The Case for the Channelization Model as the Predominant Framework in Online Gambling Regulation

Kahlil Simeon-Rose

Carson College of Business, Washington State University

Author Note

https://orcid.org/0000-0002-0747-0772

Correspondence concerning this article should be addressed to Kahlil Simeon-Rose, Washington State University, Carson College of Business, 915 N. Broadway, Everett, WA 98011, USA.

Email: Kahlil.Philander@wsu.edu

The Case for the Channelization Model as the Predominant Framework in Online Gambling Regulation

Abstract

This letter to the editor proposes the adoption of a channelization model as the predominant framework for online gambling regulation. The model evaluates regulatory interventions using a two-part test: 1) Are meaningful protections in place within the licensed market? 2) What proportion of total gambling activity occurs within the licensed market? Policies optimizing only the first dimension while ignoring the second may reduce social welfare by driving activity offshore. Historically, financial transaction frictions substantially constrained unlicensed access, but the ongoing expansion of cryptocurrency use in off-shore sites and recent legitimization of stablecoin payment infrastructure through the enactment of the GENIUS Act in the United States and MiCA in the European Union is changing the relative attractiveness of unlicensed operators. As barriers to unlicensed markets fall, the competitive position of licensed markets becomes more consequential. Four policy implications follow: 1) Tax rates should be set at levels that allow licensed operators to compete with unlicensed firms; 2) licensed products should generally have similar feature sets as unlicensed alternatives; 3) advertising of licensed operators should be permitted, enabling increased relative awareness of licensed operators; and 4) enforcement resources should be balanced to target onshore infrastructure that enables offshore access.

Keywords: channelization; online gambling regulation; stablecoins; offshore gambling; consumer protection

The Case for Channelization as the Predominant Framework in Online Gambling Regulation

The two dominant academic frameworks guiding online gambling policy, the Reno Model's emphasis on individual responsibility and informed choice (Blaszczynski, Ladouceur, & Shaffer, 2004) and the Public Health Model's focus on supply reduction and harm prevention (Wardle et al., 2019), share an implicit assumption: that financial payment systems serve as effective gatekeepers between consumers and unlicensed gambling operators. That assumption is becoming obsolete.

In July 2025, the U.S. enacted the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins), establishing the first comprehensive federal framework for payment stablecoins (Latham & Watkins, 2025). These are digital assets pegged 1:1 to the U.S. dollar, issued by financially regulated entities, and designed for frictionless peer-to-peer transactions. While the legislation includes robust anti-money laundering (AML) requirements for issuers, it says nothing about how these payment rails interact with offshore gambling operators. The European Union's Markets in Crypto-Assets Regulation (MiCA) regulation takes a more restrictive approach, yet MiCA, like the GENIUS Act, regulates issuers and service providers rather than transaction destinations (European Parliament & Council, 2023a, 2023b). A European consumer who acquires a MiCA-compliant stablecoin can still transmit it to an offshore gambling operator. The financial chokepoints that once restricted access to unlicensed gambling, like merchant code blocks, bank transaction declines, and payment processor interdiction, are bypassed entirely with stablecoins.

The unlicensed gambling market is not a fringe concern. According to Yield Sec data, approximately 74% of gross gaming revenue earned in the United States in 2024 went to

unlicensed offshore operators (Yield Sec, 2025). Even in regulated markets like New York, they estimate that 72% of online gambling revenue flows offshore (Yield Sec, 2025).[1]

Methodologically distinct approaches converge on similar conclusions. A consumer survey by the Innovation Group estimated that 49% of U.S. iGaming consumers used both regulated and unregulated sites, while 27% used exclusively unregulated sites (American Gaming Association, 2025). Consumer surveys in Canadian provinces with government-operated platforms estimated channelization between 23% and 40% (Ipsos, 2025).

Cryptocurrency adoption is accelerating this dynamic. In 2024, wagers paid in cryptocurrency generated $81.4 billion in gross gaming revenue, a fivefold increase since 2022 (Giusti, 2025). To put this in perspective, crypto casinos now rival the biggest traditional gambling groups in scale. Stake, a single Curaçao-incorporated platform, is reported to have produced $4.7 billion in GGR last year (up 80% from 2022), serving 25 million users since launch (Giusti, 2025). Stablecoins are becoming the dominant medium of exchange in cryptocurrency markets, with onchain transfer volume exceeding $35 trillion in the 12-months from March 2024 to February 2025 (Armani, 2025). Offshore gambling platforms followed this trend; industry analysts report that stablecoins now account for the majority of crypto casino deposits in key markets (Crystal, 2025). By legitimizing stablecoin payment rails and bringing them into the mainstream financial system, much of the friction that once made offshore gambling inconvenient is now gone.

