

PRESIDING MEMBER: During the course of the smart card inquiry, can you remember what you told us or what you indicated and what Mr Woehlert might have indicated as to what you thought the cost was.

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MR HEARNE: Between 1200 and 1500 per pin unit player interface - - -

PRESIDING MEMBER: Sorry, 1200?

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MR HEARNE: To 1500.

PRESIDING MEMBER: Yes, per?

MR HEARNE: Pin player interface module. That is - - -

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PRESIDING MEMBER: Per machine.

MR HEARNE: Yes, correct, and that incorporates installation and all other aspects.

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PRESIDING MEMBER: So in a 30-machine venue - - -

MR HEARNE: Circa 55, 60 K.

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PRESIDING MEMBER: And that's all up for the venue.

MR HEARNE: Then you have the actual devices themselves.

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PRESIDING MEMBER: The card the patrons have, what's the cost of them? Is that an expensive exercise?

MR HEARNE: It's about \$2.50 with margins somewhere around the \$3 mark.

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PRESIDING MEMBER: Okay. Have you been able to improve your price since you last talked to us about it? Has there been a bit of a competitive - has there been some pressure on that at all?

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MR HEARNE: Again, I'm set to install four systems in the rewards capacity in South Australia within the next four to six weeks. The systems I've installed in Bundaberg range from 221 machine clubs down to 40 machine venues. The amount of pins that are produced dictates the price. I can get in just over a thousand dollars on a 221 machine club. So it depends.

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PRESIDING MEMBER: If you had 13,000, 12,000 machines.

MR HEARNE: Cheap.

PRESIDING MEMBER: Cheap? What would you get it down to?

5 MR HEARNE: I would suggest under the 800 mark.

PRESIDING MEMBER: Under the 800? Can Mr Woehlert do better than that, do you think?

10 MR HEARNE: In time I'm sure.

PRESIDING MEMBER: How would the time affect that? What is going to happen with time?

15 MR HEARNE: In order to implement just the size of the exercise that you're referring to - - -

PRESIDING MEMBER: But how is that going to impact over - I mean surely these things must over time become cheaper to produce and cheaper to install
20 somehow as they become improved as more and more of them are produced across the world. There must be some reduction in price, mustn't there?

MR HEARNE: I would imagine there would be. At this moment it's quite
25 expensive and we're only just past the prototyping of the boards and we're now into version 2 of our current boards, and every time we do that, of course, there are costs to do that. Essentially though, if I could make the point that the technology that we're putting in as a reward based program, which is the point that I was here for today I'll use the example later on Across the Waves; that technology is already in place. Once we are through QOGR and through the
30 trial, the clubs are willingly knocking on the door saying, "We want this technology."

PRESIDING MEMBER: For their loyalty program purposes.

35 MR HEARNE: They've already got it.

PRESIDING MEMBER: They've already got it.

MR HEARNE: They've already got it, but what they're saying on a voluntary
40 basis - and I make that point - on a voluntary basis they are looking for a cashless operation and some form of harm minimisation to offer their patrons.

MS KELLY: So they see that as a plus.

45 MR HEARNE: Absolutely, but again, I need to make that point, on a

voluntary basis. They're not spooked by the concept of the technology. As a matter of fact they're quite keen to take it up.

5 MS BUCKLER: But is that as a result of them recognising there is problem gambling in their clubs?

MR HEARNE: I would imagine they recognise that they have a civil duty to make sure that they comply.

10 PRESIDING MEMBER: It's not really in a way - I mean, that's a hard question, isn't it. I mean, you're not here on their behalf and it would be difficult for you to speak as to what they think, and I think it's probably not fair to ask you to express a view about what their motivation might be, but do you have a sense of that? I mean, where have you got that idea from?

15 MR HEARNE: I have a sense that most people in the industry realise that something - a proactive approach needs to be taken, and they are looking - most other avenues have been trialed in some way, shape or form and they are - - -

20 PRESIDING MEMBER: Where have you got that sense from, that they are looking for some avenue to address harm?

25 MR HEARNE: Dare I say, from the recommendation of the board for the stage 2 to the government and they are saying - I believe they feel that if they don't do something themselves, then they may well be regulated to a level higher than they are looking at with this kind of technology.

