



Sportsbet Pty Ltd

Submission to the Joint Select Committee on Gambling Reform

**Inquiry into the Prevalence of Interactive and Online
Gambling in Australia and Gambling Advertising**

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Executive Summary

About Sportsbet

- Sportsbet is a licensed Sports Bookmaker regulated by the Northern Territory Racing Commission (“NTRC”) under authority granted by the *Racing and Betting Act*.
- It is a globally competitive e-business, employing over 260 people
- Sportsbet is a major economic contributor, having paid over \$42m in product fees over the past 5 years and over \$60 million in state and federal taxes in the same period
- Sportsbet is a highly regulated entity due to adherence to a multi layered set of territory, federal and state legislative regulations and mandatory requirements prescribed by a combination of the Racing and Betting Act (NT), Anti-Money Laundering and Counter-Terrorism Financing Act (Federal), Interactive Gambling Act (Federal), Gaming and Wagering Commission Act (WA), Racing Administration Act (NSW), Unlawful Gambling Act (NSW), Racing Regulation Act (TAS), Authorised Betting Operations Act (SA), Gambling Regulation Act (VIC), Racing Act (QLD), Racing Act (ACT) and the Australian Rules of Racing
- Account based wagering is the only acceptable means by which a customer may transact with Sportsbet. All customers are required to have their identity verified according to Federal AML/CTF requirements which ensures nobody under the age of 18 can join and protects Sportsbet from being used as a portal for money laundering. All transactions with Sportsbet are comprehensively logged and recorded, from the source of funds, all betting activity and the destination of any withdrawals from accounts. Every internet bet placed with Sportsbet is tagged to a customer and an IP address is recorded, along with other relevant information. All telephonic customer interactions including telephone bets are recorded.
- Sportsbet offers a number of harm minimisation measures to its customers including the ability for customers to place deposit limits on their account, and the ability to self exclude for periods up to 5 years. References to responsible gambling counselling and assistance services are prominently displayed on its websites and are shown on the self exclusion form.

Interactive Gambling Act

- The Interactive Gambling Act (2001) (“IGA”) prohibits online casino games (including poker), online electronic gaming machines, online bingo, as well as online “betting in the run”, otherwise known as “in play betting” (placing a bet on an event after it has commenced).
- The proliferation of the internet as a global phenomenon, ease of access to international websites, the number of offshore websites offering these prohibited forms of online gambling to Australian residents, and the lack of enforcement of the IGA means the prohibitions are becoming counterproductive. That is, they putting domestic wagering and gaming service providers at a significant commercial disadvantage, channelling Australian demand for an established industry offshore, beyond the reach of Australian regulations

including customer harm minimisation measures and taxation revenues. The illegal offshore online gambling market is estimated to be approaching \$800m.¹

- Sportsbet concurs with the Productivity Commission Recommendation 15.1 that “online poker, along with other gambling forms currently exempted from the IGA, should be subject to a regulatory regime”². This would ensure strict domestic probity standards are adhered to and consumers are provided with high standards of harm minimisation measures controlled by Australian legislation, in order to harness an established industry which is currently forcing Australian consumers offshore.

Responsible Gambling

- Sportsbet is committed to promoting responsible gambling and offers a number of harm minimisation measures under the Code of Practice for Responsible Gambling. We are also supportive of the establishment of a program whereby licensed Australian operators contribute to a national problem gambling fund used to finance problem gambling research and help services. .
- It is estimated there are around 115,000 problem gamblers and another 280,000 at high risk of developing a problem³
- Electronic gaming machines account for 75-80% of all problem gamblers⁴
- There is no evidence of an increase in problem gambling since 2001⁵, nor that participants in online gambling have a higher prevalence of problem gambling than their land based retail counterparts⁶
- Regulated Australian wagering service providers in Australia adhere to strict protocols to ensure customers are able to transact with integrity and access to prescribed harm minimisation features. Many offshore unregulated websites do not meet these high standards, nor can they be forced to comply
- Appropriate counselling and treatment can significantly help problem gamblers deal with their addiction.⁷
- Sportsbet supports the Productivity Commission conclusions: *“...regulated access to domestic or licensed overseas online providers, rather than prohibition, has potential benefits...diverting customers away from unsafe sites to ones that met stringent probity and consumer safety standards – thus reducing the risks of harms to online gamblers”⁸*

¹ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 2.5

² Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 15.35

³ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 11

⁴ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 13

⁵ Queensland Government’s Household Gambling surveys for the period 2001, 2003-04, 2006-07 and 2008-09

⁶ Report to the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs – A review of current and future trends in interactive gambling activity and regulation – June 2009

⁷ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 34

⁸ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 35

National Regulation Framework

- Sportsbet believes a national framework is required to address match fixing in sport and ensure a consistent approach across all Australian Territories and States and is supportive of recent moves by the Federal Government, in conjunction with State and Territory governments, which were announced on 10 June 2011 to establish a National Integrity of Sport Unit.
- Any proposed federal body would be funded by the beneficiaries of the betting which would include licensed gambling operators and sporting bodies
- It is of paramount importance to Sportsbet and the wagering industry that all betting events are conducted with a high degree of integrity, free from the influences of match fixing. Corruption in sport or racing has no positive attributes to wagering service providers, sport or racing controlling bodies, or wagering consumers as a whole.

Prohibition

- Prohibition simply does not work. Gambling is an established industry, and the internet is a modern conduit to facilitate this activity, as was the telephone before it. There is a long history of initial attempts at prohibition, followed by legalisation and regulation of gambling both domestically and internationally, to prevent the issues associated with black market and illegal gambling
- Despite the IGA prohibitions on certain forms of online gambling, it is estimated that Australian's can access well over 2,000 overseas gambling websites, and that the illegal online gambling market is approaching \$800m⁹
- The Productivity Commission noted a number of issues with Australian consumers who are currently betting with offshore providers including¹⁰:
 - Problem gamblers being offered minimal protection
 - Consumers being at risk of being ripped off by unscrupulous overseas operators
 - Domestic providers facing greater online competition from jurisdictions with much lower levels of regulation
 - Recreational (non-problem) gamblers being discouraged from domestic gambling online due to prohibition, and are channelled to unregulated offshore gambling online and are therefore worse off
 - Failure to collect tax revenue and contributions to racing and sporting bodies.
- Internationally there is a growing trend towards regulation which has been particularly successful in Europe, and there are also clear examples where prohibition has failed overseas, particularly in the USA, which is now seeking to legalise and regulate online gambling.

⁹ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 2.5

¹⁰ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 15.18

Online Gambling and ‘Betting in Run’ or ‘In Play Betting’

- Betting “in the run” (racing events) or “In Play Betting” (sport events) is where a customer is able to bet on the outcome of a portion of a particular event, for example next goal scorer, after the commencement of the event
- This form of betting is currently offered by a majority of offshore wagering service providers across the internet to Australian consumers;
- This form of betting is legalised in Australia when conducted over the telephone and in retail outlets operated by the TAB’s but ironically is specifically prohibited online. Sportsbet believes this inconsistency should be addressed as a priority to allow online Australian wagering service providers to compete on a level playing field, both with its domestic retail and unregulated international counterparts.
- Prohibition of online is not working, exposing domestic consumers to offshore gambling services, along with a number of inherent risks and dangers. In addition, it is more difficult for sporting bodies and authorities to monitor for and detect match fixing when bets are placed with unregulated offshore gambling service providers
- For the same reasons, Sportsbet concurs with Recommendation 15.1 of the Productivity Commission that online gambling currently prohibited under the IGA should be subject to a regulatory regime¹¹

Exotic bets

- Sportsbet does not support prohibition of exotic bets as a means to address concerns over integrity in sport as it will not work, particularly in the context of international wagering service providers.
- Sportsbet advocates that exotic bets should be strictly limited to wagering service providers whom offer only account based betting accounts. This will ensure that a comprehensive audit log is available at all times with regards to the account holder, their personal contact details, the source and destination of funds, the IP address where the bet was placed is all recorded and available to law enforcement authorities if required
- In addition, maximum upper dollar limits should be placed on the permitted bet size on exotic bets to ensure that bets are kept low enough so as not to influence the outcome of any event or competition
- A national approach should be adopted to regulate and monitor betting, including betting on exotics

Integrity in Sport

- Sportsbet has a zero tolerance policy on corruption in Sport and is wholly supportive of current moves by governments to make cheating in sport a crime
- Corporate bookmakers have nothing to gain and indeed stand to lose significant amounts of money from instances of match fixing.

