



Credit Cards – the next credit crunch for iGaming – I don't think so...

In the last issue of iGaming Business (September/October 2009), Warwick Bartlett from GBGC outlined a case that stated “in the current global financial crisis with many financial institutions wary of lending to both businesses and consumers alike, credit cards could be the next credit crunch for iGaming.” The article highlighted the increasing write-off rate in the USA, the significant problems in the UK and Europe and stated that “all of this should be a cause for concern for online gaming operators”; adding further that “this dependence on credit cards to facilitate the funding of consumers’ accounts could be a weakness for the online gambling industry in the second half of 2009 and throughout the course of 2010”.

In a professional capacity, I would not disagree with most if not all of the figures quoted from impeccable sources such as the IMF, however, we believe the conclusions reached are wrong. The first point to consider is how relevant are credit cards to iGaming operators, when one considers the rest of the world – outside the USA/UK, many markets have never been credit centric, and could in some cases (Germany for example) be called credit card adverse due to cultural reasons. If the credit crunch had hit five or even three years ago, some iGaming operators may have been affected, but the payment world has moved on in this period. So what do credit cards offer to the gaming operators? In reality it is two things and we need to separate them to better understand the affect the current ‘credit crunch’ may have.

The first thing credit cards supply is what it says on the can – ‘credit’. That is, a credit card provides funds to consumers who wish to borrow money, but who do not have the funds at that time. The demand for credit is certainly growing, for instance, in the UK alone short term ‘Payday’ lending has grown roughly 250 percent in last the 12 months. But we have to question both from a moral perspective and practical one, whether gaming operators are really trying to encourage loading via credit cards because they want the consumer to ‘borrow’ the funds to gamble.

I would argue that the main reason for consumers loading funds through a credit card, sometimes even with high cash advance fees, is quite simply because it is easy, quick and simple – not necessarily for the borrowing aspect. If we combine this with security concerns with using Debit Cards that are connected to the consumer’s main bank accounts, then you have the real reason for credit card use.

It is at this point where we see the main point of conjecture with GBGC’s claims. Have you ever been on an established gaming operator’s site and seen only Visa/MasterCard as options for acceptance? We challenge you to identify any major operator that only has these options. The eWallets that now exist

are booming with brands such as Moneybookers, MyCitadel, I-Pay, Paysafe and Neteller all offering solutions for funds loading.

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But still, I hear the argument, “how can consumers load funds into these accounts without credit cards?” Many do not seem to have a problem, with Neteller recently reporting (June 2009) that daily deposit volumes were up 20 percent and that it now had over two million customers. Further, with over 1,700 merchants, they are accepted at over 90 percent of all main gaming merchants. It is now even possible to load cash into Neteller using services such as Ukash. This allows the consumer to go into tens, even hundreds of thousands of merchants, hand over cash and receive a voucher that they can then load into their eWallet account to gain instant access to the funds. Paysafe operate a similar cash voucher solution.

Prepaid Options

In the last five years, we have seen the birth of a new type of payment card – a card where the consumer loads the funds onto the card prior to spending it – prepaid cards. A card that like a credit card is not linked to a main bank account and thus, does not have the security concerns a debit card may have. A card that as far as any merchant is concerned is accepted and processed in the same way as a credit card – quickly and simply – as to them, it is just another Visa/MasterCard. The operator cannot tell

the difference between a prepaid card and a credit card. Nearly all prepaid cards where the consumer has undergone KYC are not 7995 blocked; that is they can use them to load funds. Prepaid cards in many markets have had double if not triple digit growth rates in the last few years – a trend that’s set to continue, with mobile brands like O2 launching their own products in the UK.

If credit cards had always been the answer to iGaming operators’ needs then why would a company like PokerStars, the world’s largest online poker site with 12 million customers playing for cash at any given moment, still be paying out 500,000 cheques every month to the lucky winners who want

to withdraw funds at a cost to PokerStars of over \$4 a time?

The answer is that iGaming operators have always accepted a wide range of payment methods and are highly innovative and adaptable in what they will accept. What has changed in the last five years is the proliferation of alternative payment solutions and almost more importantly, the growth of the prepaid cards industry.

I would argue that yes, we will and are seeing a reduction in the number of credit cards in issuance and credit limits. But if consumers have funds to gamble with, and this must surely be the premise that is worked on, then with prepaid cards, bank transfers and eWallets, there are already plenty of options to enable consumers to load funds and all major merchants already have facilities to accept a range of these. ■

AUTHORPROFILE



David Parker is CEO of Polymath Consulting. An ex-Marketing Director of a P2P betting exchange, David has been consulting on prepaid cards and eWallets since 2002. Polymath Consulting publish and edit the Pepper Prepaid Report, the definitive guide to consumer loaded prepaid cards in the UK. Polymath Consulting clients have included Ukash, Neteller, Bank of America, Visa CEMEA and MasterCard.