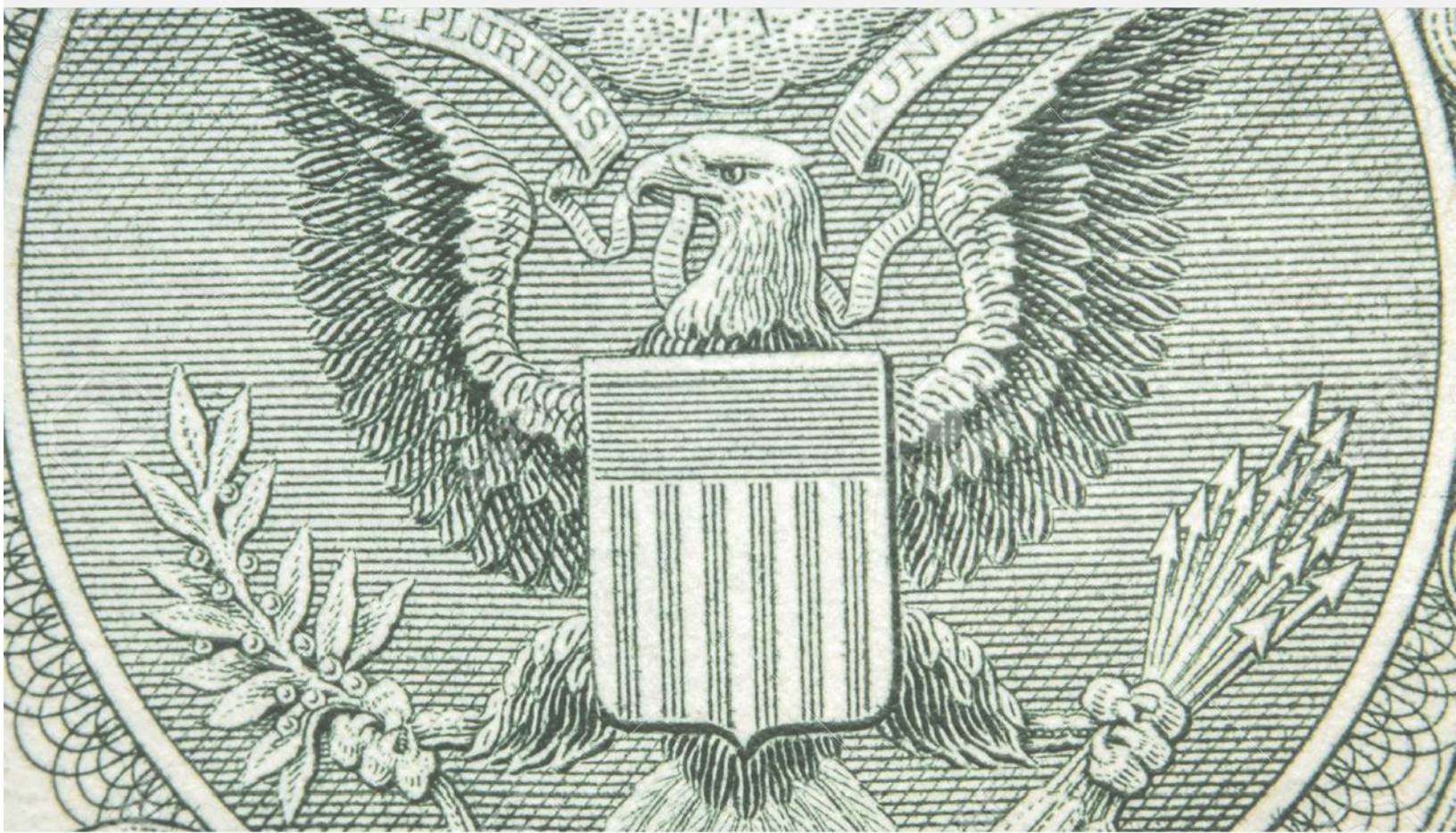


Internet Gambling: Expansion on the Horizon



The coronavirus pandemic has changed the way we use the internet. Whether it's remote work, online shopping, online learning or remote health care, new methods and changes in consumer behaviors will likely continue after the virus has run its course. Internet gambling is another area that may soon see a COVID-19 bump.

Most states do not allow internet gambling. Of the 44 states with lotteries, only 11 allow some form of internet play, either permitting lottery tickets to be sold over the internet or offering online lottery subscriptions. Of the 25 states with commercial casino gambling, internet gambling (that is, traditional casino games played electronically over the internet, usually distinct from online sports betting) is only available in Delaware, Nevada, New Jersey, Pennsylvania and the U.S. Virgin Islands. Michigan and West Virginia have recently legalized iGaming but are not yet offering it. While there are only a handful of states that have considered iGaming or iLottery measures during coronavirus-dominated 2020 sessions, there are signs that a shift may be underway.