¹¹ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 15.35

- Legislating that all wagering is account based would ensure that the appropriate information is recorded and made available for the monitoring and investigation of betting on sports

Inducements and Advertising

- Sportsbet supports the phasing out of in-play and in commentary betting odds updates and a ban on sponsor logos on children's clothing and equipment. It believes all advertising should carry appropriate responsible gambling messages and references to help services and also that unlicensed gambling providers should be banned from advertising and that this ban should be enforced.
- Despite the significant growth in Corporate Bookmakers over the last decade, and the recent lifting of the bans on advertising in 2008, real wagering spend per capita has declined since 1999. At the same time, real poker machine spend per capital has increased over 280 percent to its peak in 2004 before showing a slight decline when smoking bans were introduced¹²
- Rather than drive additional spend into wagering, advertising has caused a switching by consumers away from monopoly TAB providers. This switching is the result of corporate bookmakers offering more favourable pricing, a greater variety of product and more innovation. Ultimately consumers are better off.

¹² Frontier Economics (2011), "Sportsbet submission to the Joint Select Committee on Gambling Reform, Economic Overview of Selected Issues"

About Sportsbet

Sportsbet is a Sports Bookmaker licensed under regulation by the Northern Territory Racing Commission (“NTRC”). Sportsbet has been in operation since 1993 and is now Australia’s largest corporate bookmaker, with over 750,000 registered customers and an estimated 20 percent share of the Australian online wagering market. Sportsbet is a globally competitive e-commerce business that employs more than 260 people across Australia. Employment is expected to increase significantly, with an estimated 120 additional staff to be added by 2013¹³.

Sportsbet operates two core brands, being ‘sportsbet.com.au’ and ‘IASbet.com’, which operate from its licensed premises in the Northern Territory. Sportsbet is wholly owned by Paddy Power PLC, whose headquarters are in Dublin, Ireland. Paddy Power, which is publicly listed on both the Irish and London Stock Exchanges, has over 2,500 employees and a current market capitalisation of €1.75 billion (circa AUD\$2.4 billion). Paddy Power has a policy of only operating in regulated markets.

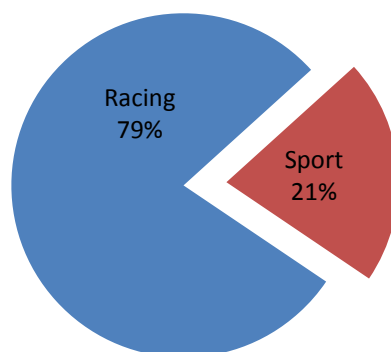
All wagers with Sportsbet are placed over the internet or telephone. Sportsbet has no retail or physical bet acceptance facilities in Australia or elsewhere, either on-course or off-course.

Sportsbet targets the mass market, with the vast majority of members classified as recreational gamblers. The average online bet placed with sportsbet.com.au in 2010 was less than \$30 while the median bet over the same period was just \$6.

Sportsbet offers a wide variety of betting products, as authorised by the NTRC, on both Australian and international racing, sporting, political and entertainment events.

The majority of turnover of Sportsbet’s customers relates to thoroughbred, harness and greyhound racing. Figure 1 shows that racing turnover represented 79% of total turnover in 2010. By comparison, turnover on sport and other events accounted for only 21% of turnover.

Figure 1 - 2010 Turnover Mix

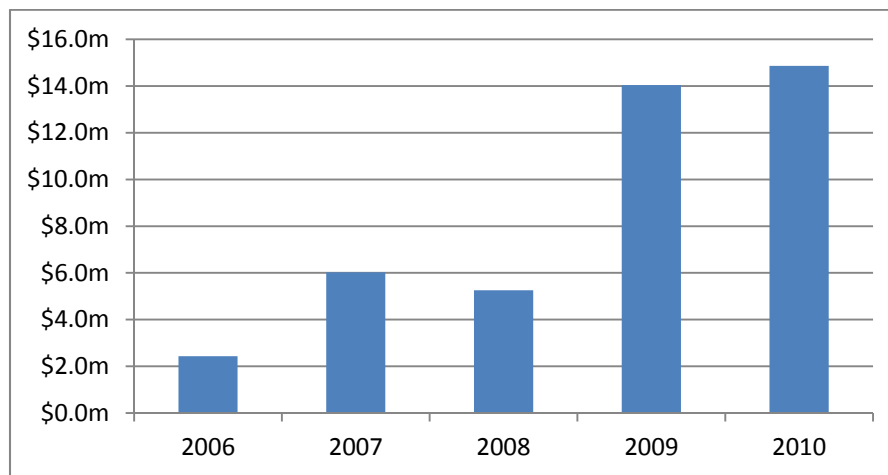


Sportsbet has been and continues to be a major contributor of funding to racing and sporting bodies around Australia. In 2010, Sportsbet paid almost \$15m to racing and sporting bodies in the form of

¹³ Paddy Power Interim Management Statement, 17 November 2010

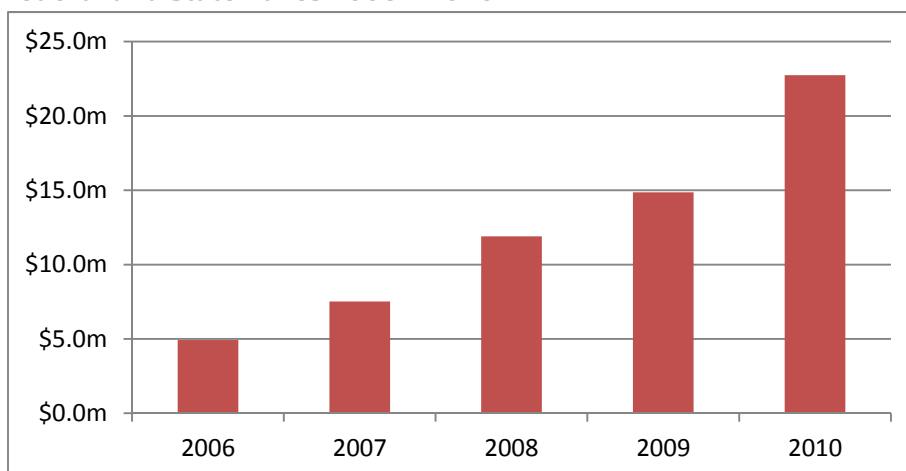
product fees and over the last 5 years, has contributed over \$42m in product fees (Figure 2). Sportsbet remains a supporter of contributing to racing and sporting bodies in accordance with an equitable and sustainable product fees regime which we believe needs to be administered at a national level in order to achieve consistency between racing and sporting codes and between States and Territories.

Figure 2 – Racing and Sport Product Fees Contributed 2006 - 2010



As well as the significant financial contributions Sportsbet has made to racing and sporting bodies around Australia, Sportsbet is also a major financial contributor to Federal and State Governments. It has contributed over \$60m in state and federal taxes over the last 5 years, including over \$20 m in 2010 (Figure 3). With strong revenue growth and expanded employment expected going forward, these contributions are only expected to increase over time.

Figure 3 – Federal and State Taxes 2006 - 2010



Sportsbet's Regulatory Environment

Sportsbet operates in a highly regulated and controlled environment and adheres to a number of different forms of legislation, regulations and commercial agreements:

- Sports Bookmaking License issued by the NTRC
- Racing and Betting Act (NT)
- Anti-Money Laundering and Counter-Terrorism Financing Act (Federal, "AML/CTF")
- Interactive Gambling Act (Federal)
- State and Territory Responsible Gambling Codes of Conduct, including advertising guidelines
- Integrity Agreements with various racing and sporting bodies
- Gaming and Wagering Commission Act (WA)
- Racing Administration Act (NSW)
- Unlawful Gambling Act (NSW)
- Racing Regulation Act (TAS),
- Authorised Betting Operations Act (SA)
- Gambling Regulation Act (VIC)
- Racing Act (QLD)
- Racing Act (ACT)
- Australian Rules of Racing

Collectively, these regulations, Acts and commercial agreements ensure that Sportsbet operates as a highly controlled and regulated business which has a clear understanding of what products it can offer, who its customers are, what they are betting on and where they are betting from. This regulatory environment complements Sportsbet's ongoing commitment to promoting responsible gambling. The processes by which Sportsbet operates also ensures that individuals under the age of 18 are not able to set up accounts or transact.

