Online Poker and its Regulation
Québec, Canada and Elsewhere

10th September 2014

Conference Series on Gambling

Concordia University

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Backdrop

- The online poker market is by now in a mature state

- However, regulation of online poker is still in its infancy

- There are three general approaches of regulation
  1. Prohibition
  2. State monopoly
  3. Licensing system
  4. Free market

- How does each approach affect the market?

- Which role plays law enforcement?

- Which approach serves regulators' interests the best? (and what are regulators' interests?)

Agenda

- The Online Poker Database of the University of Hamburg (OPD-UHH)

- The market for online poker 2010 and 2013
    1. World
    2. Canada
    3. Québec

- Playing Habits of online poker players and concentration of demand

- Reasons to regulate online poker

- Evaluating regulatory approaches (and the role of law enforcement)
    1. Prohibition
    2. State monopoly
    3. Licensing system

- Parameters of a licensing approach

- Conclusion

Key Elements of OPD-UHH

|	2009/2010	2013
Data collection period	07/09 – 03/10	03/13 – 09/13
Observed player identities	4,591,298	2,909,562
Observed operators	PokerStars.com	PokerStars.eu
	Full Tilt Poker	PokerStars.it
	Everest Poker	PokerStars.es
	IPN (Boss Media)	PokerStars.fr
	Cake Poker	Lock Poker (Revolution Network)
Observed market share	64.72%	57.30%
Observation frequency	Every 10 minutes	Every 10 minutes
Important variables	Players' origin	Players' origin
	Number of sessions	Number of sessions
	Session length	Session length
	Total playing time	Total playing time
	Multitabling	Multitabling
	Playing volume in US$	Playing volume in US$
		SNG entries
		MTT entries
		SNG buyin
		MTT buyin

Usage of OPD-UHH

- Deemed "most reliable data source on online poker"
- Academic usage
  - PhD thesis
  - 8 peer reviewed academic articles
  - 5 non-peer reviewed academic articles
  - 7 presentations on (inter-)national conferences

- Informing the regulator and other stakeholders
  - Two reports for the German government
  - 12 presentations on workshops and conferences
  - 3 market analysis reports
  - Dozens of media articles, radio and TV features
  - Data used by
    - European Parliament
    - German gambling regulator
    - German Council on Gambling Addiction
    - Québec's Working Group on Online Gambling
    - Québec's Ministry of Finance

