forms of gambling are worse than others. To those people I say that you cannot allow one form of gambling and ban another form. Sports betting is the same as black jack and poker. Some guy looking to bet the streaking Golden State Warriors to win their series against the Utah Jazz is no different than a college kid trying to qualify for a seat at the WSOP at an online poker site and neither of those two acts are any different then buying lottery tickets at the neighborhood 7eleven or playing slots at in a Indian casino in Kyl’s home state of Arizona.

At least Frank has proven to be a true Patriot like the Sons of Liberty were in 1773 when they emptied 90 tons of tea into Boston Harbor. The biggest benefactor to HR 2046 is the banking sector mainly because Barney Frank is the Chairman of the Financial Service Committee of the House of Representatives and understands the banking industry’s concerns the most. He has to appease the banking community, which was effectively done in the current draft of the bill by eliminating their liability associated to processing financial transactions relating to gambling. Let the banks focus on finding real terrorist financial networks.

Eventually, just like the 21st Amendment did to Alcohol Prohibition, we will need to let each state decide if they want to regulate and tax internet gambling. Domestic gambling establishments are already regulated on a state level but will state governments be overburdened trying to police the internet? While they do need the tax revenue from gambling due to increased demands to protect the nations infrastructure, regulating the industry would be a huge burden at the state level.

It is my opinion that the best way to enforce and regulate the internet gambling industry would be at the federal level. Current IRS filing documents already have spots designated for gambling declarations. It would be easier for banks and credit card companies to track gambling transactions in a regulated environment similar to the way they already track dividend payments from capital gains earned in the stock market. Instead of using the 7995 code to block gambling transactions on credit cards, use it to track them for taxation purposes.

I still think the states should get a piece of the tax pie if they will allow their residences to legally gambling online.

The one constant in everything that has happened since the arrest of BETonSPORTS CEO David Carruthers in July 2006 is that the US government has only gone after credit sports betting businesses and agent networks. Something the Bodog's and Sportingbet’s of the industry have never touched.

“I think if the online sports betting industry really wants to get serious, credit betting will be eliminated,” stated Christopher Costigan of Gambling911.com. “What we are seeing now is a domino effect. Guys on the credit side who are collecting and transferring money within the States are getting pinched, then ratting on each other. It sets a bad precedent and not only are we seeing guys getting arrested, there are also reports of agents owing books big money, in the millions as a collective whole.”

There is no question that sportsbooks and agents who were in the credit business were doing at least a portion of their p/c “paying/collecting” also known as settling every Tuesday using NETeller. Hence the reason the two founders, Stephen Lawrence and John Lefebrve were arrested in January 2007 and charged with money laundering and tax evasion. Both men were released on $5 million dollar bonds with their next trial date is set for May 16th, 2007.

Another reason the credit shops are targeted is that they are just easy targets, easy to get your hands on agents in the US who rollover and its an easy prosecution given that the money changes hands in the US. All agents have sheets at multiple “credit” sportsbooks. When the Feds roll up a network of agents for one investigation they always get inside information on others so it sort of sets off a domino effect. The agents invariably sing like a jay bird.

If you use history as the crystal ball of the future, the guys who should be worrying right now are the guys who are currently still promoting “credit” betting or operations that were previously involved in credit sports betting in the United States. You want proof of this, just look at the way the Department of Justice failed to act when Sportingbet plc Chairman Peter Dicks was detained in New York. Sportingbet has never been in the credit sports betting business, yet at that time they were the biggest US facing sports betting operation in the world. Not only was Dicks allowed to leave the country without being charged with a federal crime, but the state of New York refused to extradite him to Louisiana to face a state internet gaming charge. Anyone who thinks this is a coincidence is not reading the tea leaves right.

“Credit betting is in the blood of many old school offshore bookies, so it is a tough habit to break," stated Costigan.

I agree with Costigan but the good news is the phone rooms are fading and the power of technology has slowly taking its toll on the old school bookmakers. They are a dying breed and the industry is in a current state of hyper evolution. Only the smartest brands will emerge and hopefully the guys still dealing credit will take this as a wake up call.