The key licence conditions of Sportsbet's Sports Bookmaker licence issued by the NTRC are:

- Sportsbet can only accept bets on approved events
- All client prepaid account balances and unsettled bets must be covered 100% by cash in Sportsbet's bank accounts
- Sportsbet is subject to audit by the NTRC
- Sportsbet's Betting Rules must be approved by the NTRC
- All customers must provide proof of age and identity
- Sportsbet must comply with the Northern Territory Code of Practice for Responsible Gambling

In accordance with AML/CTF legislation, Sportsbet has in place an AML Program which sets out the policies and procedures which are in place and which must be adhered to in order for Sportsbet to be compliant with the legislation. Key aspects of the program include:

- Ensure all customers are identified in accordance with the Know Your Customer ("KYC") guidelines. All customers must provide 100 points of identification.

- Screen all customers against domestic and international sanctions lists and Politically Exposed Persons (“PEP”) lists
- Lodge with AUSTRAC details of suspicious transactions, threshold transactions (greater than \$10,000), international funds transfers
- Ensure our lists of banned or risky jurisdictions is up to date and used when assessing customers or blocking transactions
- Screen all employees and contractors who may be in a position to facilitate ML/TF including credit and police checks
- Ensure all employees undertake regular training on their AML/CTF obligations
- Report periodically to the Board of Directors

As noted above, to become a member an individual must register and provide identification details. These details must then be verified with certified sources within 90 days in order to become a fully operable account. No funds are able to be withdrawn prior to verification of identity and unverified accounts are automatically suspended after 90 days.

Customers may deposit or withdraw funds from their account via variety of payment options including BPAY, Cheque, EFT, Credit Card, eWallets and bank deposits. All withdrawals must be to accounts which have been verified as being those of the relevant customer and there are no transactions involving physical cash. Sportsbet also has the ability to offer credit facilities to approved customers.

The processes surrounding customers’ depositing, betting and withdrawing mean that Sportsbet has complete visibility of all relevant details of these transactions. This information is used for its own internal risk management purposes as well as providing to regulatory and law enforcement bodies when required, for example where fraud is suspected. Every bet placed with Sportsbet is tagged to a specific customer. Technology enables tracking of a customer’s name, address, location, IP address and payment method to inhibit possible fraud and money laundering. This also ensures no bets are accepted from banned countries such as the USA.

Sportsbet is an approved betting partner of, and has integrity agreements in place with:

- Australian Football League
- Australian Rugby Union
- Cricket Australia
- Football Federation Australia
- National Rugby League
- Tennis Australia

These integrity agreements ensure all details of bets placed on a particular event or outcome are available to the body if there is any suspected betting activity which indicates the integrity of an event has been compromised.

Sportsbet takes responsible gambling seriously and would support a move for all licensed and regulated Australian bookmakers to pay a percentage of gross profit to fund problem gambling support agencies. This industry structure has been successfully implemented in the United Kingdom where all licensed operators must make voluntary contributions to Gambling Research Education and Treatment Foundation (GREaT). Fundraising targets for the gambling industry are agreed with the government and with the Responsible Gambling Strategy Board. However, in the event that the voluntary system fails to generate sufficient funds, the Gambling Act 2005 provides for a levy to be introduced on licensed operators.

The regulations which Sportsbet adheres to in relation to advertising and marketing are outlined in the Advertising and Inducements section of this report.

Australian Gambling Market

Gaming, lotteries, keno compared to wagering and sportsbetting

The Productivity Commission distinguished between the two main forms of gambling. First, it considered electronic gaming machines, lotteries and keno which it defined as an entertainment based on staking money on uncertain events driven by chance, with the potential to win more than staked, but with the ultimate certainty that gamblers as a group will lose over time.

This is to be compared with wagering and sportsbetting which involves deploying a degree of skill rather than mere chance. There is no meaningful distinction between the skill deployed in the choice of horses and the skill deployed in participating in picking winning football or rugby teams and the margins by which they win. In relation to sportsbetting, participants may be expected to select their tips after considering variables such as past performance of the respective teams; injury status of any players and in particular key players; whether the team is playing on their home turf, or at an away match and so forth. Clearly for successful participants, the element of skill of making selections will almost certainly predominate, over mere chance.

Australian Gambling Market Size and Composition

Expenditure in the Australian gambling market was estimated to be around \$19 billion in 2008-09. Over \$10.5b or 60% of gambling expenditure was on gaming machines in clubs, hotels and casinos. Wagering represented \$2.8 billion or around 15% of total gambling spend. Of the wagering spend, around \$2.6 billion was on racing and only \$0.2b was on sportsbetting (Figure 4). As well as the regulated and legal gambling market, it is also estimated that around \$790 million is spent on illegal online gaming in the form of online poker and online casinos (Figure 5).¹⁴

¹⁴ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 2.5

Figure 4 – Aust Gambling Market 08-09

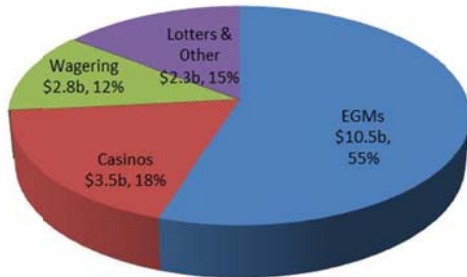
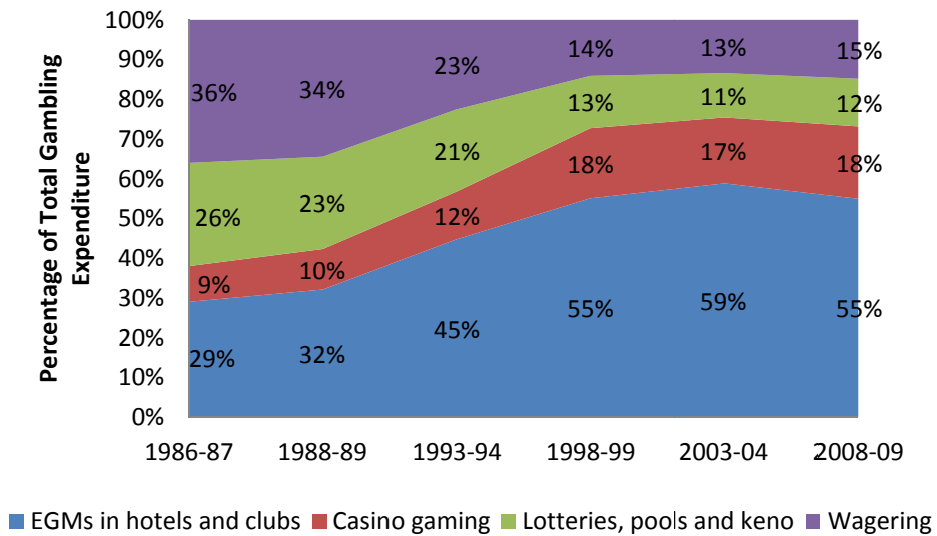


Figure 5 – Illegal Online Gambling



The last 20 years has seen a significant shift in the relative contributions of the various forms of gambling available to consumers in Australia. In particular, gaming machines in hotels and clubs have seen a huge increase in share of gambling spend from around 29% in 1986–87 to 55% in 2008–09 (Figure 6).¹⁵ This growth is largely the result of the liberalisation of gaming machines in a number of states and territories.

Figure 6 – Australian Gambling Market Segment Contribution



¹⁵ Productivity Commission Inquiry Report, Gambling, Report No. 50 2.8 and 2.9

Australian Wagering Market

The licensed operators in the Australian wagering market are the TAB totalisators and bookmakers (on and off-track). The distribution of wagering products is via

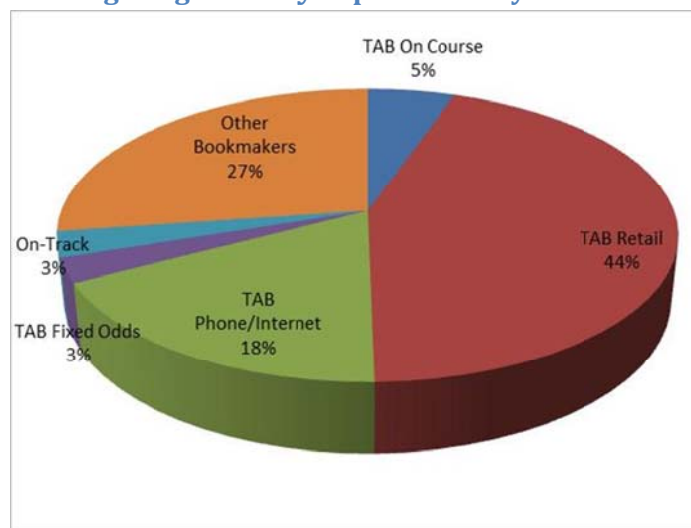
- Retail outlets
- On-course
- Phone
- Internet (including mobile internet)

Licensed operators offer wagering on thoroughbred, harness & greyhound racing, on sporting events and occasionally on social and political events.