Key Figures Online Poker Market

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Key Figures Global Market 2010-2013
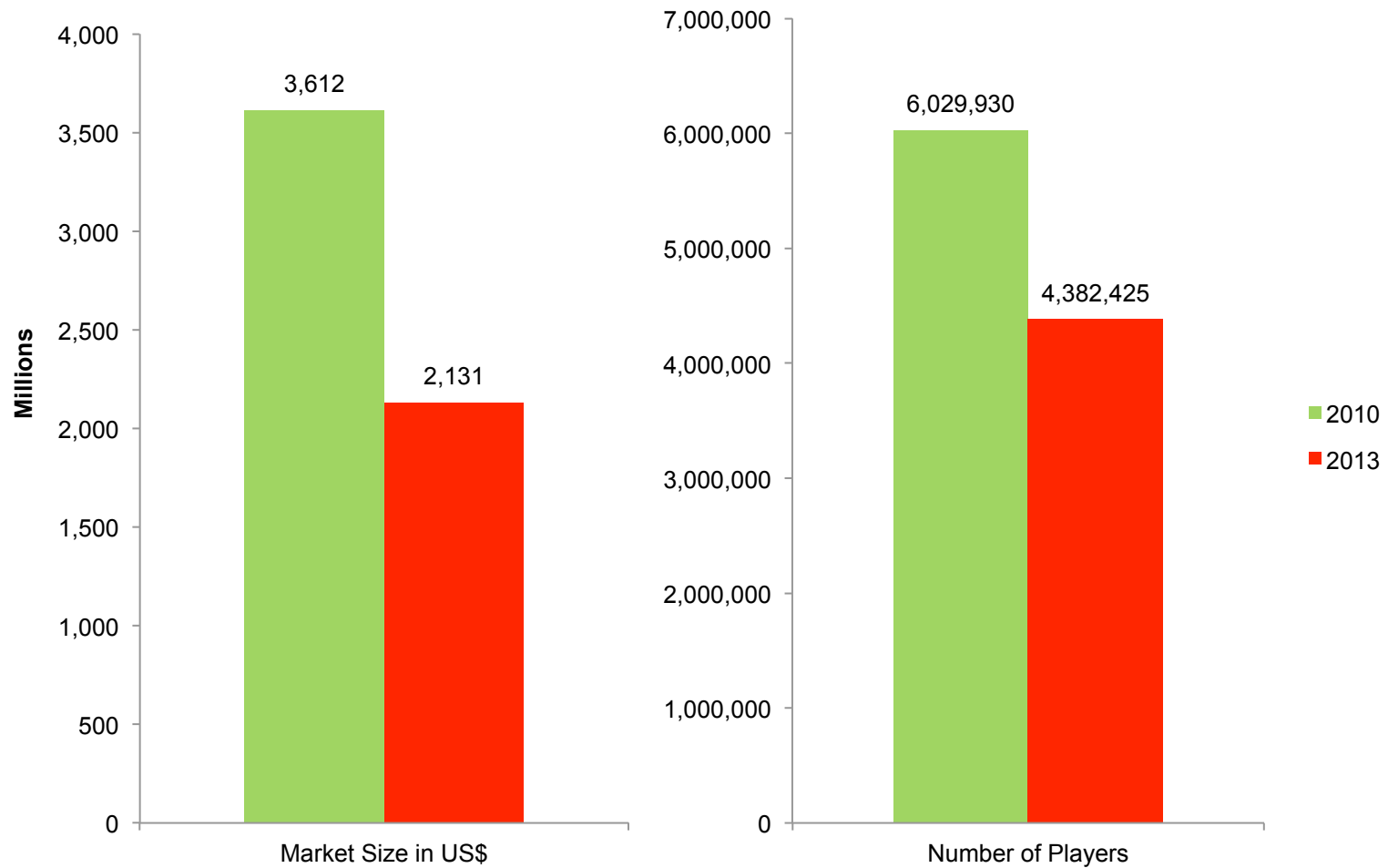
Key Figures Country Breakdown 2010-2013

| Country	# Players		Players/Internet Users		Market Size in Mio. US$		$ per Player	
	2010	**2013**	**2010**	**2013**	**2010**	**2013**	**2010**	**2013**
USA	1,429,943	87,309	0.60%	0.03%	973.3	30.78	680.66	352.59
Germany	581,350	345,430	0.91%	0.51%	391.94	159.66	674.19	462.21
France	445,860	477,794	1.00%	0.88%	187.35	223.16	420.20	467.07
Russia	401,701	522,728	0.53%	0.69%	235.12	269.73	585.31	516.01
Canada	345,971	252,118	1.03%	0.85%	219.63	143.06	634.82	567.43
United Kingdom	269,247	216,250	0.41%	0.39%	159.72	114.23	593.21	528.21
Spain	263,043	253,676	0.68%	0.75%	117.07	68.26	445.06	269.08
Italy	85,504	358,379	0.22%	1.01%	40.38	212.12	472.26	591.89

Regional Breakdown: Canada

Region	Market Size in US $ 2010	Market Size in US$ 2013	Market Share Region	State "Monopoly" in 2013?
Newfoundland and Labrador	1,383,244	886,972	0.62%	
Prince Edward Island	742,767	472,098	0.33%	
Nova Scotia	2,633,682	1,688,109	1.18%	
New Brunswick	2,741,930	1,759,639	1.23%	
Quebec	41,662,904	26,709,315	18.67%	X
Ontario	84,152,454	53,962,257	37.72%	
Manitoba	7,174,636	4,606,534	3.22%	X
Saskatchewan	6,740,883	4,320,414	3.02%	
Alberta	36,472,697	23,390,321	16.35%	
British Columbia	38,667,806	24,792,310	17.33%	X
Yukon	306,996	200,284	0.14%	
Northwest Territory	259,176	171,672	0.12%	
Nunavut	163,182	100,142	0.07%	
Total Canada	**219,627,096**	**143,060,067**	**100,00%**	

