

Playing on the Edge - Sweepstakes Casinos Face Challenges

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Sweepstakes casinos have become a force in online gaming, offering casino-style games without navigating the complex regulatory scrutiny of gaming regulators or legislators. Sweepstakes casinos use creative business models, utilizing virtual coins and alternative entry methods to circumvent legal restrictions. However, as their popularity continues to rise, so does the legal scrutiny from legislators.

Sweepstakes casinos are a spin on traditional gambling. Typically, sweepstakes casinos employ a dual-coin system. “Gold coins” are given for free and can be used to play free games, much like any other freemium model. Players are not at risk of losing real money when they use gold coins, and gold coins cannot be redeemed, transferred or exchanged for any goods or services. However, sweepstakes casinos also offer “sweep coins,” which can be earned through daily logins, promotions, by alternate means of entry (i.e., mail-in letters), or purchase. Sweep coins can then be redeemed for real money prizes, including gift cards, cryptocurrency or cash. Gold coins and sweep coins can be used to play a variety of traditional casino games, including blackjack, poker, roulette and slots.

While the allure of these platforms lies in their ability to provide gambling-like experiences, their model has raised serious legal and regulatory concerns. Critics argue that the line between sweepstakes gaming and illegal gambling is thin, with many of these platforms essentially offering a form of gambling without the proper regulatory oversight. Legal challenges from plaintiffs and regulators are becoming prevalent across several states. Over 10 lawsuits have been filed across the country, with lawyers claiming fraud, breach of contract, unfair and deceptive trade practices, and violations of various state gambling loss recovery statutes.

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Additionally, several state regulators have issued cease-and-desist letters to sweepstakes casino operators. In Michigan, the Gaming Control Board has issued cease-and-desist letters to several unlicensed online casinos and gambling platforms. Similarly, in Maryland, the Lottery and Gaming Control Agency sent cease-and-desist letters to multiple online casinos and sportsbooks that the agency found to be operating without proper authorization. West Virginia has also taken steps to address what it deemed as “unlicensed” online gambling activities. The state’s attorney general issued subpoenas to sweepstakes operators, aiming to enforce compliance with state laws. These actions across multiple states highlight a growing effort to further regulate and monitor online gambling activities.

Noting the challenges to regulated online gambling industries in their own states, state legislatures have also taken the matter into their own hands. Several states, including Maryland and New York, have proposed legislation that would ban the sweepstakes casino model in their own jurisdiction. In proposed legislation in New York, fines could amount to \$100,000 with instructions for the gaming commission and the New York attorney general to enforce the penalty. In other states, payment processors and other vendors needed to operate sweepstakes casinos could also face civil and criminal liability. Legislators are taking important steps to exempt established forms of gambling, including sweepstakes where no purchase is necessary to participate in contests.

The rise of sweepstakes casinos and their ability to operate in this legal gray area has exposed gaps in the regulation of online gaming. For several years, these platforms have operated on the assumption that a sweepstakes model could avoid the classification of illegal gambling. However, the legal and political landscape is shifting.

Ultimately, the challenges facing sweepstakes casinos are far from resolved as courts, regulators and legislators review whether these types of gambling are permissible. As the market waits for answers, the rise of sweepstakes casinos remains a stark reminder of the complexities involved in balancing innovation with regulation in the ever-changing landscape of online gaming.

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