One of the primary reasons that legal gambling has been slow to embrace the internet despite a sizable online gambling black market, is a fear that online gambling would rob brick-and-mortar casinos and surrounding establishments of visitors and revenue. This fear no longer appears to be widespread across the casino industry, and many stakeholders now point to evidence that internet gambling will actually help casinos. Those who are more inclined to bet online tend to be younger and are not necessarily active casinogoers; iGaming may offer an opportunity to appeal to a broader market.

On recent webinars hosted by the National Council of Legislators from Gaming States, industry representatives expressed confidence that online gambling would benefit brick-and-mortar casinos rather than cannibalize their revenues. Thomas Winter of the Golden Nugget, a land-based casino chain that also runs an online gaming platform, called this fear a misconception. Jay Snowden of Penn National Gaming pointed to the increase in both traditional casino revenue and online gambling revenues in New Jersey and Pennsylvania after the introduction of iGaming in those states as potentially indicative of its win-win nature.

The widespread adoption of sports betting may also be helping to pave the way for iGaming. Since the Professional and Amateur Sports Protection Act was struck down in 2018, 22 states and the District of Columbia have approved sports betting. In 12 states, intrastate mobile sports betting has been implemented or authorized, so bettors can place bets from their phone or computer. While states have largely approached mobile sports betting in isolation, the move to expanded iGaming seems inevitable given this new inconsistency. Why allow people to bet on sports over the internet but prohibit them from playing internet poker or buying lottery tickets?

For states, however, the more enticing justification for internet gambling is likely to be the potential boost it could give to struggling state budgets, and the states that have authorized mobile sports betting have shown promising early results. In New Jersey, where sports betting brought in roughly \$43 million in tax revenue, mobile betting has accounted for roughly 80% of the total amount wagered in the state. In Indiana, which launched sports betting at the start of 2020, revenue from mobile sports betting was 81.3% of total handle in March, before the pandemic; in July, it rose to 91%, despite all physical casinos reopening in mid-June.

The size of the U.S. online gaming market is generally estimated to be in the tens of billions of dollars, and the revenue potential exceeds that of sports betting, which is generally a low-margin venture.

iGaming is also partially immune to pandemics. When casinos across the country were forced to shut their doors, the states that had adopted various forms of internet gaming were still able to keep bringing in revenue, albeit at a reduced rate. Gambling only represents around 2% to 2.5% of state budgets, on average, and revenues from expanded gambling are not enough to fill significant budget gaps and often fail to keep pace with state spending. Nevertheless, it is generally easier to raise excise taxes than broad-based taxes, and expanded gambling is often a relatively low-hanging fruit when states need to shore up their budgets. At least eight states expanded gambling to plug budget shortfalls created by the Great Recession.

Nationwide, in the few states that offer it, iGaming brought in \$402.7 million in gross gaming revenue during the second quarter of 2020, a 253% year-over-year increase and a more productive quarter than national sports betting operations have had to date, according to the American Gaming Association. In Pennsylvania, for example, iGaming brought in \$64.4 million in state tax revenue during fiscal year 2020 compared with \$49.7 million in state sports betting collections. States that have recently turned to iLottery saw record revenues leading up to the pandemic, and lottery directors in states across the country are clamoring for internet lottery ticket purchases and online lottery games.

Of course, while expanded internet gaming may benefit the gambling industry and state revenue collections, there are still concerns over whether making gambling opportunities so readily available will lead to increased gambling addiction. Minnesota, for example, began selling lottery tickets online in 2014 only to suspend sales the next year after opponents raised concerns about predatory gambling. There are technologies internet gaming operators can use to mitigate problem gambling, such as transactional controls and betting limits, “know your customer” protocols that require players go through an age/identification process, and self-exclusion programs that problem gamblers can place themselves in. None of these are bulletproof preventative measures, however. The most recent responsible gaming report for New Jersey’s Division of Gaming Enforcement noted that uptake of voluntary responsible gaming protocols among online gamblers was declining and that lengthier, overnight online gambling sessions were increasing. The National Council on Problem Gambling reported that the average per capita allocation for problem gambling prevention was only 23 cents in 2016, so the shift toward internet gambling may warrant a renewed focus on problem gambling measures and additional educational outreach.

With many states facing revenue declines in FY 2021, the proponents of online gambling will be promoting it as part of the potential fiscal solution. All bets are off on whether there will soon be a sea change.

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