Key Figures Playing Habits

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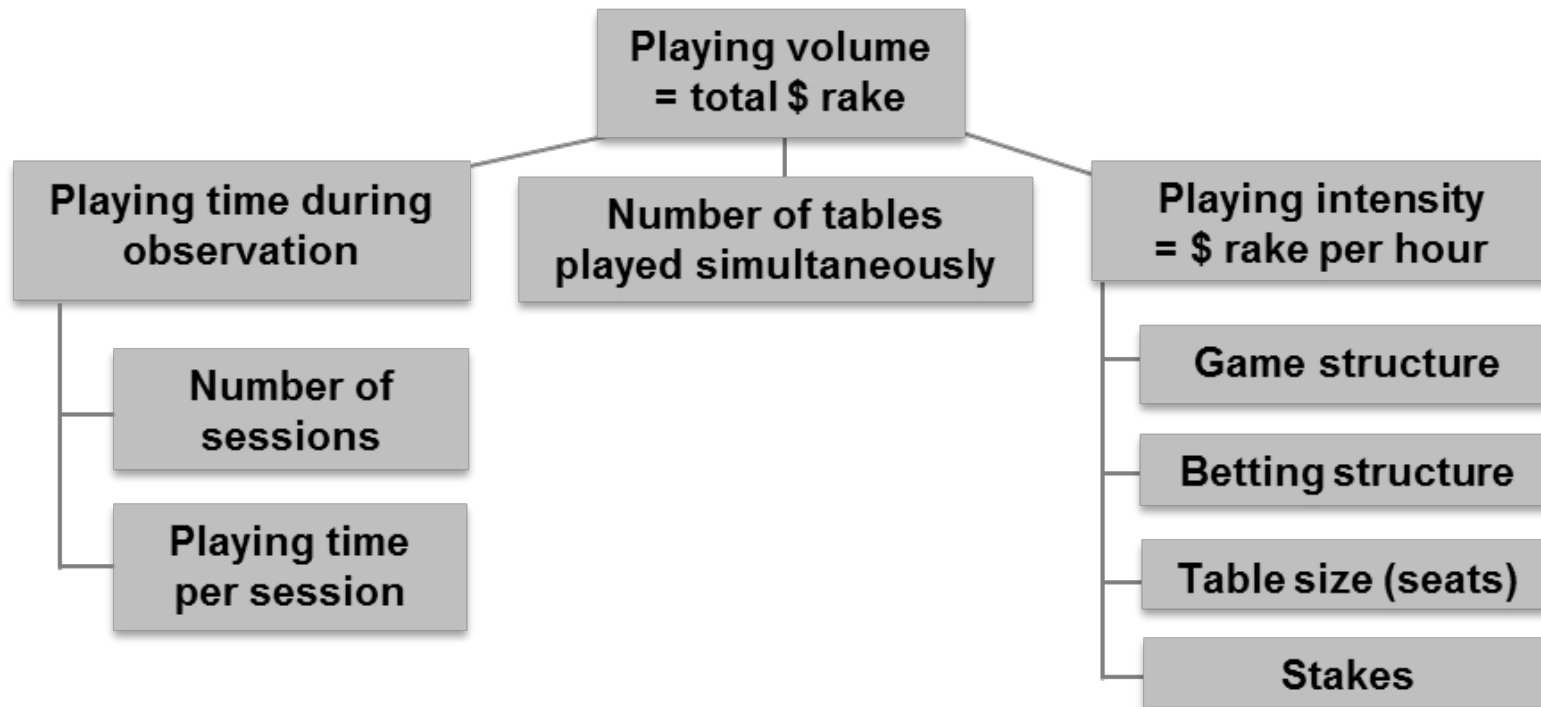
Playing Habits

Key Results: Playing Habits 2010-2013

	2010		2013		Average/ Median (2013)
	Average	**Median**	**Average**	**Median**	
Number of Sessions	23.18	7	26.11	7	373%
Avg. Session Length in min.	49.85	41.5	43.3	36.15	120%
Total Playing Time in h.	24.18	4.82	23.73	4.3	552%
Avg. Number of Tables	1.32	1.04	1.29	1.02	126%
US$ Rake per Hour	3.2	1.25	3.56	1.36	262%
Total Rake in US$	191.46	6.96	164.18	5.51	2,980%

