

Submission to Parliamentary Joint Select Committee on Gambling Reform

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Four principles for reform of the poker machine gambling sector

1. Treat problem gambling as an independent policy issue
2. Consider gambling provider financial and management problems separately from 'provision of gambling' issues
3. Design material and technical changes to directly address problem and at-risk poker machine gambling behaviour
4. Aim to exclude problem gamblers and thus reduce the multiplier effect of social harm and cost produced by their poker machine gambling

De-coupling problem gambling and revenue

The recent report of the Productivity Commission (PC 2010) makes clear that the barriers to action on problem gambling and gambling derived production of harm are not technical, nor are they related to broad issues of consumer amenity. The goals of exclusion of problem gamblers, and the reduction of harm, are however in conflict with the industry goal of maintaining or increasing current levels of revenue. We note that State governments routinely budget for increases in poker machine gambling revenues. Elimination of problem gambling will have a negative impact on state revenues. Gambling providers should expect to increase revenue only via the participation of new consumers. What are, in effect, extraordinary and predatory profits derived from problem gamblers should no longer be either expected or accepted.

We also note (as the PC has emphasized) that gambling is not a 'magic pudding'. The economic activity associated with gambling does not spring from nowhere, but simply diverts consumption from one sector to another. Were all EGM gambling revenue derived from problem gambling in Australia to suddenly cease, there would certainly be transitional effects, and these could be significant. But over time the non-EGM services provided by the gambling sector would be provided elsewhere in the economy, and consumption currently devoted to gambling would be diverted to alternative consumption (with every likelihood of greater overall economic benefits).

The gambling industry has also argued that it provides considerable support to the charitable and sporting sectors. The extent of such support is debatable (Con Walker 2010) and, on the basis of the Productivity Commission's report, the tax exemptions and regulatory relief provided to sections of the gambling industry on the basis of such support are arguably excessive and unwarranted.

It follows that the major barrier to problem gambling reform amounts to micro-economic vested interest; a small group of venues (mainly registered Clubs) that are overly reliant on EGM revenues (particularly in NSW) argue that they are, in effect, 'too big to fail'. And State governments have come to rely

excessively on gambling revenues, notably EGM revenues, and are arguably so conflicted by this consideration that they may well be in no position to regulate EGM gambling in the genuine interest of consumers.

In our submission, the Committee should separate these issues; problem gambling and the production of harm by EGMs should be addressed independently of consideration of the impacts of harm reduction on the revenue streams of individual organizations, or indeed on State government finances.

The vulnerability of certain large clubs to change in the scale of revenue, subsequent to the reduction in revenue associated with problem or harmful gambling, is a genuine problem that can be addressed through other measures. A Club that reforms its business strategy in line with a post-PG revenue future might, for example, be eligible for appropriate transition assistance in certain circumstances. However, if the goal of reform is genuine harm reduction and, ultimately, the elimination of problem gambling, such transitional arrangements are separate and perhaps secondary issues.

Reducing problem gambling and poker machine gambling produced harm

Research evidence indicates that a number of technically based regulatory interventions would significantly reduce the harm caused by high impact electronic gambling machine (EGMs, poker machines, or 'pokies').

These types of intervention include changes to (EGM) characteristics (structural changes), changes to the EGM system (parameter values, pre-commitment) and changes to EGM environments and ecology (ownership and venue characteristics). This submission focuses on the first two.

To date, gambling policy in its harm reduction guise has tended to focus on making poker machine gamblers better informed (i.e., 'how pokies work'), providing better anchors in 'reality' (clocks, meters in currency units, shutdowns), and providing services for those having problems (gambler help-lines, counselling). These measures rely on the notion of individual responsibility. They do not address the root cause of gambling problems, which are inherent to EGM design and the 'architecture' of current EGM systems (Livingstone & Woolley 2007).

Information and 'reality' measures have been useful to some degree, and counselling is often essential in providing support to those in trouble and their families, etc. However, such individually focused approaches have been successful only at the margins in relation to the financial losses and harm suffered by problem gamblers and their associates.

