

Testimony of
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Committee on Commerce, Science, and Transportation
United States Senate

**The Expansion of Internet Gambling: Assessing Consumer Protection
Concerns**

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Thank you, Chair McCaskill, Ranking Member Heller, and members of the subcommittee, for giving me the opportunity to testify today on this important topic. My name is Tom Grissen and I am the CEO of Daon, a leading provider of identity assurance, identification and verification software services worldwide. Our customers include the Departments of Commerce and Homeland Security, two of the largest American banks and many other large, private corporations, most of our nation's airports and maritime ports, the EU, Japan, Australia and many other countries around the world.

I will argue that the tools we have been relying on to address cyber security are inadequate. I hope to persuade you that there is a new kind of solution that will fix the broken trust model of the Internet. As we speak, these technologies are being deployed across some of the most sophisticated financial institutions in the world.

Over the next five minutes of my testimony a drama will be playing out across the Internet. Hundreds of millions of internet transactions will occur touching nearly every aspect of one's life.

We will demonstrate the relevance of new technology through obvious applications in banking. At the same time the technology can be applied in ways that one can scarcely imagine across industries such as health care, social networking and online gaming.

The crux of the problem across all these industries is that we cannot effectively identify the individuals with whom we interact online.

We have all enjoyed the eye opening experiences of the Internet. We all went online to BROWSE web sites and found innovative companies such as Netscape. Then we found the wonderful advancements in SEARCH and benefited from great companies such as GOOGLE. Next we placed our digital lifestyle on the Internet through companies such as FACEBOOK who tapped into our desire to SHARE. What is missing is an effective means of establishing online TRUST. Technologies similar to what you will see today address this daunting problem.

The inadequacy of the tools to establish online trust is understood by everyone, including the President of the United States. In the current online environment, individuals are asked to maintain dozens of different usernames and passwords, one for each website with which they interact. Passwords have served us well, but were invented in the 1960's. The complexity of this approach is a burden to individuals and encourages bad behavior – like the reuse of passwords – that makes online fraud and identity theft easier. Challenge response technologies are being defeated by social engineering. They all depend on “what someone knows” rather than “who you are.”

Daon develops software that binds the person to the event through the use of factors, including biometrics. Biometrics are simply human characteristics that are uniquely you, such as your voice, face, palm, fingerprint, etc.

Using your smart phones, PCs or tablets, these software technologies empower you to securely establish your identity through a combination of encryption, PIN/passphrase entry, location-based technology, and biometrics such as voice, face and palm image matching. These technologies are a fully mobile, private and cost effective solution based on technology (e.g., smart phones) that consumer's use and enjoy.

I am neither a proponent nor an opponent of Internet gambling. However, there are many parallels between Internet gambling and what Daon does for our clients in terms of the trust relationships with customers and the governmental oversight of various activities (e.g. financial services). Over the past two years we have been monitoring the development of this issue before Congress. Absent congressional action or a uniform set of national standards for this particular Internet activity, various states have authorized various forms of Internet gambling. We have watched as States such as Illinois, Nevada, New Jersey and Delaware have either rolled out or are preparing to roll out Internet gambling with different kinds of standards for age verification, location verification and fraud prevention.

I am thoroughly convinced, particularly in the wake of the December 2011 Justice Department decision about the inapplicability of the federal Wire Act to most forms of Internet gambling, that continued congressional inaction on this issue is not acceptable.

The risks associated with Internet gambling – and in particular, Internet gambling that is either unregulated or insufficiently regulated – are well-appreciated. These include:

- Gambling by minors;
- Defrauding of consumers by site operators;
- Defrauding of players by other players;
- Money laundering by either operators or players;
- Violations of jurisdictional restrictions or prohibitions;
- Breaches of data confidentiality and other security failures; and,
- Problem or excessive gambling.

Despite the recent indictments of several prominent offshore poker operators, no one can seriously challenge the fact that Americans, young and old, are finding ways to gamble on illegal offshore sites – some estimates put the markets at several billion dollars. But illegal offshore sites are only part of the problem, as the states, in the wake of the DOJ decision, are pursuing their own Internet gambling ventures. For example, the Illinois Lottery has been selling tickets

online since March 2012. Georgia has sold lottery tickets online since November 2012. Legal online poker has taken place in Nevada since April 2013. Delaware has approved Internet casino-style gambling and its system is expected to be operational by October. My understanding is that Internet gambling of all kinds will go live in New Jersey this November.

There are many other States weighing proposals of one kind or another to legalize Internet gambling (See Exhibit A for a discussion of Internet gambling legalization across the U.S.). While all of these States have some standards to deal with identifying customers and other regulatory issues, both the existing Internet gambling States and the prospective Internet gambling States share one common attribute: in no jurisdiction is state-of-the-art "Know Your Customer" technology in place or required to adequately mitigate the risks of Internet gambling. In other words, no one has technological requirements in place to ensure that a minor is not playing on a stolen parent's credit card and PIN; that it's a human being you're playing against, not a robot; or that a player is actually physically located in a jurisdiction that permits Internet gambling.

Satisfying these requirements means employing systems already in place for many sensitive ecommerce and security applications. Exhibit B provides screen shots demonstrating how the systems work.

As the Internet by its very nature transcends intrastate commerce and is truly interstate, establishing our nation's policies on Internet gambling is the responsibility of the Congress. Whether the policy is prohibition, limitations or some combination, is your choice. But, given the current proliferation in the States, I believe that one appropriate role for the Congress – and I believe the time is ripe for Congress to exercise this role -- would be to set certain strict, minimum standards for identity assurance, identification, and verification for Internet gambling should the states be permitted to offer it in the first place. Nothing in the track record thus far suggests that states will apply such standards of their own volition, and it's time Congress stepped up to the plate.

Thank you again for the opportunity to testify and I look forward to your questions.