

# Card Schemes And Issuers Grapple With U.S. Sports Betting Dilemma

9TH AUG 2018 | WRITTEN BY: ADAM PERROTTA IN LOS ANGELES

**Two months into the age of legal sports betting in New Jersey, a new era of online wagering has begun — but question marks remain over whether card issuers will be willing to play ball in processing transactions.**

The U.S. sports-betting market is touted to be worth as much as \$15.2bn annually, according to [projections](#) by PaymentsCompliance's sister publication GamblingCompliance, with online and mobile bets estimated to comprise at least half of that total.

But its success may rely on support from card-issuing banks, many of which have so far been reluctant to authorize such gambling transactions.

Some of the largest U.S. card issuers, including Bank of America, Capital One, Chase, Citigroup, Wells Fargo and American Express, do not generally allow their cards to be used for online gambling of any type.

The sheer size of the [potential opportunity](#) could go a long way to overcoming long-held concerns about perceived risks associated with such transactions, however, and several major firms have said they plan to review their policies on sports gambling transactions.

In March, before the landmark ruling of the U.S. Supreme Court permitting states to regulate sports betting, Chase began allowing its cards to be used for online advance deposit wagers on horseracing — and thoroughbred industry groups said they are working with other major issuers to reverse their current bans on such bets.

However, as online horse and dog racing wagers are classified under their own separate merchant category code (MCC), an issuer that accepts those types of bets can still decline to authorize other types of online gambling, including bets on other sports.

One potential step to encourage issuer acceptance would be to create a new merchant code specifically for online and mobile sports bets, therefore allowing issuers to develop an acceptance policy specifically designed for such bets.

Currently, mobile and online sports bets would be classified under Visa and Mastercard's merchant category code 7801 — one of the three codes [introduced in 2015](#) to identify legal betting transactions — which covers online casino betting.

Creating a more narrowly defined code to categorize sports wagers specifically could give issuers more flexibility

and increase their confidence in allowing such transactions, according to C.J. Fisher, an attorney with Fox Rothschild in Atlantic City.

“Given the historical issues concerning payment processing and transaction acceptance with lawful internet casino wagers and perceived concerns surrounding the Wire Act, it is conceivable that a separate MCC could be created,” the lawyer said.

For now though, New Jersey sports bets will be handled under the same MCC as other types of online gambling, which experts believe could lead to complications.

Online sports betting began earlier this week when daily fantasy sports giant DraftKings launched its mobile sports betting app in New Jersey.

Users can load funds via Mastercard-branded credit or debit cards, or by interbank transfer, but users who previously used their cards to load funds for daily fantasy competitions could face difficulties in depositing funds to the sportsbook.

Because fantasy sports competitions are exempted from a 2006 federal law targeting unlawful internet gambling transactions and have been legislated in many states as games of skill, rather than gambling, they were categorized differently for merchant acceptance purposes.

According to Jerry Rau, president of Rau Consulting, a firm that provides guidance on payments in iGaming, sports betting and lotteries, that could change now DraftKings is also offering traditional sports betting.

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**“I think the card issuers will want to change the merchant ID code for daily fantasy sports, which will therefore lead to lower approval rates,” said Jerry Rau of Rau Consulting.**

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Additional safeguards designed to ensure compliance with the federal Wire Act — which [specifically prohibits interstate sports gambling](#), but not casino, poker or lottery games — could also play a key role in earning issuer buy-in.

Those include measures that are already in place to govern online casino and poker bets — legal in New Jersey since 2013 — such as geofencing technologies that ensure the person placing a bet is physically located in the state.

“States legalizing internet and mobile sports betting, including New Jersey, have enacted requirements to ensure compliance with the Wire Act, such as requiring that servers be located within the state and geolocation software to ensure all wagers are made within the state,” noted Fisher.

Fisher added that most state bills legalizing sports betting have addressed the issue of intermediate routing of wagers across state lines by including “language stating that all wagers are initiated, received and otherwise made within the state and that the intermediate routing of electronic data does not determine the location of the wager.”

But that issue has drawn concern from some observers, who have warned that a sports betting transaction that even temporarily crossed state lines could theoretically violate the Wire Act – even though it would be permitted under the later 2006 law.

“Even with legal intrastate internet casino gambling in New Jersey, payment processing and transaction acceptance got off to a rocky start,” said Fisher.

“Accordingly, I would anticipate similar reluctance with regard to online and mobile sports betting, particularly in light of the Wire Act.”

But the intrastate sports-betting model has been in operation for years in Nevada without running afoul of the Wire Act, and could easily be imported to other states, according to Joe Pappano, senior vice president for Worldpay Gaming.

“That is a repeatable model that can simply be adopted on a state-by-state basis to allow for sports gaming without violating the Wire Act,” he suggested.



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## **Contact Info**

[United Kingdom](#)

St Clare House, 30 Minories  
London  
EC3N 1DD  
United Kingdom  
**+44(0)207 921 9980**

**United States Of America**  
1725 I Street NW, Suite 300  
Washington D.C., WA 20006  
United States  
**+1 202 261 3567**



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