



# Online Gambling Booms, But Credit Card Acceptance Lags

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Published January 24, 2014

[CreditCards.com](http://CreditCards.com)

Legalized gambling is surging. Credit and debit card use has reached an all-time high. But trying to use your cards to gamble? Odds are, you'll have a tough time.

In an era when you can use the plastic in your wallet to pay for just about anything, banks are staying cautious about allowing their customers to rack up charges at online and brick-and-mortar casinos. They worry about the liability associated with fueling gambling addiction and running afoul of government regulations, and many of their practices are holdovers from when "online gambling" was a synonym for "shady offshore casino."

Today, though, legalized online gambling is on the upswing. Nevada, Delaware and New Jersey regulators allowed online casinos to open in 2013, and other states -- California, Pennsylvania, New York and Illinois among them -- have discussed the idea and could consider it in 2014. Some members of Congress have even introduced bills to legalize online poker nationally.

Americans are also spending more at traditional casinos: an estimated \$37 billion in 2012, up 5 percent over the prior year and second only to the pre-recession year of 2007.

Yet casino operators worry that the continued reluctance of banks to process gambling transactions could inhibit the industry's potential.

"Of course it could impact the growth of this business -- there's no doubt about it," says Tom Pohlman, executive vice president and general manager of Golden Nugget Atlantic City.

## **Without credit cards, Jersey gambling stalls**

The take from online tables in New Jersey, which opened in November 2013, has been badly impacted by the lack of credit card cooperation. In the first five weeks of Internet gambling in New Jersey, [online casinos took in just \\$8.4 million](#), far below state estimates, according to the state's Division of Gaming Enforcement.

Pohlman and others in the industry are optimistic that as legalized online gambling spreads, banks will re-examine their policies and allow the transactions, which would give players the ability to easily fund accounts at online casinos. For now, most of the alternatives to fund gaming accounts are more cumbersome: sending in personal checks, bank transfers and ACH withdrawals.

Since his casino began offering online gambling in November 2013, about one-third of all credit and debit card transactions have been declined by the banks, he says. He adds he has heard that industrywide, about 70 percent of Visa transactions and 25 percent of MasterCard transactions are declined. Although those numbers might sound high, because most customers own multiple cards, only about 15 percent to 20 percent of customers are unable to use cards at Golden Nugget.

### **Shifting legal landscape**

The growth of legal online gambling is coming about because of a new interpretation of federal law. For years, the Justice Department held that processing financial transactions for online betting sites violated the Wire Act of 1961 and the Unlawful Internet Gambling Enforcement Act of 2006 ([UIGEA](#)). Although some of the wording is open to interpretation, the feds relied on those laws to prosecute online poker operators.

But then, in 2011, the Justice Department reversed course, ruling that federal law does not prohibit online gambling within states. That cleared the way for Nevada, New Jersey and Delaware to start offering online gambling.

In each state, the online gambling is limited to people in that state. In some cases, gamblers must fill out forms that show an address in the state; others rely on technology that shows where players are physically located.

But because the law, the technologies and the regulations are still relatively new, some banks are reluctant to assume a leading role in processing gambling transactions.

A Bank of America spokeswoman told CreditCards.com: "Credit and debit cards can be used for in-person gaming purchases, but not currently for Internet gaming purchases." A Wells Fargo spokeswoman said that to comply with the UIGEA, "we prohibit the use of consumer credit cards for Internet gambling. The networks (Visa, MasterCard and American Express) monitor the merchant category codes and block charges that don't comply with federal regulations. We also have controls in place as an issuer to monitor for regulatory compliance."

### **Merchant code blocks transactions**

At least some of the issue, it seems, stems from the [Merchant Category Codes](#) that banks assign to each merchant. For instance, MasterCard has traditionally assigned online gaming operators the code 7995, which also covers lottery tickets, casino chips and racetrack wagers -- categories for which banks routinely block transactions. But it also has a newer code -- 9754 -- that can be used for cash advances for legal gambling.

Gambling industry officials hope that as banks and transaction processors become more comfortable with legal online gambling, they can iron out some of these problems.

"Now that you have legal, regulated online gaming in these three jurisdictions, it's just working out the details between the credit card companies and the banks and their compliance departments to make sure the proper coding is being used," says Whitaker Askew, vice president of government affairs with the American Gaming Association.

But others say it's more than just an issue of proper coding. Chris Grove, editor of the industry publication Online Poker Report, says some banks fear becoming complicit in bets that violate the regulations on, say, daily betting-account deposit limits or the requirement that bettors be located in the state where they are betting.

"If you're a bank, you're worried that someone uses your card to fund a transaction they shouldn't fund or place wagers they shouldn't place," Grove says. "The fear on the part of banks is, what happens if their cards are used to fund a wager that's in violation of the rules?"

Still, Grove says he thinks most banks will eventually remove their objections as online gaming becomes more established.

### **Looking for alternatives**

Still, some casinos aren't waiting. Instead, they're creating innovative work-arounds.

In New Jersey, regulators have approved [digital wallet](#) provider Skrill as an acceptable way to fund accounts at online casinos. Skrill, a mobile payments smartphone app, can be loaded with a credit or debit card or linked to a bank account.

Another option: prepaid cards. Golden Nugget, for instance, has begun offering the [Golden Nugget Prepaid Card](#), issued by Sutton Bank and powered on the Discover network. Customers can load the card using a credit or debit card, then use it to play online. Should they win money, their winnings can be credited back to the card.

The [increased popularity of prepaid cards](#) in general is also reflected in land-based casinos, which are looking to add convenience for their customers. The Golden Nugget card was devised by Sightline Payments, which develops cashless-gaming products, such as prepaid and loyalty cards for casinos. Its prepaid cards last year won an industry award for the "Most Innovative Gaming Technology Product of the Year," with one of the judges saying, "The removal of coins from the casino floor was a monumental step forward, and the next logical step will be to remove the cash and tickets."

Although the technology exists to be able to swipe credit or debit cards at, say, slot machines, gaming regulations forbid it. But using a casino's prepaid or loyalty card? No problem.

Now, online casinos are seeing an advantage to prepaid cards, too.

"There is a massive financial incentive for casinos to find ways to get money into an online account with relatively little friction," Grove says.

### **Effect on gambling addiction**

While gambling-industry officials hope the banks change their policies to smooth the growth of online casinos, critics worry about the effect on gambling addicts. States have imposed regulations to protect gamblers from financial ruin. For instance, in New Jersey, once contributions to a gambler's online account reach \$2,500, the casino must block bets until the gambler acknowledges that that amount has been reached. Some online casinos also limit the amounts players can contribute to their accounts, or at least allow players to impose those limits before gambling.

But Les Bernal, national director of the advocacy group Stop Predatory Gambling, says those restrictions do little to stop problem gamblers from being preyed upon by "predatory" casinos and their enablers.

"Their business model is based on people who are addicted or are in the process of getting addicted," he says. "If you're a bank in this business, you're essentially profiting from blood money."

Bernal says his group is considering lawsuits against casinos, accusing them of deceptive practices that encourage gambling addiction.