30 PRESIDING MEMBER: That's a bit different though, isn't it, from you having a sense of what their view is about whether they need to address harm.

35 MR HEARNE: Again, I'll make a generalisation: that most of the clubs that are willing to participate are highly-g geared, highly financial organisations of 150 machines plus, and this is what they do. They sponsor a number of different communities - community organisations, sporting clubs. This is how they want to be seen by the general public, and anything they can do, they will generally do.

40 PRESIDING MEMBER: So that must at the very least mean that they sense that the community perceives that harm might occur for some people and indeed there may be harm, not just that the community perceives it but that some people do get themselves into trouble with these poker machines.

45 MR HEARNE: I don't think that's without question.

PRESIDING MEMBER: Yes.

MS KELLY: And when you're speaking about the clubs, you're speaking about these large Queensland clubs.

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MR HEARNE: Correct.

PRESIDING MEMBER: So when you say you don't think it's without question, what you mean to say is that you think it is without question the case that they think that the reality is that for some people harm is caused by these poker machines.

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MR HEARNE: I don't dispute that.

PRESIDING MEMBER: Mr Hearne, if that's the case, do you have a view as to what period of time will elapse by which say in one or two states in Australia that technology will exist across the sector?

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MR HEARNE: The technology exists already in New South Wales on a trial basis and through E-Bet. The technology exists.

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PRESIDING MEMBER: In every facility?

MR HEARNE: No.

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PRESIDING MEMBER: It's there.

MR HEARNE: It was regulated, and it was regulated quite heavily, and I don't profess to have a full understanding of it, but limits were placed that were deemed to be unreasonable by the industry and therefore there wasn't a large pick-up of the technology. The QOGR model, being a voluntary basis, seems to be more palatable to the industry through the clubs in which they can pick that up, maintain their loyalty, and it's also fair to say that that when you're talking about a cashless operation, you're talking about a large degree of economy within the operation of the venue. So it's not all just channelled down this one path.

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They can save a large amount of money of money being on the floor; occ health and safety. There's a whole gambit of economies that they can make. Providing they can still run their organisation, a lot of them are very happy to look at doing exactly that. Some of them are quite open in saying that they would like their organisation to be completely cashless.

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PRESIDING MEMBER: Just looking at your 800 price again - - -

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MR HEARNE: Plus GST, Mr Chair.

5 PRESIDING MEMBER: Are you sure? Yes, I see. What I'm just wondering though is that surely for you, and possibly for Mr Woehlert, if you were invited to do the installation on a whole-of-state basis and that was going to be
5 auspiced by the relevant regulator and so on, that that would have some significance, wouldn't it, for the likelihood or otherwise of introductions in other states across the board. It would be relevant, wouldn't it.

10 MR HEARNE: I believe so.

PRESIDING MEMBER: Why wouldn't that be a reason to provide perhaps a somewhat heftier discount overall than the 800? Why wouldn't that put some
15 pressure on you?

MR HEARNE: I feel like I'm back on the stand in Queensland. It's a commercial argument and it's one that you would have to look at. I mean, certainly I can run the exercise and come up with a figure of X, but again I
20 make that point, and obviously having read the AHA's and the club's submission and indeed the casino's, at this stage of the game there's no evidence to suggest that doing just that is going to achieve exactly the result that we're looking for.

PRESIDING MEMBER: That argument - that's been around a while, hasn't it, the argument that unless there's some evidence, you don't do anything. There
25 are some difficulties logically with that, and I suppose, not to put too fine a point on it, wanting to express things in terms of words of one syllable, there are some serious problems with that proposition, that it would be a basis for not doing anything about anything ever. It would certainly be a basis for not ever
30 introducing any poker machines into any state because you didn't have evidence that it wasn't going to cause harm and you didn't have evidence that it was going to be a good thing. That doesn't, I think, help us.

If, for example, the South Australian government were persuaded to look again
35 at the question of smart card technology and that issue were raised again, and if - and I may be wrong about this, and I sure I am, Mr Hearn - but if it were that the pre-eminent concern for government was one of cost, it's not wrong to say, is it, that that 800 figure, depending upon the circumstances - the overall
40 circumstances - and a range of factors and incentives of one sort or another that some work might be able to be done on the solid end of that figure, and that would be something in which there would be more than one player who would be thinking about it.