[1] Estimating channelization rates is methodologically challenging as, like most underground economies, those engaged in such activity have strong reasons to remain unidentified (Schneider and Enste, 2000) and gambling-specific estimates are rightly contested for lack of precision (Chopin, Rodriguez, & Caneppele, 2024; Gambling Commission, 2025), but commercial sources relying on proxies like web traffic, search-trend data, affiliate networks, and known operator metrics produce directionally informative estimates or comparisons (Yield Sec, 2025).

These regulatory developments also highlight that payment-layer regulation may prove to be a more effective channelization lever than operator-level rules alone. The pace and extent of these shifts should be understood directionally rather than as a sudden collapse of financial gatekeeping. Stablecoin issuer obligations, exchange-level KYC, and ongoing law enforcement coordination provide regulatory countermeasures that did not exist for earlier cryptocurrency adoption waves. But the trajectory is unambiguous. Financial-friction-based regulation has not collapsed, but its capacity is steadily weakening, and the architecture of online gambling regulation has not yet recalibrated.

Rethinking the Policy Framework

Both the Reno Model and the Public Health Model implicitly rely on transaction costs to contain unlicensed gambling. The Reno Model's informed-choice framework functions only when consumers have meaningful access to the licensed, regulated market where those protections exist. The Public Health Model's supply-reduction strategies assume that blocking access and limiting product features is technically and legally feasible.

To understand the consumer choice problem, consider a simple utility framework comparing licensed and unlicensed markets. Consumer utility is a function of product quality (game variety, user experience, convenience, withdrawal speed) and effective price (house advantage less promotional value). The key difference between markets lies in the frictions consumers must overcome to access them:

$$U(\text{licensed}) = f(\text{Quality, Price}) - \text{Regulatory Friction}$$

$$U(\text{unlicensed}) = f(\text{Quality, Price}) - \text{Transaction Friction}$$

Where the utility (U) for a consumer of a licensed site includes regulatory frictions (e.g. betting limits, product restrictions, AML requirements) and for an unlicensed site includes transaction

frictions (e.g. site access, payment processing restraints, lack of legal recourse) (Philander & Wimmer, 2025). Mainstream stablecoin adoption means a consumer can now fund an offshore gambling account in minutes with minimal friction, no bank involvement, and limited traceability, increasing the relative value of unlicensed sites.

Simultaneously, regulatory friction for licensed operators continues to rise, including compliance infrastructure, responsible gambling (RG) requirements, licensing fees, and tax rates that in some jurisdictions exceed 50% of gross gaming revenue (Chang, Lai, & Wang, 2010). Research demonstrates that casino wagering is highly responsive to tax rates (Combs, Kim, Landers, & Spry, 2016; Philander, 2013), as these costs ultimately manifest as reduced promotional generosity or narrower product offerings, degrading the licensed product's competitive position.

What are the policy options? Short of illiberal measures like comprehensive internet firewalling, regulators cannot meaningfully raise transaction costs for offshore operators. Site-blocking measures have been implemented in jurisdictions like Australia, but research suggests their effectiveness depends heavily on implementation (Egerer & Marionneau, 2023). The fundamental problem is both technological and legal. In most markets, it is not illegal to view or use an online gambling site (creating no legal risk for users) and blocking techniques can be circumvented through virtual private networks, proxy servers and encryption. If society wants a thriving onshore online gambling market that imposes reasonable AML and RG controls while generating tax revenue, policymakers must focus on ensuring the licensed product can compete effectively. Gambling regulation, like much regulation generally, is often reactive, addressing issues once they manifest at scale rather than anticipating the incentive structures they create.

The channelization framework attempts to make these incentive structures explicit at the design stage.

The core insight is therefore that gambling policy success should be evaluated using a two-part test, described here as the *Channelization Model*:

- First, are meaningful protections (AML compliance, RG tools, consumer recourse) in place within the regulated market?
- Second, what proportion of total gambling activity occurs within that regulated market?

Current policy frameworks often succeed on the first part while failing on the second. A highly regulated market that captures only 30% of gambling activity may look rigorous on paper, but it likely achieves less actual consumer protection than a moderately regulated market capturing 95%. Maximizing regulatory stringency while ignoring channelization optimizes only the first dimension while sacrificing the second.

