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

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Abstract

This editorial 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 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

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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).

Cryptocurrency adoption is already 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). The GENIUS Act, by legitimizing stablecoin payment rails and bringing them into the mainstream financial system, removes much of the friction that once made offshore gambling inconvenient.

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:

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

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

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.

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 (GlüStV 2021) illustrates the opposite trajectory. Only an estimated 20-30% of online casino occurs on licensed platforms and web traffic to licensed sites continue 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 RTPs 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 require 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. Advertising should be encouraged, not prohibited. Licensed operators hold a structural advantage in advertising: they can purchase broadcast media, corporate sponsorships, and mainstream digital advertising that offshore competitors cannot access without exposing themselves to enforcement action. Advertising bans surrender this advantage while doing

nothing to reduce offshore visibility through affiliate networks, social media, and search optimization. Responsible messaging requirements and restrictions on targeting vulnerable populations may reasonably support public health goals but should be viewed in balance with goals around brand awareness of licensed operators.

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.

Conclusion

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.

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.

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. 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 cryptocurrency payment rails will reshape cross-border gambling, it is whether licensed markets will be positioned to compete when it does.

Data availability statement

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

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