MR HEARNE: Absolutely.
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PRESIDING MEMBER: There would be you and Mr Woehlert. Who else would be in the game, do you think?

5 MR HEARNE: Possibly an E-Bet-style scenario - that being said, E-Bet, it's a great system but it's mag-stripe technology with the back end in the database in the computer. So again that's a backward step. So there's obviously - whilst smart technology, we have that technology, other systems that are currently using mag-stripe would have the option to upgrade their technology. All those costs would be - - -

10 PRESIDING MEMBER: What's happening overseas? Is anyone making inroads into introductions of - - -

15 MR HEARNE: It has. I have a number of - - -

PRESIDING MEMBER: Where have they done that?

MR HEARNE: Subic, I believe. In an Indo-Pacific I can supply venues: Genting, I believe is another venue.

20 PRESIDING MEMBER: I'm sorry?

MR HEARNE: Genting, the casino. I believe if they haven't already done it, they're looking into it. I have a number of quotes overseas at the moment: offshore houseboat casinos; another quote in Subic. The hard part is, of course, just getting it over the line and getting the actual deposit paid in which to do all of that.

30 PRESIDING MEMBER: Yes.

MR HEARNE: I would say that the overseas market actually see an increase in profit in going down the cashless paths and not an increase in profit from the gambler, but an increased profit from less pilferage and more economies within their operations, so absolutely.

35 MR HILL: At the end of this trial there will be a report. Am I right?

MR HEARNE: At the Yamanto?

40 MR HILL: Yes. There will be a report at the end of the trial.

MR HEARNE: Yes.

45 MR HILL: And that report will be to whom? Who's the client?

MR HEARNE: QOGR. I would imagine that they will be delivering - the regulators will be delivering that to the Beattie government and from that point on - - -

5 MR HILL: So the report goes to the regulator, not to the proprietor of the - - -

MR HEARNE: No. He's just a willing participant who's happy to trial the technology.

10 PRESIDING MEMBER: The operator.

MR HILL: Yes, and what would be the focus of the report? Is it commercial use or is it harm minimisation? What is the purpose of the trial? What are the aims of the trial?

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MR HEARNE: QOGR's aim is to trial the technology - is to actually get some data on the technology and its effectiveness, plus it is their charter that they wish to have this kind of cashless operation. They are seeming to be the ones that are pushing for it.

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PRESIDING MEMBER: Did you see a document, perhaps a terms of reference or a commission for the report that would have set out what the objectives were?

25 MR HEARNE: The original white paper.

PRESIDING MEMBER: It was the white paper, was it?

30 MR HEARNE: That's the original white paper that QOGR had brought out. The problem with that white paper, Mr Chair, is of course when it was put forward, the technology was mag-stripe and we now find ourselves in a position with Linda Woo, who is the representative that we're dealing with, where our technology does not match what the original white paper was - so we're now in a transitional period saying, "This is what we can do," and they're being very cooperative in saying, "Look, just get it to the marketplace." The hiccup that we have is with QCOM 1.6. It's not completed and that is needed in order to - - -

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PRESIDING MEMBER: What's QCOM 1.6?

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MR HEARNE: They're currently, I believe, running on 1.4. That's the monitoring system that they use. That's the same monitoring system that Northern Territory uses and I believe Tasmania, if not now, are going to that system. I'm sure there are other people in the room that could answer that question. Currently the version that they have, their cashless meters are being

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used for link jackpots.

MS KELLY: So it doesn't match your - - -

5 MR HEARNE: Correct, so in order for us to be able to go into trial - and this was the hiccup - they have to have the new version and it has to be approved, trialled and tested for us to be able to plug our system into it to conduct the trial. That's circa August, September of this year, hopefully.

10 MR HILL: The ideal outcome here is that the result of the trial is that there are such savings in operating costs that operators will be falling over themselves to install the systems.

MR HEARNE.: For me that would be a lovely result.

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PRESIDING MEMBER: Yes, that would make that 800 no problem at all. We've diverted you, but that's been most helpful to us, Mr Hearne. Let us go to the next frame of your presentation.