Evidence from international markets demonstrates that regulatory design directly impacts channelization outcomes. Ontario's open iGaming market reversed offshore dominance as channelization rose from roughly 27% in 2022 before regulatory reforms to 95% by 2025 (Nightingale, 2025). In part, the province achieved this through competitive taxation, open licensing, and product parity with offshore alternatives. Germany's experience since implementing its Interstate Treaty on Gambling (Glücksspielstaatsvertrag 2021) illustrates the opposite trajectory. Only an estimated 20-30% of online casino occurs on licensed platforms and web traffic to licensed sites continued to decline 14% between 2023 and 2024, while visits to unlicensed operators increased 70% (Jung & Kleibrink, 2025). The Hessian Fiscal Court attributed this failure primarily to taxation (Jung & Kleibrink, 2025).

A channelization approach means:

1. Tax rates must reflect competitive circumstances. Ultimately, the optimal rate is an empirical question for each jurisdiction (Marionneau et al., 2024), requiring assessment of the operating margins that allow licensed operators to compete with offshore alternatives after accounting for compliance costs and consumer protection requirements. Germany's actual policy is instructive: the 5.3% turnover tax on online slots (Jung & Kleibrink, 2025) makes it mathematically impossible for licensed operators to offer returns to player above 94.7% without operating at a loss.

2. Product parity matters. Rational consumers evaluate the full experience (Gainsbury et al., 2019), including game variety, betting limits, withdrawal speed, promotional generosity, and the user interface. If licensed platforms impose onerous AML verification requiring extensive documentation, lengthy review periods, or data collection that increases breach exposure, offshore alternatives with minimal verification become more attractive. Similarly, if RG interventions create sufficient friction (mandatory cooling-off periods, deposit limits below consumer preferences), some users will circumvent them by moving offshore. The challenge is designing consumer protections that work because people remain in the regulated ecosystem, not protections so burdensome that they drive the very behavior they aim to prevent.

3. Marketing policy should distinguish between general advertising and promotional inducements. Marketing comprises a broad set of tactics, and channelization arguments and harm arguments apply unequally across them. General advertising (broadcast, sponsorships, and mainstream digital placement) can provide licensed operators with a structural advantage that offshore competitors cannot replicate without enforcement exposure; this layer drives channelization, plausibly in part by reminding consumers to act on existing preferences rather

than expanding the market (He & Klein, 2023), and the harm-side evidence at this level is mixed and methodologically uneven (Philander, Ghaharian, Krejcik, & Giden, 2024). Promotional inducements (bonus offers, in-play promotions, and direct-response tactics) may be more reasonably associated with harmful activity (McGrane et al., 2023, 2025), and concentrated harm-driven regulation may be warranted, with players secured inside the regulator's purview.

4. Enforcement must target the infrastructure that enables offshore access. Rather than solely focusing regulatory resources on licensed operators who are already meeting reasonable standards, enforcement resources should balance focus on the onshore ecosystem that supports offshore gambling, such as affiliate networks that drive traffic, payment processors that facilitate deposits, influencers who promote unlicensed sites, and app stores that host offshore operator software.

Discussion

Consumer protections work only when consumers use regulated products. The channelization model offers policymakers a coherent framework for social welfare improvement, using a two-part test: Protecting individuals within the licensed market and retaining enough of the player base for that protection to matter. Regulatory ambition unconstrained by competitive reality produces the worst of both worlds including increased compliance costs for licensed operators, administrative complexity for authorities, and no meaningful protection for the players who migrate offshore.

Both firms and consumers respond to market forces in predictable ways, and any policy analysis must take these responses into account. Firms respond to competitive pressure, from other licensed operators and from offshore alternatives, by adjusting prices, products, marketing, and operations. Consumers respond to the relative attractiveness of available options. Regulation

that works with these incentives is more likely to produce welfare-improving outcomes than regulation that ignores them. Likewise, the channelization framework implies a regulatory posture closer to trade policy than to traditional gambling compliance. Trade regulators have long recognized that protective measures must be calibrated against the diversion they induce: tariffs set too high generate smuggling that erodes both revenue and regulatory oversight. The same logic applies here.

The policy variables that maximize channelization are not always the variables that would maximize protection in a hypothetical world without regulatory competition. Tax rates, product restrictions, AML requirements, and RG interventions must be calibrated against their effects on the licensed market's competitive position. This is not an argument for regulatory minimalism. It is an argument for regulatory pragmatism. The goal is not to design the theoretically optimal framework for a captive market, but to design a framework attractive enough to capture the market in the first place.

Three notes are warranted about the scope of this argument. First, operators may hold informational advantages over regulators regarding player behavior and market dynamics, and channelization concerns can be framed in ways that serve commercial rather than public interest objectives (Weston & Clark, 2025). The framework does not eliminate these asymmetries, but by making the protection-diversion trade-off explicit it may make them easier to identify. The framework proposed here, however, is a positive claim about market behavior: consumer demand will, all else equal, flow toward low-friction alternatives. Normative claims about what regulators should do must consider a broader set of considerations. A specific restriction may pass the framework’s two-part test (where channelization elasticity is low and protection gain is substantial) or fail it (where elasticity is high and protection gain is marginal).

