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January 2, 2015

RE: New Jersey Internet Gaming One Year Anniversary – Achievements to Date and Goals for the Future

New Jersey has reached the one year anniversary of successfully regulating online gaming. On February 26, 2013, Governor Chris Christie signed legislation permitting Internet gambling in New Jersey. The New Jersey Division of Gaming Enforcement was tasked with implementing regulations and performing licensing and technical investigations for this newly approved industry. While Nevada and Delaware decided to offer only more limited forms of Internet gaming, New Jersey's plan for both poker and casino games platforms would be the most comprehensive regulated Internet gaming program in the country. The Division accomplished this unprecedented task in nine months as authorized platforms went live on November 25, 2013.

Even one year into the process with the experience which has been gained, Internet gaming is still in its early stages of development and the industry and the regulators continue to learn from each other. From a regulatory standpoint, our system is working. There have been no major infractions or meltdowns or any systematic regulatory failures that would make anyone doubt the integrity of operations. The issues that have

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arisen have been dealt with appropriately just like in the brick-and-mortar casinos. However, we are far from out of the woods; we must continue to be vigilant and ready to take on new challenges as they come our way.

History and Statistics

After the Internet gaming legislation was signed into law on February 26, 2013, the Division's regulations became effective on October 21, 2013. Amendments were then adopted with an effective date of October 28, 2013. Internet gaming soft play launched November 21, 2013 with full Internet gaming operations commencing on November 25, 2013.

New Jersey's Internet gaming operations commenced with seven active Internet gaming permit holders (Resorts as of yet has no platform). By the launch of soft play, the Division's slot lab tested and approved 253 games for play on a total of 16 authorized URLs.

For most of the year, each Internet gaming permit holder was associated with one active Internet gaming platform provider. Originally, each permit holder was only permitted one platform provider to facilitate the completion of all the required licensing and technical reviews by the November launch date. However, once the launch was completed and operations were running smoothly, the Division decided to permit multiple platforms for each permit holder with a limitation of five "skins" or brands per permit.

Internet gaming operations in New Jersey have continued to evolve throughout the year. There are now approximately 423 authorized games. Since Internet gaming operations began in late November 2014, Internet gaming permit holders Caesars, Borgata, Tropicana, and Golden Nugget have offered online gaming on a continuous basis. While Taj Mahal platform provider Ultimate Gaming ceased operations in New Jersey on September 21, Betfair transferred its operations from Trump Plaza to permit holder Golden Nugget on November 20. Pala Interactive was approved for full-time Internet gaming operations as a Borgata platform provider on November 22. As with any

nascent industry, changes and adjustments are a normal and expected part of doing business. The Division looks forward to continuing to work with the permit holders and operators as New Jersey's Internet gaming operations mature.

Accounts Created

Two days after soft play ended and full operations had commenced, as of November 27, 2013, 32,319 accounts had been created. A little over a month later, by December 29, 2013, that number rose to 126,231. The number of accounts has continued to increase each month with 506,172 accounts created as of November 30, 2014.

Revenue

According to a University of Las Vegas Center for Gaming Research study, New Jersey online gaming accounts for over 90% of the legal U.S. online gaming revenue. Although Nevada and Delaware started Internet gaming operations several months before New Jersey, New Jersey's authorized Internet sites, from January 2014 through October 2014, generated \$25 million or 75% of the total Internet poker revenue in the U.S. They also generated \$78 million or 98% of all Internet non-poker casino revenue. From the inception of New Jersey's Internet gaming operations on November 21, 2013 through November 30, 2014, Internet gaming win was \$120.5 million.

Lessons Learned

One surprise from a regulatory perspective was how operationally unprepared the platforms were to implement Internet gaming in a regulated U.S. environment. They thought they would be able to flip a switch and start up their current system here. They quickly found out that was not going to happen. There was definitely a learning curve for the operators to adjust to our regulatory framework but that has improved dramatically. Companies adapted to our new model which we believe has helped improve the industry and raised its standards.

The Division had to ensure that sufficient guidelines were applied for the “Know your customer” (KYC) process. This process ensures that patron identities are known and that the players are old enough to gamble in New Jersey. To date, this system has been working very well with no evidence that underage individuals have been able to establish accounts.

The Division also regularly monitors issues handled by customer service at the platform providers. Furthermore, as May 1, 2014, the Division required that all employees of platform providers performing customer service and fraud detection related functions and with access to confidential player information be located in New Jersey.