20 MR HEARNE.: Okay. There are two points that I wanted to make to the board. It is our opinion, in order to effectively implement a smart card harm minimisation system, then a loyalty component must form an integral part of that methodology. Secondary to that, and I've noted in other submissions, we can find no supporting evidence or studies that suggest the banning of player
25 loyalty systems will have any effect on problem gambling or that loyalty systems contribute to problematic gambling. When I refer to that, I refer to actual written reports or trials or anything along - those measures. Certainly, we did have a look for that.

30 The current Maxetag system installed in Northern Territory, Queensland and SA - the pending four venues that I spoke about - includes the following harm minimisation profile - and this is just in the rewards, in what you would call a loyalty system. It's a reward not based on player turnovers, so you have a system that is not the law, "You play them all, we pay." It's not based on
35 measuring an individual person's turnover and rewarding points. It's simply a point. So if you spend 550 or 500, the system doesn't discriminate against you. I just make that point because there are ways and modifications to loyalty systems that can be made that can be deemed to have harm minimisation measures within them.

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MS KELLY: Is that advertised to the players?

MR HEARNE.: It doesn't take them long to switch on.

45 PRESIDING MEMBER: No, I think the difficulty is that if any presiding

members ask you a question - we're assisted by people who make submissions here who answer the question, not perhaps another one. It's important to try, I think, to focus on the question.

5 MR HEARNE.: If I can then refer to the installation at Across the Waves, some material was produced which I'm happy to submit, in which they explained and outlined to their 15,000-plus members that a new system was being installed and they had two options. They could either be a rewards
10 player or they could be a points player. The methodology that was used in order to ascertain at what level they wanted to participate was, "If you're a points based player and you have been happy with the amount of redemptions that you have been receiving on your points based system, then we suggest that points based is for you. If you haven't been happy/interested/excited with what you've been doing, then we suggest you try the reward based system." People
15 then, on the signing-up of the system, made a choice and simply picked one or two and off they went.

MS KELLY: You're talking now about the trial in Queensland?

20 MR HEARNE.: No, I'm talking about the actual reward system that is currently in place. The trial is the reward system with a plugged-in cashless component. The players that were the points - they had the opportunity to switch from rewards to points as they saw fit. Again, no player-tracking features exist within that. As I said before, it's not linked to individual play or
25 the turnover of one person. Even with a ticket-spitting option, we've gone for a time based ticket-spitting option.

We've discussed some of this. Maxetag is currently scheduled for a cashless harm minimisation trial through Queensland Office of Gaming Regulation.
30 The system will include player rewards, voluntary cashless gaming, voluntary pre-commitment and various harm minimisation measures. Upon successful completion of the trial we are expected by QOGR to offer the upgrade to our current reward loyalty sites to incorporate this technology.

35 For the technology to succeed - and now I'm going back to the South Australian model - we believe that the pre-commitment harm minimisation and cashless gaming scenario is totally dependent on the amount of devices being utilised within the venue's reward and loyalty system. For example, at Across the Waves, 221 machines, membership approximately 14,000. Since we
40 installed in December 2005, we have 9000 tags being issued to their members. These members are currently enjoying the benefits of a reward system through normal gambling activity and, I would also like to point out, through normal retail activity - restaurant, it's whole of venue with a separate installation at a site in a shopping centre with no pokie machines, utilising the same technology
45 of the system.

5 It becomes a simple process then for us to implement the harm minimisation
cashless gambling at minimal cost to the venue and maximum exposure to the
player and all the clubs that we are currently signing up, including another -
Hervey Bay Boat Club are going into this, should the government deem to go
down the cashless trial. They are very interested in the fact that the system,
any system they buy, can be compliant to that.

10 As far as education goes, following Blaszczynski's, A Pathways Model of
Problem and Pathological Gambling - and I only use that, having met the
gentleman at the NAGS conference of last year. I spent an interesting evening
with him going through it. It made a lot of commonsense. Basically, if I can
just read some notes here that I made - in which he puts forward the case that
15 the loud problem gambler followed a pathway from safe recreational gambling
habits at entry level to a more self-destructive path of self-harm and
pathological behaviour.

20 Simply put, the person did not arrive at that end destination simply overnight.
Bearing that in mind, we believe that there are a number of opportunities
through that pathway where the opportunity for intervention and education can
occur. Having said that, if the customer sees no benefit to themselves through
participation in a loyalty system, it would seem highly unlikely to us that they
will voluntarily participate in any harm minimisation program that comes
through.