Second, the expressions of market structure are intended as a framing device rather than an estimable model. They make explicit the trade-off any channelization-sensitive regulation must navigate, but they do not yield point estimates. Doing so would require, at minimum, agreed-upon operational definitions of channelization itself (revenue share, profit share, and user share need not move together), a social welfare function weighing consumer surplus, firm profits, government revenue, and negative externalities, and credible estimates of how channelization responds to specific regulatory parameters. None of this implies a particular value judgment. A jurisdiction may reasonably accept some participation growth as the cost of substantially improving consumer protection for a larger share of existing players, but the trade-off should be evaluated rather than assumed away.

Third, the empirical agenda needed to give this framework quantitative precision remains largely undeveloped. Regulatory changes (tax rate adjustments, advertising restrictions, and market legalizations) provide natural experiments from which researchers can estimate how specific policy parameters shift activity between licensed and unlicensed markets. Open questions include whether channelization responds continuously to regulatory change or exhibits threshold effects at which players migrate at scale, and how cross-jurisdictional regulatory diffusion reshapes the competitive landscape for unlicensed operators. Progress on these questions will require coordinated data access across regulators, operators, and independent measurement bodies.

While the exclusion of the offshore market was perhaps once a feasible strategy, the emergence of widely adopted cryptocurrency payment rails should prompt regulators to revisit their principles. Although it is a challenging empirical question to estimate the scale of channelization, the framework proposed here does not depend on precise measurement. Rather,

our more modest claim is that the direction of change in channelization can be detected, and that this direction is policy-relevant. The competitive equilibrium that sustains channelization depends on the relative attractiveness of licensed and unlicensed alternatives, and the primary barrier to the unlicensed market is weakening. The open question is no longer whether changes in payment rails will reshape cross-border gambling, it is whether licensed markets will be positioned to compete when they do.

Last, we emphasize that channelization is a necessary but not a sufficient condition for player protection. Directing players toward licensed operators accomplishes little if those operators are not held to standards that materially improve their welfare. The framework proposed here treats channelization as the precondition that makes effective regulation possible, not as a substitute for it. Separately, the current binary framing of regulated versus unregulated markets should not obscure the fact that players who remain offshore are also experiencing adverse effects of gambling. Prevention and treatment systems designed to reach only licensed-market participants will systematically miss the populations most exposed to unregulated practices.

Data availability statement

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

Funding Statement

No funding was received for this study.

References

Armani, F. (2025). *The State of Stablecoins 2025: Supply, Adoption & Market Trends*. Dune; Artemis.

American Gaming Association. (2025). *Sizing the illegal and unregulated gaming markets in the United States*. Prepared by The Innovation Group. https://www.americangaming.org/wp-content/uploads/2025/08/Illegal-Market-Research-Report.pdf

Blaszczynski, A., Ladouceur, R., & Shaffer, H. J. (2004). A science-based framework for responsible gambling: The Reno model. *Journal of Gambling Studies, 20*(3), 301-317. https://doi.org/10.1023/B:JOGS.0000040281.49444.e2

Ipsos (2025). *Canadian online gambling channelization study*. Canadian Gaming Association. https://canadiangaming.ca/wp-content/uploads/Canadian-Gaming-Association-Channelization.pdf

Chang, J., Lai, C., & Wang, P. (2010). Casino regulations and economic welfare. *Canadian Journal of Economics, 43*(3), 1058-1085. https://doi.org/10.1111/j.1540-5982.2010.01606.x

Chopin, J., Rodriguez, L. T., & Caneppele, S. (2024). Defining and estimating the illegal gambling market: A scoping review. *Journal of Economic Criminology, 4*, 100068. https://doi.org/10.1016/j.jeconc.2024.100068

Combs, K. L., Kim, J., Landers, J., & Spry, J. A. (2016). The responsiveness of casino revenue to the casino tax rate. *Public Budgeting & Finance, 36*(3), 22-44. https://doi.org/10.1111/pbaf.12106

Crystal, S. (2025, May 21). Crypto casino platforms and stablecoins: A new era of digital betting. *SCCG Management*. https://sccgmanagement.com/sccg-articles/2025/5/21/crypto-casino-platforms-and-stablecoins-a-new-era-of-digital-betting/

Egerer, M., & Marionneau, V. (2023). Blocking measures against offshore online gambling: A scoping review. *International Gambling Studies, 24*(1), 36-52. https://doi.org/10.1080/14459795.2023.2190372

European Parliament & Council of the European Union. (2023a). Regulation (EU) 2023/1113 on information accompanying transfers of funds and certain crypto-assets (recast). *Official Journal of the European Union*, L 150/1.