TAB Totalisators are the largest providers of wagering in Australia, representing around 70% of the market in 2010 (Figure 7). While TAB Totalisators remain the largest provider in Australia, the market share of Corporate Bookmakers has increased from around 24% in 2004 to over 30% in 2010 (Figure 8)¹⁶. The increased relevance and market share of Corporate Bookmakers has brought with it a number of benefits for consumers including a greater variety of product, better pricing and greater innovation. This in turn has been a major contributor to the overall growth of the wagering market, the fees paid to racing and sporting bodies and the taxes collected by federal and state governments.

The evolution of the wagering industry and the increasing number of Australians who are customers of online wagering companies has served to highlight how account-based betting minimises problem gambling and minimises the risk of compromising events that bets are being placed on. By contrast, the large component of betting with TABs is through cash which carries a higher risk for problem gamblers, as well as for the integrity of sport.

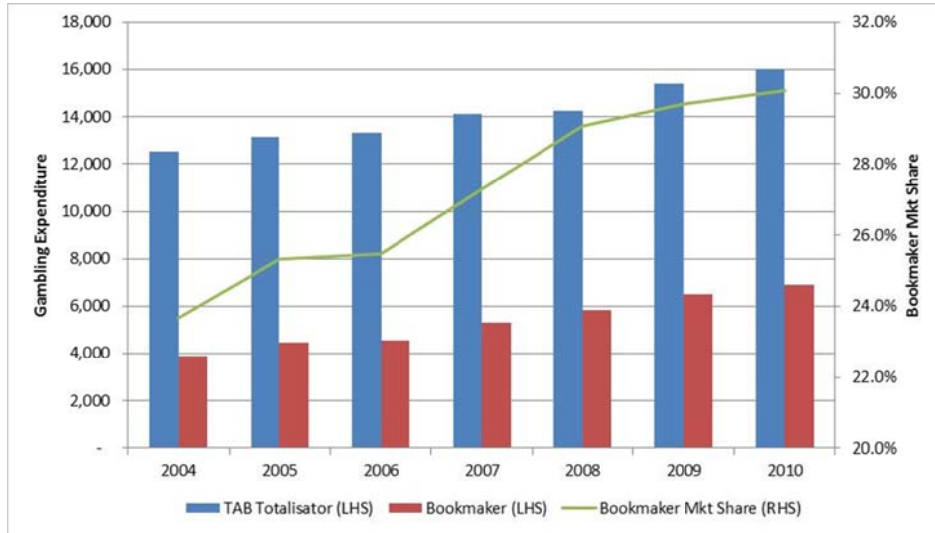
Figure 7 – Australian Wagering Industry Expenditure by Provider¹⁷



¹⁶ Australian Racing Factbook, 2004 to 2010 editions

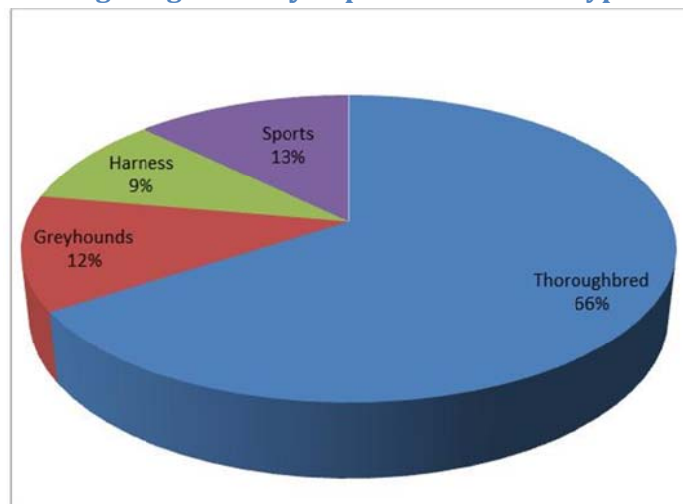
¹⁷ Australian Racing Factbook, 2004 to 2010 editions

Figure 8 –Australian Wagering Industry Expenditure 2004 – 2010 ¹⁷

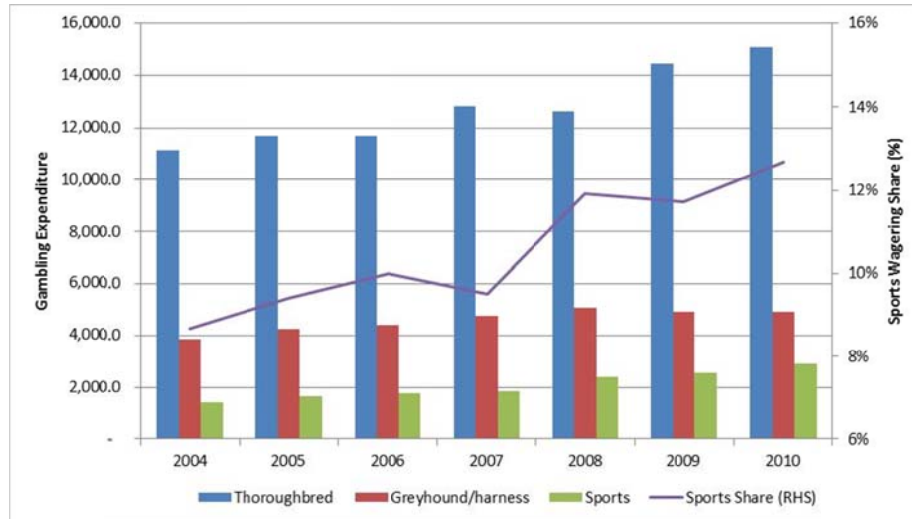


Wagering on racing is the dominant form of wagering in Australia, with the combined wagering on thoroughbred, harness and greyhound racing representing over 85% of the market (Figure 9). Sports, despite having grown in recent times, represents less than 15% of the wagering market (Figure 10)

Figure 9 – Australian Wagering Industry Expenditure Event Type¹⁸



¹⁸ Australian Racing Factbook, 2004 to 2010 editions

Figure 10 – Australian Wagering Industry Expenditure 2004 – 2010 ¹⁸

Notwithstanding the vigorous public debate which is ongoing with regards to betting on sport, sports betting is very minor in relative terms. Real per-capita expenditure on sport was just \$13.32 or 1.2% in 2008-09, compared to \$975.23 or 85.1% for gaming (including electronic gaming machine casino expenditure)¹⁹

Interactive Gambling Act

The Interactive Gambling Act (“IGA”) is the legislation which governs the gambling services which Australian gambling companies can offer online. It provides that a person is guilty of an offence if they intentionally provide an "interactive gambling service" with an Australian link (s.15). An Australian link simply means that at least some of the customers of the service are Australian residents (s.8).

The IGA exempts several interactive gambling services. With the exception of 'in the run' betting (betting on an event after it has commenced), all forms of wagering are exempt from the ban, including: telephone betting; wagering on horse, harness or greyhound races; and wagering on a sporting event or any other event, series of events or contingencies. In addition, online lottery services are exempt, with the exception of instantaneous lotteries or lotteries that are highly repetitive or frequently drawn.

¹⁹ “Last Bets: states smash sports betting but no cold turkey on pokies”. *Crikey.com.au*. <http://www.crikey.com.au/2011/06/28/last-bets-states-smash-sports-betting-but-no-cold-turkey-on-pokies/> (June 2011)

The types of gambling services prohibited under the Act include:

- Online casino games, like roulette, blackjack and all forms of online poker
- Online versions of electronic gaming machines
- Online bingo
- Online betting in the run

While the IGA prohibits the *provision* of online gambling services to customers in Australia, it does not outlaw Australians from accessing online gambling services. The IGA also prohibits the advertising of these gambling services.

As discussed in the Prohibition section of this submission, the evolution of the internet and the proliferation of offshore gambling sites that Australians can access, and the lack of enforcement of the IGA has resulted in a situation where today the IGA prohibitions have little, if any, impact on the ability of Australian's to easily gamble online on the prohibited forms of gambling.