25 Since the inception of gambling in SA -12 years - we estimate that in excess of
20 per cent of the SA adult population currently participates in some form of
gaming loyalty system. As you'll see from other submissions, that figure is
quite on the light side. Other numbers in and around the 400,000 have been
30 suggested. What I'm saying is, if we can't install new systems to follow them
in the jurisdiction, in the market, with the technologies to gain the data or allow
the current systems which are in the marketplace to adopt the technologies and
allow lesser technologies to upgrade - I'm referring to mag-stripe technology -
then the opportunity will be lost.

35 We believe the opportunity will be lost, including the very data that could
assist you in identifying the problem gamblers. If I may, with the board's
attention, just get this handed out to you, I would like to read some
correspondence that I received from Tracy Schrans, who is the president of
40 Focal Research Consultants in Nova Scotia, Canada. As a method of
establishing her credentials, Tracy has made a number of presentations,
including the NAGS conference and the concerned sector. I've spoken to
Mr Henley who will vouch for her independence and her expertise in this area.
I think she makes a very valid point and, with your permission, I'd like to read
45 it.

PRESIDING MEMBER: Are you planning to read all of it?

MR HEARNE.: Only for the benefit of those - - -

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PRESIDING MEMBER: I'm sure we can do that. Are there particular passages you might like to go to? It's just that it will take a bit of time.

MR HEARNE.: Yes.

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Inasmuch as the iCare system and the iView system, where essentially they have developed through extensive research an algorithm which they believe - - -

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PRESIDING MEMBER: Where are you up to there?

MR HEARNE.: Midway through first paragraph:

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Dr Tony Schellinck, our CEO and my long-time research partner, professor at Dalhousie University, director of Dalhousie's MBA program and Manning Chair of business economics, was the mathematician behind the algorithm.

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Essentially what Tracy is saying is that, through the use of the loyalty data, they applied their algorithm for that particular jurisdiction with a degree of known accuracy and they are looking at that as being a worldwide standard. I draw your attention to the bottom of the first paragraph.

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I believe this is a highly significant development that time will likely mark as a critical moment for the gaming industry, a making history sort of thing. This is especially important given the reluctance of insurance companies to underwrite casinos, et cetera, for problem gambling.

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It also made mention there of the industry at first onset potentially dumping their loyalties information but then using it as a method of having a sustained growth and industry. I just thought those comments were pertinent to the presentation that I was making.

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PRESIDING MEMBER: They're very pertinent, thank you, Mr Hearne.

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MR HEARNE.: So, in a nutshell, to remove these systems and technologies from the marketplace I believe would have a significant impact on the introduction of measures to assist problem gamblers with new technologies. Then, flipping back just to that second point again, we can find no published

evidence that the banning of player loyalty systems will have any positive effect on the reduction of problem gambling, essentially. That's my presentation.

5 PRESIDING MEMBER: Thank you very much, Mr Hearne. That was of great assistance to us and thank you for that additional material. I think we might at this stage perhaps ask how we're going with the programming? Is Mr Woehlert intending to present? Mr Woehlert, are you intending to present on this occasion?

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MR WOEHLERT: If you've got any questions, I'll answer them.

15 PRESIDING MEMBER: Thank you indeed. We do have a couple of questions. I wonder whether we might ask you if you'd come to the bar table at this stage and we can perhaps deal with those questions briefly before we go on. Could I just ask you, what do you think about Mr Hearne's price of \$800. How do you see that?

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MR WOEHLERT: I think it a very moderate price.

PRESIDING MEMBER: Is it one that you can - - -

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MR WOEHLERT: I'm sure there are some comparisons in the technology that would probably make price comparison irrelevant. I'm sure it's a commercial issue.

PRESIDING MEMBER: It is something that - you don't see that as an outlandish figure and it's one which your company could talk about?

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MR WOEHLERT: Certainly, but again we come back to the question of what does the technology do? How is it going to be used? We currently have 67 venues with systems installed that can do some if not all of this material. We're still left in South Australia, though, with the situation that if you've got a complete harmonisation system that shuts machines down, we're talking about changing every gaming machine in South Australia; not just changing the technology, replacing the machine.