European Parliament & Council of the European Union. (2023b). Regulation (EU) 2023/1114 on markets in crypto-assets (MiCA). *Official Journal of the European Union*, L 150/52.

Gainsbury, S. M., Abarbanel, B., & Blaszczynski, A. (2019). Factors influencing internet gamblers' use of offshore online gambling sites: Policy implications. *Policy & Internet, 11*(2), 235-253. https://doi.org/10.1002/poi3.182

Gambling Commission. (2025, November 6). *Illegal online gambling: Challenges of estimating the size of the illegal gambling market*. https://www.gamblingcommission.gov.uk/report/illegal-online-gambling-challenges-of-estimating-the-size-of-the-illegal

Giusti, M. (2025, April 21). Crypto casino takings top $80bn as gamblers bypass blocks. *Financial Times*. https://www.ft.com/content/66f879c6-e51c-4e9d-91ba-b15eecac45c1

Glücksspielstaatsvertrag 2021 [State Treaty on Gambling]. (2021). German Länder.

He, C., & Klein, T. J. (2023). Advertising as a reminder: Evidence from the Dutch State Lottery. *Marketing Science, 42*(5), 892–909. https://doi.org/10.1287/mksc.2022.1405

Jung, S., & Kleibrink, J. (2025). *Online gambling in Germany: Channeling and development of the black market*. Handelsblatt Research Institute.

Latham & Watkins. (2025, July 18). The GENIUS Act of 2025: Stablecoin legislation adopted in the US [Client Alert]. https://www.lw.com/en/insights/the-genius-act-of-2025-stablecoin-legislation-adopted-in-the-us

Marionneau, V., Matteucci, N., Vieira Lima, S., Nikkinen, J., & Selin, J. (2024). Channeling and taxation in European online gambling markets: Evolution and policy implications. *Harm Reduction Journal, 22*, 1. https://doi.org/10.1186/s12954-024-01145-0

McGrane, E., Wardle, H., Clowes, M., Blank, L., Pryce, R., Field, M., Sharpe, C., & Goyder, E. (2023). What is the evidence that advertising policies could have an impact on gambling-related harms? A systematic umbrella review of the literature. *Public Health, 215*, 124–130. https://doi.org/10.1016/j.puhe.2022.11.019

McGrane, E., Pryce, R., Field, M., Gu, S., Moore, E. C., & Goyder, E. (2025). What is the impact of sports-related gambling advertising on gambling behaviour? A systematic review. *Addiction, 120*(4), 589–607. https://doi.org/10.1111/add.16761

Nightingale, T. (2025). What we do in the shadows. *Canadian Gaming Business*, *18*(1), 12–13. https://issuu.com/sbc.global/docs/cgb_vol_18_no_1_web

Philander, K. S. (2013). A normative analysis of gambling tax policy. *UNLV Gaming Research & Review Journal*, *17*(2), 17-26.

Philander, K. S., Ghaharian, K., Krejcik, A., & Giden, B. (2024). *Gambling ads in Canada: An academic and policy study of the Ontario model*. Canadian Gaming Association. https://canadiangaming.ca/wp-content/uploads/Gambling-Ads-in-Canada-GP-Consulting-Compressed.pdf

Philander, K. S., & Wimmer, B. S. (2025). Playing by the rules: Government regulation and consumer trust in the online poker industry. *Computers in Human Behavior Reports*, *17*, 100599. https://doi.org/10.1016/j.chbr.2025.100599

Schneider, F., & Enste, D. H. (2000). Shadow economies: Size, causes, and consequences. *Journal of Economic Literature, 38*(1), 77–114. https://www.jstor.org/stable/2565360

Wardle, H., Reith, G., Langham, E., & Rogers, R. D. (2019). Gambling and public health: We need policy action to prevent harm. *BMJ, 365*, l1807. https://doi.org/10.1136/bmj.l1807

Weston, P. W., & Clark, L. (2025). Media portrayal of sports betting in Canada before and after Federal Bill C-218. *International Gambling Studies, 25*(3), 432–447. https://doi.org/10.1080/14459795.2025.2512931

Yield Sec. (2025). *USA National 2024*. Campaign for Fairer Gambling. https://www.fairergambling.com/new-yieldsec-analysis-shows-illegal-gambling-is-bleeding-the-u-s/