Market Concentration 1/2
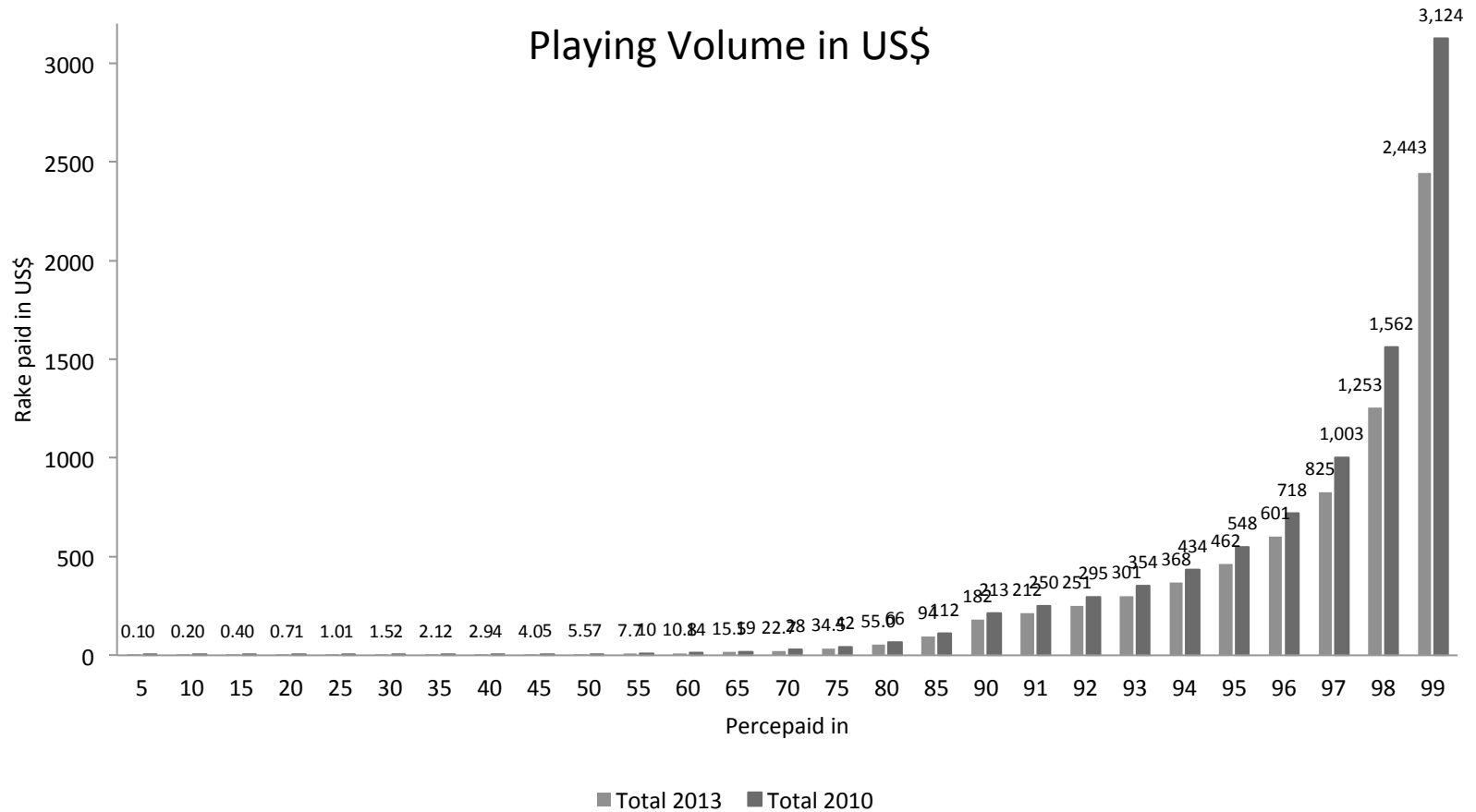
Market Concentration 2/2

Player Group	2010	2013
Top 1%	54.88%	56.76%
Top 5%	80.44%	80.88%
Top 10%	89.36%	89.69%
Bottom 50%	0.45%	0.47%
All 100%	100%	100%

Cumulative $ Rake

Addicted or professional players?