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PRESIDING MEMBER: You say it's necessary, even with what Mr Hearne proposes, to change the machines?

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MR WOEHLERT: What Mr Hearne is proposing, as I understand his technology, is much like ours for South Australia. That's why he kept referring to the QCOM protocol and he's quite right when he says it. The communications protocols in South Australia are somewhat different than they are in New South Wales and Queensland. As we've previously submitted, and

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I think as Mr Hearne is submitting now, there is a limit in terms of the technology in South Australia and the nature of the machines in South Australia. While we can do something - - -

5 MS KELLY: As to what it could support?

MR WOHLERT: Correct, in terms of the way that it communicates with machines. Our system, as we've previously submitted, has the ability to send messages to terminals. It has the ability to send messages to the cashier's terminal where a staff member can see what's going on. We don't have the ability, because of the technology in South Australia, to in fact shut the machines down. We do have that ability in New South Wales, we do have that ability in Queensland, but not here.

15 MR HILL: Is that to do with the monitoring system?

MR WOHLERT: Both that and the communications protocol within the machines. As I understand it, the communication protocol in the machines doesn't allow for direct communication to the machine. All it's doing is taking information off the data port which is connected to the monitoring system.

MS BUCKLER: Isn't our monitoring system under review at the moment?

MR WOHLERT: Yes, it is, but we don't know where that's going to go and that's again, as I understand it, going to depend on the nature of the monitoring system and the communication protocols that are in the South Australian machines. Certainly the technology that we've talked about before has a capacity, and the current system that's installed has a capacity, to do some of this. It doesn't have the capacity to do all of it.

MS KELLY: So you say that price is somewhat dependent on what we ask the system to do and in particular whether we ask it to shut down machines?

MR WOHLERT: Yes. If you're saying, "Look, for \$800 can we install a system in South Australian machines that's going to shut every machine down," I'd say that's not possible, given the nature of the communications in South Australia. \$800 may well be adequate to install a system that does some of the material that Mr Hearne talks about.

40 PRESIDING MEMBER: You don't want to contradict what Mr Hearne said?

MR WOHLERT: No. What he's saying is absolutely right. Certainly there's no difference in terms of his technology or ours. The way that we communicate with the machines is paramount. What we can do in South Australia - - -

PRESIDING MEMBER: Why is yours better than his?

5 MR WOHLERT: I don't think it's a question of better or worse. Both of us have features that can be used for some purposes. Like Mr Hearne's system, our system can turn features on and turn features off. We can do cashless gambling too. We can do harm minimisation. We can do that with our current system. But in terms of how we interact with the patron, it's going to be different.

10 The question of whether that's good, better or worse than Mr Hearne's system is a judgment call, and how customers choose to use it is also a judgment call. But we certainly support Mr Hearne in saying that, look, if you're going to throw out the loyalty programs, what you're throwing out is the potential for harnessing any of this material, and currently in South Australia we have something like about 300,000 cards in our system alone that's capable of doing some of this. We have something like about 67-odd venues in South Australia that are capable of trialling some of this material.

20 It won't be the full lockdown system because the structure that we have in South Australia is limited in terms of that, but it will do some, and we would certainly, as we have done in the past, urge the authority to look at the systems that are out there and perhaps trial some of the systems as opposed to simply banning them.

25 PRESIDING MEMBER: Thank you very much indeed, Mr Woehlert. Thank you for doing that on short notice. That's very helpful to us. I wonder if I might ask - I was going to say the new leader of the opposition, but I meant Mr Xenophon. Mr Xenophon, do you mind perhaps coming to the bar table so we can discuss how we will program things from here on. Mr Henley and other representatives for the task force and other agencies that fall within the general description of "the concerned sector" will present shortly. Did you have a view about how long you might be and when it would be most convenient for you to present, Mr Xenophon?

35 MR XENOPHON: I imagine I will be speaking briefly to my submission. It might be 15 or 20 minutes. My preference was to speak after the concerned sector. They raise a number of issues in relation to enforcement; and I think that was their view as well.

40 PRESIDING MEMBER: We are certainly content with that. I think we've moved a little more quickly than I thought we might. That might end up being very early tomorrow morning, Mr Xenophon.

45 MR XENOPHON: That's fine.