Notwithstanding the high profile that the issue of gambling has in the current public policy environment, Sportsbet concurs with the Productivity Commission Recommendation 15.1 that:

“Online poker, along with other gambling forms currently exempted from the Interactive Gambling Act, should be subject to a regulatory regime that mandates:

- *Strict probity standards*
- *High standards of harm minimisation, including:*
 - *Prominently displayed information on account activity, as well as information on problem gambling and links to problem gambling support*
 - *Automated warnings of potentially harmful patterns of play*
 - *The ability to pre-commit to a certain level of gambling expenditure, with default settings applied to new accounts, and the ability for gamblers to set no limit on their spending as on the of the system options (with periodic checking that this remains their preference)*
 - *The ability to self exclude”²⁰*

²⁰ Productivity Commission Inquiry Report, Gambling, Report No. 50, Recommendation 15.1

Responsible Gambling

Sportsbet's Commitment to Responsible Gambling

Sportsbet is committed to promoting responsible gambling and has implemented a Responsible Gambling Code of Conduct, which is continually reviewed to assist customers with difficulties that may arise from problem gambling.

In addition Sportsbet would support a move for all licensed and regulated Australian bookmakers to pay a percentage of gross profit to fund problem gambling support agencies.

The Responsible Gambling Code of Conduct allows members to set a deposit limit and to suspend or exclude themselves from placing a bet with Sportsbet. If a deposit limit is set by the member, that is the maximum amount that can be deposited into their betting account for the nominated period (day, week, month). Any deposits that are made that may cause the limit to be exceeded, in whole or part thereof, will be denied.

Members can suspend their accounts and exclude themselves from placing a bet with Sportsbet for a period they prescribe up to 5 years. The suspension/exclusion process includes providing the relevant customers with information regarding available problem gambling counselling and assistance services. Customers are not able to remove or void any suspension once it is in place. If the customer attempts to set up an alternative account, system controls exist to highlight the instance and prevent the second account being activated. In addition, if a customer self-excludes themselves from one of the websites which Sportsbet operates, system controls will prevent them joining as member on the other website while the self-exclusion is in force. Finally, following the expiry of the self-exclusion period, members must provide written authority to reactivate their account; access is not automatically granted.

Problem Gambling Studies and Statistics

Measuring Problem Gambling

One of the most accepted measures for determining whether an individual exhibits behaviours which would lead them to be classified as a problem gambler is the Canadian Problem Gambling Index ("CPGI"). The CPGI uses 8 questions to assess an individual for problem gambling categorisation.²¹ The studies noted below undertaken by The National Centre for Social Research in Britain and the Queensland Government's Household Gambling survey use the CPGI measure in their surveys. Appendix 1 contains further information on the CPGI.

Relevant Studies

Measurements of prevalence rates of problem gambling are difficult due to the lack of a national study on the issue since the 1999 commission. However based on the available research the

²¹ <http://www.ccsa.ca/eng/priorities/gambling/CPGI/Pages/default.aspx>

Productivity Commission found that in terms of prevalence there are around 115,000 problem gamblers in Australia while the number of gamblers at ‘moderate risk’ is around 280,000.²²

The Productivity Commission also found that most harm arises from playing electronic gaming machines:²³

“...the risks associated with playing gaming machines are higher than other gambling forms.

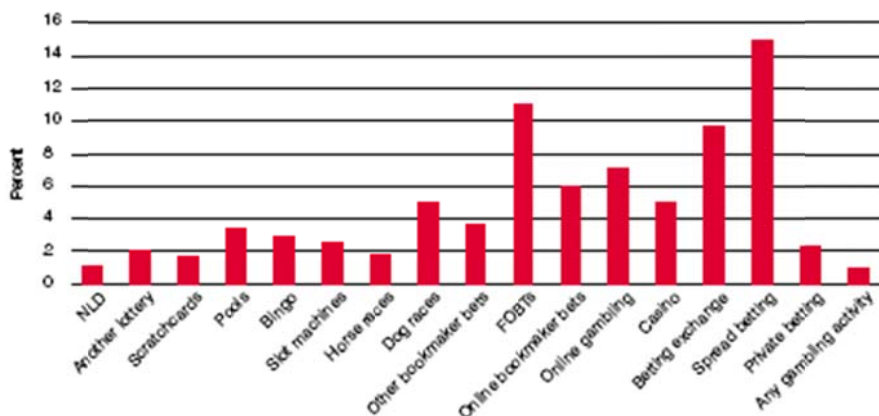
- *They account for the biggest single slice of overall gambling expenditure in Australia – 62% of the total, compared with 15% for wagering...*
- *They account for around 75-80 per cent of ‘problem gamblers’ and are found to pose significant problems for consumers in general.*
- *The conditioning effects of random and intermittent payouts, combined with the capacity for rapid repetition of games – some hundreds per hour – can encourage sustained gambling...*

Consequently, state and territory harm minimisation policies have focussed on this form of gambling, as has this report.”

Based on the estimates above it can be estimated that there are between 17,250 and 23,000 problem gamblers who predominantly participate in non-EGM forms of gambling.

In Britain, The National Centre for Social Research undertook a comprehensive study of gambling in 2007. The study covered problem gambling and found that the main forms of gambling activity undertaken by problem gamblers over the preceding 12 months were Spread Betting (14.7%), Fixed Odds Betting Terminals (FOBTs – similar to an electronic gaming machine, 11.2%), Betting Exchange (9.8%), Online Gaming (7.4%)²⁴

Figure 5B
Problem gambling prevalence (DSM IV), by type of gambling activity undertaken in past year
Base: Past year gamblers



²² Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 11

²³ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 13 and 14

²⁴ The National Centre for Social Research – British Gambling Prevalence Survey 2007. 5.5

It is clear from the research that problem gamblers participate in a number of forms of gambling. If a problem gambler was restricted from online gambling, such a person is likely to continue gambling via other types of gambling. If these forms of gambling are then made more difficult for such a person to have access to, then such a person is likely to bet overseas. If a person wishes to gamble, such a person will gamble. The fact that problem gamblers participate in 4.7 different types of gambling²⁵ highlights the need for a holistic approach to problem gambling. It is inappropriate and naive to look at only online gambling. All forms of gambling need to be looked at together.

Other Relevant Research Findings

A number of other research studies have formed conclusions which need to be considered as part of this enquiry. In particular

- There is no evidence of an increase in the incidence in problem gambling prevalence since 2001²⁶
- There is no evidence to suggest that individuals who participate in online gambling have a higher prevalence of problem gambling than other forms of gambling²⁷
- Available technology, legislation and policy processes should be utilised to ensure that interactive gambling regulations achieve consistency and high uniform standards²⁸
- The gambling industry is highly regulated in Australia and gambling operators follow strict protocols to provide a safe environment, but illegal internet sites do not have to abide by regulations or pay taxes²⁹

Further details of the studies which formed the above conclusions are set out below.

Queensland Government's Household Gambling surveys for the period 2001, 2003-04, 2006-07 and 2008-09

This is one of the most comprehensive research projects undertaken into problem gambling anywhere in the world and included the surveying of 30,000 respondents.

²⁵ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 15.12

²⁶ Queensland Government's Household Gambling surveys for the period 2001, 2003-04, 2006-07 and 2008-09

²⁷ Report to the Australian Government Department of Families, Housing, Community Service and Indigenous Affairs- A review of current and future trends in interactive gambling activity and regulation- June 2009

²⁸ Review of Issues Related to Commonwealth Interactive Gambling Regulation- Submission by Professor Jan McMillen- Director ANU Centre for Gambling Research

²⁹ Media Release: SCU researcher takes lead in understanding impact of online gambling- Southern Cross University, 12 August 2010

This study did not find any increase in the prevalence of problem gambling over the period 2001 to 2009, the period over which we have experienced a significant increase in online gambling. In fact, as shown in the table below, the studies indicated a decline in problem gambling prevalence over this time, although noted that the decline was not statistically significant.