Geolocation

Ensuring that all play on authorized websites occurs only within the borders of New Jersey is a critical component of New Jersey’s online gaming operations. Geolocation technology enables operators to determine where someone is playing within the state and to block those trying to gain access from outside New Jersey’s borders. The Division has worked with the geolocation vendors and casinos to enhance the technology to make it more accurate and reliable and to reduce false negatives. Additionally, the geolocation vendors have provided more detailed information to the casinos whenever a patron fails geolocation; this information is used by the casinos to help customers resolve geolocation problems. We are always in discussion with the industry for improvement, and there have been great strides in enhancing geolocation protocols. Currently, geolocation has approximately a 98% success rate.

Payment Processing

The Division has been in discussions with the New Jersey Department of Banking and Insurance and the U.S. Office of the Comptroller of the Currency (OCC) to address the difficulties related to payment processing. Most recent statistics indicate that about 73% of Visa and 44% of Mastercard transactions are approved. A new credit card code has been created for legal online gambling transactions and it is expected to be in effect spring of 2015. It should also be noted that the rate of chargebacks for Internet gaming

is actually less than it is for retail transactions. In addition to increased credit card transaction acceptance rates, payment processing companies such as Neteller are approved to do business with New Jersey Internet casinos and provide convenient and secure methods to fund Internet gaming accounts. As the banking industry becomes more familiar with legalized Internet gaming and patrons become more educated about the various options for funding their accounts, further improvements are expected in this area.

Monitoring

The Division's technical monitoring of Internet gaming systems is unparalleled. The Division has developed monitoring tools that allow us to evaluate activity across all the platforms and quickly determine anomalies that need to be investigated. This type of comprehensive monitoring across platforms is unique to New Jersey. Recent cases have identified possible issues before anyone else was aware and the Division has taken swift action to determine the cause of the issue and the manner in which it will be addressed.

Financial Auditing

The Division has a financial team that is currently auditing to 100%. At this early stage of online gaming, the Division needs to ensure that we have a firm grasp on all variances and their causes. At this point in the learning curve, the Division's reviews are extraordinarily thorough to make sure all financial reporting is as accurate as possible.

Fraud Alerts

The Division has mechanisms in place to detect and fight payment fraud. For example, Internet gaming patron Diana Zolla was arrested on April 30, 2014, by New Jersey State Police and charged with theft by deception for attempting to claim her identity was stolen and that she was not responsible for almost \$10,000 worth of credit card charges and banking fees on her Internet gaming account. An investigation by the State Police

Casino Gaming Bureau, Financial Crimes Unit, revealed she had actually made the charges herself.

Marketing Affiliates / Illegal Sites

Recognizing that affiliate marketing companies are important to the growth of Internet gaming, the Division in June issued additional licensing guidance regarding their operations. Affiliates are licensed according to the way in which the affiliate is compensated. Those with flat fee arrangements and directing Internet traffic to specific websites only require a vendor registration. Those with revenue sharing agreements where compensation is tied to player activity require an ancillary casino service industry enterprise license.

The Division also took action in April by sending cease-and-desist letters to affiliates that were promoting illegal Internet gaming websites along with New Jersey's authorized sites. Efforts in this area are ongoing as online patrons should not be fooled by the promotion of illegal sites in connection with our legal sites and illegal sites should not profit from association with our regulated online gaming industry. Staff will continue to address with the marketing affiliates, recommendations related to improving services to consumers in this new regulated market.

Poker vs Casino Games

At the launch of Internet gaming in New Jersey, there was a perception that online poker would predominate over slots and other online games. This prediction has not been correct. From inception through November 30, 2014, poker accounts for only 25% of New Jersey's Internet revenue while the remaining 75% consists of other authorized casino games. Not all of New Jersey's platforms offer poker, but the percentage breakdown for revenue on platforms that offer both poker and casino games is approximately 40% poker and 60% other authorized games. This presents an opportunity for creators of online games to introduce their products to New Jersey gaming operators.

Responsible Gaming

The Division is very sensitive to the issues of responsible gaming. We understand that while gambling is fun and a form of entertainment for most people, it can result in serious addiction for some individuals. The Division is confident that proper technical solutions are in place to allow patrons to engage in Internet gaming responsibly. In addition to those technical requirements, the regulations mandate Internet gaming permit holders to pay \$250,000 annually to be utilized by compulsive gambling programs in the state. Other changes in responsible gaming regulations this year include legislation (Bill A244) which was passed July 30, 2014. This legislation removed from the self-exclusion sign up process any admission of problem gambling activity.