Players ordered by Playing Volume

Regulation of Online Poker

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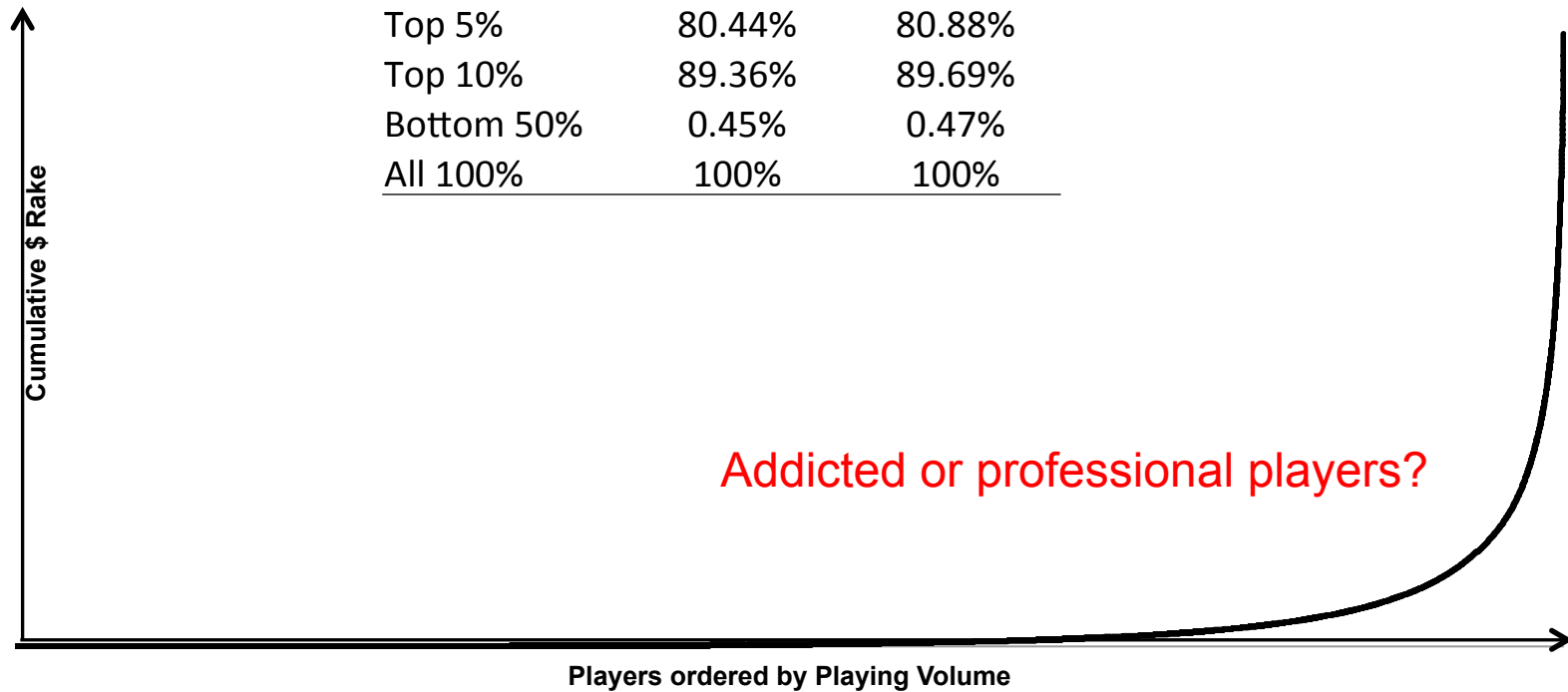
Reasons to Regulate Online Poker

- Adverse consequences of the market as reasons for regulation
- Player protection
  - Addiction
  - Fraud by operators
  - Fraud by other players **?** How can regulation prevent fraud by other players? It is already in the best interest of operators to prevent this.
- Money laundering
  - By operators
  - By players

- Generating tax revenues **?** Taxes are mere redistribution. Collecting extra taxes cannot be a goal on its own, but only a mean to lower demand for goods, which lead to social costs (Pigovian tax).