**Table 1: Time series of gambling group estimates
(Queensland adult population)**

	Percentage estimates			
	2001	2003-04	2006-07	2008-09
Non-gambling	15.1%	19.7%	24.7%	25.3%
Recreational gambling	73.2%	72.4%	67.3%	68.0%
Low risk gambling	8.2%	5.3%	5.7%	4.7%
Moderate risk gambling	2.7%	2.0%	1.8%	1.6%
Problem gambling	0.83%	0.55%	0.47%	0.37%
Total	100%	100%	100%	100%

Source: Queensland household gambling surveys 2001, 2003-04, 2006-07 and 2008-09

Report to the Australian Government Department of Families, Housing, Community Service and Indigenous Affairs- A review of current and future trends in interactive gambling activity and regulation- June 2009

“There is no evidence to suggest that individuals who participate in Internet gambling have a higher prevalence of problem gambling than other forms of gambling...to date there are no robust studies showing a high correlation between growth in Internet gambling websites and problem gambling incidence, even in countries that allow a broader range on Internet gambling activities. This is an area where further research would be valuable. “

Review of Issues Related to Commonwealth Interactive Gambling Regulation- Submission by Professor Jan McMillen- Director ANU Centre for Gambling Research

“I continue to support the broad findings on interactive gambling of the Productivity Commission and the majority report of the Senate Select Committee. Particular attention is drawn to their findings that available technology, legislation and policy processes should be utilised to ensure that interactive gambling regulations achieve consistency and high uniform standards, and that national consumer protection strategies (including community education) should be developed to minimise the potential increase in gambling problems.”

Media Release: SCU researcher takes lead in understanding impact of online gambling- Southern Cross University, 12 August 2010

“Internet gambling is one of the fastest growing forms of gambling in Australia however there is very little known about the social and economic impact of this relatively new and increasingly popular activity.

“This platform offers potential advantages in terms of responsible gambling strategies and corporate social responsibility for sites that are appropriately regulated. However, there is a lot we don’t know”

“Unregulated, illegal sites may also take players’ money, run games in a fraudulent manner and allow under 18-year-olds to play. The gambling industry is highly regulated in Australia and gambling operators follow strict protocols to provide a safe environment, but illegal internet sites do not have to abide by regulations or pay taxes”- Dr. Sally Gainsbury.

Addressing Problem Gambling

Appropriate counselling and treatment can significantly help problem gamblers deal with their addiction. The Productivity Commission found that:

“The majority of problem gamblers satisfactorily manage their gambling following counselling/ treatment. For example, among one group, average weekly gambling losses fell from \$1677 to \$262. In another, 90 per cent of those initially in treatment had maintained control over their gambling over the following six months. (However, self-recovery may be a significant part of the story).”³⁰

While studies have shown that the vast majority of problem gambling issues are associated with the use of electronic gaming machines, Sportsbet recognises the consumers may develop a problem with gambling while participating in all forms of gambling, including wagering. It is for this reason that Sportsbet offers mechanisms such as bet and deposit limits and self-exclusions, along with providing details of a number of relevant counselling services.

Sportsbet believes that these prevalence studies support the need to ensure that all forms of gambling available to the Australian public are regulated and controlled so that we can ensure consumers who need help with problem gambling have access to appropriate safety measures. Prohibiting certain forms of online gaming while still allowing Australian’s to access these services using overseas based websites presents a real danger to the consumer, not to mention the loss of taxes and contributions to sporting and racing bodies. This is discussed in more detail later in this submission. Sportsbet supports the Productivity Commission conclusions:

“...regulated access to domestic or licensed overseas online providers, rather than prohibition, has potential benefits. It could achieve many of the benefits of online gambling to consumers, while diverting customers away from unsafe sites to ones that met stringent probity and consumer safety standards – thus reducing the risks of harms to online gamblers”³¹

³⁰ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 34

³¹ Productivity Commission Inquiry Report, Gambling, Report No. 50, Overview pp 35

National Wagering Regulation Framework

Sportsbet is supportive of current moves by the Federal Government to develop a national framework to address match fixing in sport. A national approach would:

- Enhance the integrity of sports betting
- Ensure a consistent approach across all Australian States and Territories
- Formally acknowledge that online and mobile betting does not recognised State/Territory borders

Consideration should be given to the formation of a new body or division, the Australian Sports Betting Integrity Unit (ASBIO):

Consideration should be given to the formation of a new body or division, the Australian Sports Betting Integrity Unit (ASBIU):

- ASBIU would report directly to the Federal Minister for Sport and indirectly to the State/Territory ministers for Sport (through the ministerial council)
- ASBIU should be established with the co-operation, input and approval from major sporting bodies
- ASBIU should have a similar function and be modelled on the UK Sports Betting Intelligence Unit
- ASBIU would examine reported betting activity from sports wagering operators to enable it to report on and highlight any suspicious activity to sporting bodies and the Australian Sports Commission (ASC)
- Sporting bodies should issue guidelines on new bet types that affect the outcomes of games or competitions under their control
- These bet types should then be considered by ASBIU in conjunction with State/Territory regulators
- ASBIU should approve new bet types that are reasonable and in line with international best practice
- ASBIU would be staffed by employees who have in-depth knowledge and expertise of both sport and betting (online/telephone/retail)
- ASBIU would publish an annual report on integrity in sports and its activities in the previous period

Technology to support the monitoring of betting behaviour

- Wagering operators to report suspicious transactions to ASBIU
- Reports to contain customer and betting data ledgers on bets where integrity of the event is in question (subject to data-protection legislation)
- Solution put in place with all wagering operators to ensure all data is securely transferred to ASBIU in a timely manner
- Ensure that all wagering operators comply with AML KYC requirements in addition to the ability to track customer location/IP addresses and payment methods to maintain integrity and prevent fraud/money-laundering

This unit can be funded by the beneficiaries of wagering, being bookmakers and sporting organisations, however, it should be totally independent of those who fund them.

Sportsbet's position is similar to the National Policy on Match-Fixing in Sport that was agreed to by Federal, State and Territory Sports Ministers on 10 June 2011.

In addition, Sportsbet agrees with the New South Wales Law Commission's Consultation Paper, "Cheating at Gambling" which states:

*"There is obviously a need for the establishment of a regulatory system for gathering and analysing intelligence, for the purpose of identifying suspect betting activity and patterns, and for the associated purpose of releasing that information for potential disciplinary or law enforcement action, but this is similarly beyond the scope of this Consultation Paper. The Parry Report comprehensively canvasses the issues which arise in this respect. It notes the advantages of a systematic analysis (targeted intelligence) of a series of matches or events, and cross referencing of common elements or participants over ad hoc case-by-case inquiries. It also canvasses the procedures for involving a statutory regulatory authority and law enforcement in conjunction with sports controlling bodies, and for establishing information sharing arrangements."*³²

*"...there appears to be a general consensus that cheating in the context of gambling requires a holistic response, involving statutory gambling authorities, law enforcement agencies, sports controlling bodies and betting agencies."*³³

*"A further question is whether the regulation of cheating and fraudulent conduct, in the context of gambling, would be better regulated by the establishment of a single Gambling Commission or Authority, for example, one based on the model of the UK Gambling Commission with functions and powers conferred under the Gambling Act 2005 (UK) in relation to compliance, investigation and prosecution of offences."*³⁴

*"Secondly, there is the issue of whether individual professional sports controlling bodies, whose events are the subject of betting, should be required to have internal integrity units. Alternatively, it may be preferable, and feasible, to establish a National Sports Integrity Unit that would be independent of the individual sports controlling bodies, along the lines of the UK Sports Betting Intelligence Unit, with similar powers to those possessed by that Unit."*³⁵

As stated earlier, Sportsbet agrees that a holistic approach is required to maintain integrity of betting in sports and to protect Australian customers from unregulated overseas operators and illegal local bookmakers.

³² Consultation Paper *Cheating at gambling* (New South Wales Law Reform Commission, 2011) 3.105

³³ Consultation Paper *Cheating at gambling* (New South Wales Law Reform Commission, 2011) 7.1

³⁴ Consultation Paper *Cheating at gambling* (New South Wales Law Reform Commission, 2011) 7.18

³⁵ Consultation Paper *Cheating at gambling* (New South Wales Law Reform Commission, 2011) 7.37

Prohibition

Regulation not Prohibition

There have been numerous instances and experiences around the world where prohibition does not work. It is clearly preferable to legalise and regulate.

The consideration of liberalising gambling in Australia was first considered over 50 years ago. Up until the early 1960's it was illegal to bet off-course (i.e. other than on a race course). At that time illegal betting via SP Bookmakers was rampant and unregulated. Various State Governments established Royal Commissions into the issue of allowing legal off-course betting. One of the inquiries was the Martin Royal Commission Inquiry into off-course betting in Victoria. Mr. Martin delivered his report to the Victorian Government in February 1959 which dealt with the social evils with the illegal off-course betting being conducted at the time in Victoria. The Inquiry examined the advantages, which would accrue, to the general public from making off-course betting lawful in Victoria.