All Internet gaming platform providers are required by regulation to implement various responsible gaming features. Similar to brick-and-mortar casinos, patrons are able to exclude themselves from Internet gaming. Technology is used to verify exclusion status during registration and prior to each log in. Required notifications as to 1-800-GAMBLER are presented during registration, log in and log out, as well as from the player protection page. Mandated features remind patrons of how much time they have played during one session which prevents losing track of time and serves as a “reality” check. Patrons are limited to one account per website gaming brand and have the ability to establish several types of responsible gaming limits or suspend play at any time. Patrons are prohibited from relaxing limits until after the existing limit expires.

Systems must contain logic to identify and report potential problem gamblers to the licensee. Casino permit holders are required to maintain a record of all actions taken regarding patrons identified by the system. A mandatory player protection feature is required once a patron’s cumulative deposits exceed \$2,500. Once triggered, the patron is required to acknowledge that he or she has the ability to set the responsible gaming limits discussed above and that 1-800-GAMBLER is available for help. Once met, this notification is enforced annually thereafter. The system provides an on-demand activity statement for a minimum of 180 days of patron gaming activity, and Internet gaming platforms must maintain all records of patron activity for at least ten years.

In addition to all the required responsible gaming features outlined above, New Jersey statute N.J.S.A 5:12-95.18 requires a study to be published on an annual basis to review the impact of Internet gaming in New Jersey. The Division has entered into a memorandum of agreement with Rutgers University and the Department of Human Services to produce four annual reports. The first of these reports is expected in early 2015.

Further, it is anticipated that by the end of January 2015, New Jersey citizens will be able to register for online gaming self-exclusion from the Division of Gaming Enforcement web page at www.njdge.org. Individuals interested in self-exclusion can simply visit the Division's web page to complete the process, instead of physically appearing at a Division office or having to create an online gaming account for self-exclusion. A verification quiz will be generated for citizens to confirm their identity. Initially, this option will be for online only self-exclusions. As of December 1, 2014, 775 online only self-exclusions had been registered either in person or through online gaming accounts.

New Jersey's policies have proven to be in the forefront of responsible gaming regulation. Keith Whyte, head of the National Council for Compulsive Gambling, conducted a survey which showed that New Jersey by far had the most comprehensive responsible gaming policies of all the states with authorized Internet gaming. We always strive, however, to improve, and after consulting with the Council and Mr. Whyte, the Division implemented temporary regulations effective on September 22, 2014, that make our responsible gaming requirements even more comprehensive. These new regulations address areas such as additional information regarding how to reach out for problem gambling assistance and practical tips for staying within safe limits. They also require operators to implement problem gaming training for all of their employees. All Internet gaming platform providers have to implement the requirements in order to be approved to operate in New Jersey. The Division aggressively enforces these regulations, and the sanctions for any violations are handled on a case-by-case basis.

Additional Regulatory Changes

The Division has also implemented regulations that permit expanded uses of Internet gaming accounts. Patrons can now fund social gaming and merchandise purchases from their online accounts. The Division has also clarified rules regarding celebrity endorsements.

Looking Forward

An important area for the future of Internet gaming is Interstate/International compacts. This type of cooperation between jurisdictions is very important for building liquidity in peer-to-peer games such as poker. The legislation that authorized Internet gaming specifically permits the Division to enter into multi-jurisdictional agreements. The Division has been in discussions with other jurisdictions, such as Nevada and the United Kingdom, but no compacts have been entered to date. The Division is open to discussions in this area and always seeks to ensure that any agreements are most beneficial to New Jersey's Internet gaming industry.

In 2015, the Internet gaming industry will be permitted to build data centers outside of casino facilities as long as they are within Atlantic City. As the industry matures, having the most up-to-date and advanced data storage technologies and facilities will be of utmost importance. Other areas for action in 2015 are the implementation of an approved Division seal for use on New Jersey's authorized websites and continued discussions with the United States Department of Treasury, Financial Crimes Enforcement Network to identify and implement best practices to prevent fraud and money laundering activities. Down the road, there might be advances in biometric technology that can even further enhance the security of patron accounts. Other possibilities for Division regulation include online lotteries as technology expands.

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