Evaluating Regulatory Approaches: Prohibition

- Goal of prohibition is to have as little a market as possible to prevent social costs of the market

- In 2010: whole market was either illegal or not regulated (exception Russia, where poker is considered a game of skill)

- All prohibitions were not enforced (exception UIGEA causing some operators like PartyPoker to leave U.S.)

- The result of a non-enforced prohibition: free market = opposite of goal of prohibition

- In 2011: Law enforcement in the U.S. (Black Friday) caused a market decrease of 96.8%.

- In all other prohibition-countries: nothing changed due to lacking law enforcement

➢ Prohibition *only* works with strong law enforcement

Evaluating Regulatory Approaches: State Monopoly

- Goal of state monopoly: "canalizing" unregulated market to a state monopoly, which is supposed to cause less social costs (e.g. addiction) and increase state revenues

- State monopoly most often translates to a smaller market, because less competition = higher prices and less innovation

- In 2010: state monopoly in Sweden

- In 2013: state monopoly in Sweden and Canada (Québec, Manitoba, British Columbia)

- PokerScout tracks average active players at all operators, which allows to indirectly determine the market size of the state monopolies:
  - Sweden: 13.04 million US$ in 2013 = 27.27% of total market
  - Canada: 4.24 million US$ in 2013 = 7.22%–7.88% of total market

  - State monopoly *depends strongly on* law enforcement

Evaluating Regulatory Approaches: Licensing System

- Goal of licensing system: "canalizing" unregulated regulated market, which is supposed to reduce social costs (e.g. addiction) and increase taxes
- Licensing systems can translate to larger or smaller markets, depending on various parameters
- In 2010: no licensing system
- In 2013: licensing systems in France, Italy, and Spain
- Tracking of licensed and unlicensed operators in the market and building on PokerScout's average active players:

	US$ Regulated	US$ Not regulated	US$ Total	% Regulated
France	222,401,083	763,140	223,164,223	99.66%
Italy	170,039,810	42,082,239	212,122,049	80.16%
Spain	67,766,488	493,11´3	68,259,601	99.28%

> Licensing systems can work without law enforcement

Network Effects Cause State Monopolies to Fail and Licensing Systems to Work

- Players prefer a broad choice of game types, limits, table sizes, and opponents to choose from – they demand large player pools

- Operators with large player pools attract more players while operators with small player pools die out

- The case of state monopoly operators:
  - ➢ State operators are necessarily small and without network effects, since they do not operate globally
  - ➢ State monopoly operators are not attractive to players and fail

- The case of state monopoly operators:
  - ➢ If a licensing system includes all major operators, the remaining operators have no network effects
  - ➢ Licensed operators are attractive to players and succeed, while unlicensed are not attractive and fail

- Attention! Reasoning is not true for sports betting or casino games, which are played "against the house" instead of against other players

Parameters of a Licensing System

- Tax level
  - ➤ Cannot be high, because operators then stay out (e.g. Hungary)
- Player protection (against addiction)
  - ➤ Should be high, gambling addiction causes majority social costs and is main reason for market intervention
  - ➤ Opt-out self-limitation system with low standard limits seems promising
  - ➤ Player protection is against operators' interests, because it limits players' spending
- Market Fencing
  - ➤ Fencing off players from other player pools serves as a huge incentive to play unregulated, but does not provide any benefit
- Anti Money Laundering Requirements
  - ➤ Risk of ML is in unregulated market
  - ➤ Standard AML requirements are sufficient
- Law Enforcement
  - ➤ Allows to raise the tax level and increase player protection without causing operators to leave the market

Conclusion

- Online poker passed its peak
- The market is still mostly unregulated
- Online poker is dominated by a small group of intense players
- Gambling addiction is the main reason for market intervention
- Neither prohibition nor a state monopoly works without strong law enforcement
- A licensing system can work without law enforcement – when major operators are licensed
- In a licensing system, the regulator should focus prevention of addiction rather than collecting taxes

Global Market

22%

78%

■ Regulated Market

■ Unregulated Market