Public policy in relation to consumer products normally adopts principles of product safety: that is, goods intended for sale to consumers should be inherently safe. This aspect of consumer protection has been manifestly ignored in the arena of poker machine gambling until quite recently. However, the principle that consumer benefits may flow from material adjustments to the gambling product has now been accepted by some Australian governments. For example, structural restraints mandated by state governments include:

- Victoria - reduced maximum load up (from \$9,949 to \$1,000) and maximum

- bet (from \$10 to \$5);
- Queensland – load-up limited to \$20 notes;
- Tasmania – ATMs not permitted in social gambling venues;
- South Australia – bank note acceptors not permitted;

More fundamentally, Western Australia continues to prohibit poker machines in social (i.e., non-casino) venues. However, as welcome as such restraints are, and as much as they (in some instances) signal a clear acceptance of the principle of material change is pursuit of enhanced consumer safety, our view is that changes so far implemented amount to much too little, much too late.

The Committee has the opportunity to recommend a re-setting of the parameters of the poker machine industry on the supply side, in such a fashion that a sustainable, safe, community-based sector can evolve. We believe that for the vast majority of small social venues relying on ambient income from a small number of machines, such changes are unlikely to have any significant impact.¹

Effective gambling policy intervention

If EGM gambling is to be reformed in Australia so as to eliminate or substantially reduce harmful gambling, a number of criteria should, in our view, guide the reform process. These are:

- Reform must be systemic, and needs to transform the way poker machine gambling is conducted in social venues;
- Reforms must transform the material and technical system; ten years of information and other support policies targeting the individual responsibility of consumers has not worked. At best, it has been successful only at the margins;
- Reforms must be universal, and not contain loopholes in application or backdoors in administration;
- Changes must have bite: problem gamblers must be able to self-exclude and be nationally and universally 'locked out'; enforceable sanctions must be associated with failure to effectively implement reforms.

As the PC (2010) indicated, both pre-commitment and structural reforms can, and in our view undoubtedly should be implemented. Multiple responses, however, are likely to significantly reduce harm particularly during transition arrangements; information and help services should continue unchanged until such time as material change takes affect and demand for such services declines.

Models for reform

A number of potential models can be identified for the reform of the EGM business. Some of these are briefly outlined below. It should be noted that the Productivity Commission (2010) outlined a model in which both

¹ Our view is that policy should be directed at the regular consumers of the EGM product. Policy should not be construed by reference to the more than two-thirds of Australians that do not use pokies. Of the one-third of Australians that do use pokies, a majority do so infrequently. Policy should focus on the group who do use regularly and particularly the significant proportion of these regular users who are problem gamblers or at-risk.

pre-commitment and structural changes would be considered, although the PC did suggest that effective pre-commitment might obviate the need for structural change. An important aspect of pre-commitment, apart from the improved likelihood of allowing consumers to control their expenditure, is that for the first time it allows price disclosure (of a sort), and provides a form of 'informed consent' for consumers of EGM gambling. Neither of these fundamental aspects of consumer protection have been evident in the provision of EGM gambling to this point, and for these reasons alone pre-commitment should be implemented. However, the question of how best to limit the harms associated with EGM gambling remains unresolved.

1. *Universal compulsory pre-commitment coupled with structural change*

This model would result in the introduction of an effective system of pre-commitment and require introduction of significant alteration to parameter values such as maximum prize, maximum bet, and load-up limits. For example, reducing maximum bets to \$1.00 (from a maximum of \$10 in social venues), reducing maximum prize to \$500 (from a maximum of \$10,000), and reducing load-up to \$20 (from a maximum of \$10,000). However, acknowledging that even such significantly reduced limits would still result in potential harm to a significant number of regular users, effective and universal pre-commitment would also be required. This is a best practice 'seat-belt plus airbag' response, which is likely to be most effective in reducing harm. This approach would also have the effect of reducing the volatility of outcomes of poker machines, transforming them into entertainment or amusement devices with an appropriate level of in-built consumer safety.

