

Regulatory Vigilance Critical to Ensure “Sweepstakes” Don’t Threaten Consumers and Undermine Gaming Regulation



INTRODUCTION

Regulated gaming companies are constantly innovating to provide their customers with the best experience and differentiate themselves from competitors. This competition takes place within strict legal and regulatory frameworks, as determined by gaming regulators and other authorities, to ensure consumer protection and integrity are paramount as the industry innovates and grows. However, there are an increasing number of entities that have intentionally designed business models to circumvent or exploit ambiguity in state gambling laws and the regulatory frameworks within which the legal gaming industry operates. Some, like offshore sportsbooks and online casinos, blatantly disregard these laws and regulations entirely. Others misleadingly claim they are not gambling and that the rules, therefore, don't apply to them. In the brick-and-mortar environment, unscrupulous operators have used “skill” as an artifice to flood jurisdictions with unregulated slot machines. In the online space, some unlicensed casinos and sportsbooks are **thriving** by employing a “sweepstakes-based” model to potentially skirt gaming laws and regulations. As a result, consumers are being deprived of protections and states are forgoing significant tax and revenue opportunities as this gambling replaces that conducted through regulated channels.

THE SWEEPSTAKES MODEL

So-called “sweepstakes casinos” offer traditional casino games such as slots, roulette, blackjack, poker, and others, which allow players to ostensibly play for free, or buy virtual currency (often called Gold Coins) to further their gameplay. In addition to the Gold Coins-type virtual currency that can be purchased to fund gameplay, a second type of virtual currency is available: free credits (often called Sweep Coins) that a player will receive as a bonus with the purchase of Gold Coins or through promotions, welcome bonuses, daily log-in rewards, and other activities. Sweep Coins are “free,” single-purpose virtual currency that players exchange for cash or prizes, requiring an investment of time, real money, or both to ‘cash out’. Sweepstakes casinos claim that because they don't require real money for their gameplay, they are not offering gambling under the letter of the law. However, functionally, sweepstakes casinos look and play like an online casino while using a dual-currency system to avoid licensing and regulation. Sweepstakes Sportsbooks offer “free-to-play sportsbooks” where people can bet on each other's wagers, or stake bets directly with each other. Many operate with two different types of free “tokens” that can be used to wager, and users can exchange them for real money when won through gameplay.

The lack of regulatory oversight presents many risks for consumers as well as the integrity and economic benefits of the legal gaming market through investment and tax contributions. These sweepstakes-based operators have weak (if any) responsible gaming protocols and few, if any, self-exclusion processes. There is no independent product testing to ensure basic fairness to players, and although many claim players must be 18+, age verification procedures, if they exist, are often questionable. The opaque nature of these operations also presents a prime opportunity for illegal activity and enriching bad actors.

While both sweepstakes casino and social casino games offer online casino-style games, it's important to recognize the principal differences that impact the legal and regulatory frameworks under which these two models operate. Unlike sweepstakes casinos, which utilize a dual currency system to offer players the chance to exchange the in-game currency for real money and prize, social casino games are more casual

games that resemble gambling style games, but have a closed loop economy where rewards cannot be redeemed for real world currency, used to win prizes, or traded to other players in-games. Social casino games are typically played for entertainment in short time bursts while sweepstakes casinos are often marketed as a gaming experience where players can redeem winnings or earn cash prizes or gifts.

MICHIGAN TAKES ACTION AGAINST SWEEPSTAKES CASINOS

In November and December of 2023, the Michigan Gaming Control Board (GCB) sent [cease-and-desist letters](#) to two companies claiming to offer services under a sweepstake model –Cyprus-based Sweepstakes Limited (Stake.us) and San Francisco-based VGW Luckyland whose parent company, VGW Holdings, is headquartered in Australia. As a result, the companies have since stopped offering their products in Michigan.

The GCB listed the violations of Michigan law as:

- ◆ Promoting an unlicensed online lottery and/or raffle for customers that buy its products through its internet website (Stake.us); and
- ◆ Conducting illegal gambling by offering an internet game in which a player wagers something of monetary value for the opportunity to win something of monetary value (VGW).

Due to what the GCB called their “unregulated and unlicensed online gaming offerings,” the companies were found to be in violation of the following Michigan gaming laws:

- ◆ [Lawful Internet Gaming Act](#), which states that internet gaming may only be offered by a licensed internet gaming operator, and the [Lawful Sports Betting Act](#), which states that internet sports betting may only be offered by a licensed sports betting operator or its licensed sports betting platform provider. Only casinos that are currently licensed under the Michigan Gaming Control and Revenue Act and federally authorized tribal casinos within Michigan can apply for an internet gaming operator license or a sports betting operator license.
- ◆ [Michigan Gaming Control and Revenue Act](#), which prohibits a party from conducting a gambling operation without a license issued by the MGCB. A party who operates an unlicensed gambling operation is guilty of a felony punishable by imprisonment for up to 10 years or a fine of up to \$100,000, or both.
- ◆ [Michigan Penal Code](#), which broadly prohibits any form of unauthorized gambling involving consideration, prize, and chance. For example, accepting money, or anything of value, with the understanding that money, or anything of value, will be paid to any person based on the outcome of an uncertain event is prohibited.

Scrutinizing Sweepstakes Casinos & Sportsbooks

Gaming regulators and state attorneys general should investigate companies or platforms that offer casino games or a form of sports betting under the “sweepstakes” model to determine whether or not these operators are in compliance with their respective laws and regulations and take appropriate action if not. Where state laws and regulations are not clear, legislatures should consider enacting legislation to prevent unlicensed operators from exploiting loopholes in sweepstakes regulations to offer online real money gambling.