The Inquiry examined aspects of crime, distress in the home (i.e. problem gambling), corruption in the police force and revenue to be derived by the state government. Thereafter, like other state governments, a totaliser was established in Victoria to conduct off-course betting.

Similarly, during 1980's and 1990's there was a liberalisation of casino gambling as states and territories issued licenses for the operation of casinos. There are now 13 casinos in Australia.

The first electronic gaming machine license was issued in NSW in 1956. By 1999, The Productivity Commission estimated there were nearly 180,000 electronic gaming machines in Australia, more than half of which were in New South Wales. Currently it is estimated there are around 200,000 gaming machines in use.

Clearly there has been considerable public policy evidence of support for regulation rather than prohibition.

In relation to online gambling, when the States allowed online gambling via licensing in the mid-to-late 1990s, David Ford, Executive Director of the Queensland Office of Gaming Regulation, stated that 'Australian officials concluded that Internet gambling could not be effectively banned, and the decision to regulate came easily as the country had a long tradition of acceptance of gambling'³⁶.

Another Australian official indicated that banning online gambling was impractical because 'it was already in place' and that prohibition would 'cause a loss of consumer benefits, inefficient allocation of resources (including enforcement), and crime and corruption'³⁷. Shortly after the Howard Government's second straight election win in 1998, the government stated that 'regulation is the best way to ensure fairness, credibility and accountability through licensing, regulation and

³⁶ F Faust, 'Internet Gambling Australia-Style: Serious Regulation' (1999) *Inside the Rolling Good Times* <<http://www.rstonline.com> at 22 September 2002.

³⁷ S Olfield, 'Banning Leads to Corruption' (1999) *Australia Financial Review* <http://www.afr.com.au> at 22 September 2002

enforcement³⁸. The Productivity Commission report into Australia's gambling industries in 1999 produced similar views and concluded that 'it is likely that (without harm minimisation measures and appropriate regulation) online gambling will pose significant new risks for problem gambling'³⁹. Importantly, the report did not advocate prohibition. The March 2000 Senate report 'Netbets' also followed the Productivity Commission report and concluded that regulation be recommended not prohibition⁴⁰.

Other adverse impacts resulting from prohibition include

- Consumers will be directed towards offshore or illegal websites where they may receive poor information on problem gambling may result, frustrating the development of appropriate care services;
- Lost opportunity to capitalise on the characteristics of the Internet which many argue enable harm minimisation measures to be more effective than is possible for physical gambling venues⁴¹; and
- Lost individual choice, penalising the freedom to address the small number of Australians who have problems with their gambling habits⁴¹;

Despite this historical trend towards, and preference for regulation rather than prohibition, in 2001 the Interactive Gambling Act was introduced which prohibited online casino games and all forms of online poker, online versions of electronic gaming machines and online bingo. While the IGA prohibits the *provision* of online gambling services to customers in Australia, it does not outlaw Australians from accessing online gambling services.

The IGA prohibitions have become less effective as the internet and associated technologies such as smart phones and laptops have advanced. In addition, there are a significant number of offshore based online gambling websites which offer online gaming and online betting, including betting in the run and in play betting to Australians. It is estimated that Australians can access over 2,000 overseas gambling websites and spend nearly \$800m on offshore online poker, gambling and bingo.⁴²

As noted by the Productivity Commission, there are a number of significant negative impacts from Australians betting with offshore operators:

"...the IGA (Interactive Gambling Act 2001) has ensured that domestic consumption of online gaming services will be exclusively provided by offshore companies. This has had a number of adverse impacts.

³⁸ Gaming Tech Industry News, *Online Gambling Revenues Will Break the \$10 Billion Barrier By 2002* Gaming Tech Industry News <<http://www.gamingtech.com/news/gam-rev.htm> at 24 September 2002

³⁹ Australian Productivity Commission, *Australia's Gambling Industries: Public Inquiry Report* (2000) <http://www.pc.gov.au/inquiry/gambling> at 29 September 2002

⁴⁰ Australian Senate Select Committee on Information Technologies, *Netbets: A Review of Online Gambling in Australia* (2000) <http://www.aph.gov.au/senate/committee/it.ctte/gambling> at 24 September 2002

⁴¹ National Office for the Information Economy. *Report of the Investigation Into the Feasibility and Consequences of Banning Interactive Gambling* (NOIE, 2001) 7

⁴² Productivity Commission Inquiry Report, *Gambling*, Report No. 50, pp 2.5

- *Problem gamblers with a preference for online gambling have been offered minimal protection. While the number of easily accessed international websites has risen dramatically in recent years, the extent of harm minimisation features varies greatly from website to website, and generally falls short of best practice.*
- *Recreational gamblers who would have preferred to gamble on Australian sites have been subject to a greater risk of being ‘ripped off’ by some unscrupulous overseas operators. While there are many reputable gaming sites, Australians are nevertheless disadvantaged when trying to resolve disputes with overseas companies due to:*
 - *the absence of well-defined international laws, as well as legal bodies to enforce them*
 - *unfamiliarity with the legal environment in the countries in which overseas companies operate*
 - *the difficulty in communicating effectively with companies based on the other side of the globe.*
- *Domestic providers of traditional forms of gambling have faced greater online competition from jurisdictions with much looser regulatory requirements.*
- *Recreational (non-problem) gamblers who are discouraged from gambling online due to the prohibition have less choice and are, accordingly, worse off.*
- *Tax revenue that would otherwise have been collected from legitimate Australian sites is now collected by foreign governments.⁴³*

Overseas Examples of Prohibition

The Government of the United States of America has long claimed that its 1961 Wire Act prohibited internet betting. However very few people were prosecuted and online gambling grew to an estimated US\$6b industry in 2006⁴⁴ As a result of this growth, the Unlawful Internet Gambling Enforcement Act (“UIGEA”) was introduced in 2006 which prohibits Americans gambling on any online gambling site, regardless of where it originates from. It also bans US banks from accepting payments from credit cards, cheques or wire transfers to settle online wagers. In April 2011, a number of online poker website executives and individuals who are alleged to have set up payment processes to allow Americans to participate were indicted under this act.

However, despite the introduction of the UIGEA, it is estimated that around US\$10b is spent by North American’s annually on online gambling. While it is likely that the recent high profile indictments of poker executives will have had a significant impact on online gambling spend by Americans, it has not put an end to the calls to legalise online gambling so that it can be regulated and taxed:

“When governments try to curb common human predilections, the best they usually manage is to move behaviour around – pushing so-called vice underground, where it can’t be regulated or taxed but thrives just the same. Being moralistic can be pricey when we ignore industries

⁴³ Productivity Commission Inquiry Report, Gambling, Report No. 50, pp 15.18

⁴⁴ “US looks to lift prohibition on online gaming firms” (2010), *The Independent*

*generating billions of potentially taxable revenue, and it can be dangerous when we criminalise them*⁴⁵

There have also been a number of attempts to legislate to allow online gambling in a number of forms:

- In March 2011, U.S. Reps. John Campbell, R-Calif., and Barney Frank, D-Mass., introduced their Internet Gambling, Regulation, Consumer Protection, and Enforcement Act. That bill, H.R. 1174, would legalize online gambling except sports betting and have the U.S. Treasury Department regulate it.
- In May 2011, U.S. Rep. Jim McDermott, D-Wash., introduced the Internet Gambling Regulation and Tax Enforcement Act of 2011, H.R. 2230, which would set up procedures to collect taxes from legal online wagering.

Similarly to the situation in Australia, there is clearly a growing movement to legalise and regulate online gambling in the US.

The following table demonstrates this trend in other jurisdictions around the world.

Country	Status
UK	<ul style="list-style-type: none"> • Online gaming is regulated by the Gambling Act 2005. It's objectives is to prevent problem gambling, ensure fairness, and to protect children and other vulnerable people from the harms of gambling
France	<ul style="list-style-type: none"> • France has moved to deregulate online gambling (horse racing, sports and poker only) - 6th April 2010 • Has introduced an independent administrative authority to oversee the industry and ensure operators participate in programs for problem gambling • New tax laws introduced to collect government revenue and operators must contribute to the equine and sporting industries
Italy	<ul style="list-style-type: none"> • 2006 Italy introduced regulations for online gambling companies allowing them to offer sports betting as well as regulations for remote casino gaming • In March 2011 Italy changed their online gambling regulations for operators holding an Italian license to legally offer poker games and casinos to their players
Malta	<ul style="list-style-type: none"> • Began licensing online gaming sites in 2000
Spain	<ul style="list-style-type: none"> • 2006 began allowing sports betting over the internet • March 2011 saw cabinet approve a draft law to regulate all forms of remote gaming • May 2011 the new Gambling Law was endorsed by the Spanish Congress

⁴⁵ "Legalize it" (May 2011), *Financial Post*

Online Gaming, Betting In Running, Exotic Bet Types and Integrity in Sport

Online Gaming and Betting in Running

Currently, the following types of gambling services are prohibited under the IGA in Australia:

- Online casino games, like roulette, blackjack and all forms of online poker
- Online versions of electronic gaming machines
- Online bingo
- Online 'betting in the run' and 'in play betting'.