2. *Universal compulsory pre-commitment*

This is the model currently being pursued by the Australian government as a result of its agreement with Mr. Wilkie. As we understand this concept, all EGMs operated in Australia will be required to implement a system of compulsory and effective pre-commitment, permitting consumers to set their own limits of expenditure and perhaps time, thus limiting their gambling expenditure in advance. In this model, as currently proposed, structural change is not currently envisaged. This model offers improved protection to consumers. However, in the absence of structural change, many consumers, particularly those at most risk of harm associated with gambling, may not be adequately protected by pre-commitment limits which may be set at quite high levels, especially with regard to individual circumstances. To have a chance of success in the absence of structural change, such a system must be universal and provide continuous integrity of individual gambler commitments and status (including self-exclusion).

3. *Compulsory pre-commitment for high-intensity EGMs; non-pre-commitment EGMs with low parameter values.*

In this dual track model, model, high-impact EGMs (i.e., those with parameter values as are currently available in all Australian social venues) would be accessible only via an effective and universal pre-commitment system.² This would limit time and money spent using these devices. However, lower impact EGMs (for example, defined by parameter values such maximum bets of \$0.50 and maximum prizes of \$250, with no networked jackpots applicable) would not require pre-commitment. Casual gamblers would not, in this hybrid model, be required to use a pre-commitment system. In most cases, the evidence suggests, so-called 'recreational' gamblers would not notice the structural changes implemented since their expenditure and patterns of play rarely if ever exceed the reduced limits. However, the reduction in harm production associated with reduced parameter values would be significant. Regular gamblers wishing to use high-impact EGMs would be required to utilise an effective and universal pre-commitment system. It is possible that EGMs could be configured to allow for both low and high intensity modes of operation, depending on whether the user utilised a pre-commitment system or not. However, it would be feasible to permit small venues to operate only low impact EGMs and thus escape the necessity of pre-commitment. Under no circumstances should a two-tiered system allow operators to increase the intensity of devices accessible only via the pre-commitment system. Expansion of current parameter limits in any form, under any new arrangements, should not be considered. Imposition of such a system would also provide an opportunity to standardise Australian and New Zealand technical standards to a common set of parameter values, which is not currently the case.

Venues wishing to offer only high-impact EGMs, or a mix, would be required to implement the pre-commitment system for patrons using the high impact devices. This hybrid model does permit continued access to high-impact EGMs for those wishing to utilise them, subject to the protection afforded by pre-commitment. However it also allows venues who wish to alter their business model and reduce their dependence on gambling revenue to do so, while offering a gambling product configured in a relatively safe mode.

4. *Structural change alone*

In this model, pre-commitment would not be introduced. However, alteration of parameter values would be required so that EGMs available in social venues would be limited to those offering maximum bets of no more than \$0.50, maximum prizes of \$250, and a load up limit of \$20. High intensity EGMs would be available only in casinos and would require use of a compulsory pre-commitment system.

Some comments on pre-commitment

We have appended some guidelines which we believe set out requirements for an effective pre-commitment system. We note that an effective pre-commitment system can be implemented without networking, although ultimately a networked system is

² We note that in Victoria legislation is already in place for such two-tiered operations in the form of gambling 'specified areas'. These areas were conceived as spaces for gaming machines of even higher intensity than currently allowed, but the principle remains applicable. To our knowledge gaming specified areas only currently operate with universal pre-commitment in Crown Casino, but this is not confirmed.

desirable and achievable. Some more general principles of whatever system is put in place would include:

1. Effective pre-commitment means that the system adopted should not simply be a system that reminds users of their nominated limits and the periodically allows for their extension, without any tracking facility built into the system;
 2. Must have three universal elements: pre-committed spending limits, price/expenditure information and self-exclusion;
 3. Access card/stick system must be national and cards/sticks networked via the internet;
 4. Application for access should take 24/48 hours to be implemented (i.e., as cooling-off period should apply) and must centrally record 100pt id and nominated parameter settings;
 5. Access device must be able to be de-activated centrally;
 6. No application for a replacement until original device de-activated;
 7. Parameter settings must be automatically loaded onto replacement card or be available in the case of temporary access to facilities [eg. In the case of a stolen card];
 8. No unregistered gambler eligible for temporary access under any circumstances;
 9. Process to alter parameter settings must be significant and involve responsible third party (e.g., gambling counsellor);
 10. Statements must be available on demand but in any event periodically. Must contain meaningful information about the amount staked, wins, losses, net;
 11. Rewards or incentives where provided should only be associated with responsible management of gambling (i.e., gambling well within parameter limits over a certain period, but not gambling rewards, eg. Free meals in return for certain levels of gambling);
 12. Amounts not spent in one period do not carry forward to the next or subsequent periods.
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Appendix

Functional requirements for universal and effective EGM pre-commitment

Solution 1 – non-networked solution

This solution would be based on a user-carried device with sufficient memory to record player activity, recognise time intervals, and require periodic re-validation for continued operation. It would also have a unique identifier and the capacity to interface with an internet server for re-validation purposes.

Specific characteristics would include:

1. Capacity to be implemented across existing stock of EGMs by 2012 via retrofitting of player tracking modules (initially non-networked if necessary).
Note: such modules are reportedly capable of retro-fitting to all EGMs approved in Australia since 1980).
2. Able to store player pre-commitment data on user-carried device (e.g., smart-card, USB drive)
3. Able to store player use data on user-carried device
4. Capacity to require monthly 're-validation' for:
 - a. Compulsory viewing of player activity statement (using data carried by the device); and
 - b. Check to ensure device not reported 'lost' or self-excluded
 - c. note – irregular users need only re-validate prior to session, but device deactivated if not re-validated monthly or in advance of session.
5. Device to be issued subject to high integrity identity check (100 points)
6. Default parameters on device; may be modified by user via internet or venue based validation kiosk at periodic intervals (for increased limits) or at any time (for decreased limits).
7. Device capable of being de-activated for a specified period of self-exclusion (including via use of a 'panic button' integrated into player tracking modules, via validation kiosks, or the internet.
8. Capacity to record request for self-exclusion and refuse issue of device.

This stage of the system would require player pre-commitment and activity data to be stored on a user carried device such as a USB or smart card, but would not require user data to be stored centrally. What would be stored centrally would be data about the issuing of devices – i.e., that individual X had been issued with a device numbered Y with parameter settings Z, that that device had not been reported lost, and that individual X had not requested self-exclusion.

The device would require periodic re-validation, preferably monthly, at which time a player statement would be generated (using data stored on the device). These data need not be uploaded at the time of re-validation (but could be, in anonymised form, for research and related purposes). Re-validation would be a process internal to the player carried device, and achieved by providing the user with an acknowledged view of player activity data.

Re-validation would be refused if the device had been reported lost or if the individual had requested self-exclusion.

Users could increase pre-commitment limits only at specified intervals – for example, three monthly. Devices would be supplied with default limits set at modest expenditure levels. Users could decrease limits at any time.

Thus, in solution 1, the sole network requirement would be for issuing and validation of devices. This network would record details only of devices issued. It could upload player data at validation, but this would not be essential to effective operation. This would be an internet based system accessible via users' personal computers in the privacy of their home or at kiosks located at venues.

Solution 2 – networked solution

This solution would expand the capability of the system described above by networking player tracking modules.

Increased functions would include:

1. Support real-time collection of player data
2. Capacity to monitor use and provide real-time warnings of potentially problematic patterns of use.
3. Exclude use of 'lost' or stolen devices in real time.
4. Monitor user limits, and the extent to which users achieve limits

Thus the principal advantage of a networked solution would be real time data collection and all associated benefits of this, including capability for player tracking software to be utilised.

A fully networked solution could also operate without the need for smart devices, relying instead on a less sophisticated access card (e.g., a mag-stripe card only). However central data storage would be required in this case with associated privacy concerns arising.