It should be noted that betting in run or in play betting is currently legal over the telephone and in retail TAB outlets in Australia however is not currently permitted over the internet under the IGA. Sportsbet believes this inconsistency should be addressed as a priority to allow Australian online operators to compete on a level playing field with other Australian and international operators. This would also address the issue of an increasing number of Australians who gamble on unregulated overseas websites.

As noted previously, technology advancements, the proliferation of the internet and the thousands of online gambling websites available to Australian's has meant that prohibition of these types of gambling has become less effective over time.

To illustrate this point, the following is a selection of websites used by Australian's which offer online betting in the run:

- William Hill – www.sports.williamhill.com
- Ladbrokes - www.ladbrokes.com
- Bet365 - www.bet365.com
- Betfair - www.betfair.com
- 888 Sport - www.888sport.com
- Bwin - www.bwin.com
- Unibet - www.unibet.com
- 188bet - www.188bet.com
- Bluesquare - www.bluesq.com
- Gamebookers - www.gamebookers.com
- Skybet - www.skybet.com
- Betfred - www.betfred.com
- Victor Chandler - www.victorchandler.com
- Tote Sport - www.totesport.com
- Coral – www.sports.coral.co.uk
- Sportingbet - www.sportingbet.com
- Bodog – www.bodog.com
- Sportsbook – www.sportsbook.com

- Titanbet – www.titanbet.com
- Boyles – www.boyles.com

With there being a strong public policy focus on gambling within Australia at present, it is critical to ensure that there is a responsible and regulated industry operating within this country. In line with the, the evidence is overwhelming that prohibition is not working. This in turn is exposing domestic consumers of overseas online gambling services to a number of risks including the potential lack of responsible gambling protections. It is for this reason that Sportsbet supports Recommendation 15.1 of the Productivity Commission:

“In consultation with state and territory governments, the Australian Government should amend the Interactive Gambling Act to permit the supply of online poker card games.

Online poker, along with other gambling forms current exempted from the Interactive Gambling Act, should be subject to a regulatory regime that mandates:

- *Strict probity standards*
- *High standards of harm minimisation, including:*
 - *Prominently displayed information on account activity, as well as information on problem gambling and links to problem gambling support*
 - *Automated warnings of potentially harmful patterns of play*
 - *The ability to pre-commit to a certain level of gambling expenditure, with default settings applied to new accounts, and the ability for gamblers to set no limit on their spending as on the of the system options (with periodic checking that this remains their preference)*
 - *The ability to self exclude”⁴⁶*

Sportsbet recommends that the removal of prohibitions should commence with games of skill including online poker and betting in the run wagering.

Exotic Bets

Similar to the prohibition on betting in running on the internet, prohibition of exotic and other bet types will only lead to driving customers to unregulated offshore operators, to the disadvantage of themselves and local regulated operators.

The information required to investigate potential integrity breaches or instances of match fixing will also go offshore and outside the control of sporting bodies and law enforcement.

As opposed to prohibition of bet types, Sportsbet believes

- Exotic bets should continue to be allowed but should be limited to account based betting operators only

⁴⁶ Inquiry Report *Gambling* (Productivity Commission, 2010) Recommendation 15.1

- There should be upper limits on the bet size permitted on each bet type

For bet types with possible integrity concerns, the restriction on bet size can be made low enough to sufficiently discourage any attempt to influence the outcomes of these markets.

Technology has created the possibility for bookmakers to set controls for bet size per customer and the potential win for each bet in individual events, markets or selections, to ensure restrictions on maximum exposure.

At present, Australian bookmakers are at a serious competitive disadvantage to overseas operators and illegal bookmakers currently operating in Australia in relation to the scope of bet markets they are allowed to offer.

As noted previously, Sportsbet recommends a National approach be adopted to regulate and monitor betting, including betting on exotics.

Integrity of Sport

Match Fixing Should be a Specific Crime

Sportsbet has a zero tolerance policy on corruption in sport (and racing).

Sportsbet is fully supportive of any move to make cheating in relation to sports or events a specific crime, and believes the law should apply irrespective of whether or not the behaviour results in a winning bet.

Licensed and regulated bookmakers, and punters who aren't in on the 'fix', have absolutely nothing to benefit from match fixing, in fact, stand to lose significant money when paying out on winning bets associated with a 'fix'.

The establishment of a National regulatory body as recommended in this submission by Sportsbet will provide that the appropriate resources exist to monitor instances of match fixing. Sportsbet also recommends the compilation of an "insiders list" with input from the relevant sporting bodies which would include the names of players, officials and employees considered to have access to "insider information" which could help assist in a third party estimating the result of a particular contest. These insiders would be prohibited from wagering on the sport with which they are associated.

Sportsbet demonstrated strong public support for the National Policy on Match-Fixing in Sport that was announced on 10 June 2011. In a public statement issued that day, the Executive Chairman of Sportsbet, Matthew Tripp, said:

"These are major reforms that will have a real impact. In 2011, placing bets on sport over the internet is an international issue and if all stakeholders are to be successful in keeping the threat of corruption at bay, then a national integrity unit will make this battle much easier to win. Sportsbet.com.au is comfortable with what the policy proposed for betting companies, including information-sharing which we already do with many sports. And maximising

account-based betting – which promotes greater transparency and tracking of bets – will minimise the risk of betting-related corruption in sport. Sportsbet.com.au has a very firm view that there should be zero tolerance towards match-fixing in sport and therefore, we look forward to engaging with the implementation working group to progress this new policy.”

All Wagering Should be Account-Based

Sportsbet believes that many of the issues, both perceived and real, pertaining to match fixing can be resolved by ensuring that all wagering in Australia be account-based.

Anonymous cash betting is a major threat to a sport’s integrity, as seen in the incident involving National Rugby League player Ryan Tandy on 21 August, 2010. A full 10 days after the incident, it was reported that Ray Murrhiy, Racing New South Wales’ Chief Steward who had been brought in by the NRL to lead the investigation, had only ‘started to sift through the bets last night’.

“But I do hope to get all the figures by the end of the week, as well any CCTV footage,” Murrhiy said.⁴⁷

At present, investigators trying to trace those who placed cash bets with retail operators rely solely on security footage (where and when available), or simply wait for the punter to collect their winnings from the retail outlet.

Had all the bets in the aforementioned case been placed using an account, investigators could have had the information at their fingertips within minutes, as opposed to weeks.

As mentioned earlier, every bet placed with Sportsbet is tagged to a specific customer. Technology enables tracking of a customer’s name, address, location, IP address and payment method to inhibit possible fraud and money laundering. All telephone calls are recorded and logged.

Account-based betting also facilitates a variety of controls for responsible gambling, which are not possible with cash-based retail betting. These include:

- Customers can set a daily exposure limit when opening an account or can update this at any time – subject to a 24-hour cooling down period before a second change to increasing one’s exposure limit.
- Customers can self-exclude for a various periods of time or permanently
- There are compulsory information sections on all licensed operators websites
- Individual customer activity can be monitored

⁴⁷ <http://www.heraldsun.com.au/sport/nrl/new-twist-in-ryan-tandy-bet-scandal/story-e6frfgbo-1225912091032>

Anonymous cash betting should either be banned altogether, or severely restricted to bets over a certain magnitude and type.

The Coalition of Major Professional & Participation Sports has echoed the view that monitoring is more effective when wagers are placed with online, account-based operators:

“Initially, sports betting used the traditional cash-based systems. The emergence of interactive online technologies has increased the volume of betting on sport and provided new challenges in monitoring and policing. It has, however, also provided better options for sport and betting agencies to protect the integrity of sporting events where betting takes place.

One example that highlights the challenges that sport has faced in relation to betting occurred in the late 1990’s when match-fixing in cricket was exposed. The captains of three of the nine test-playing countries were banned for life. The root of the problem was cash-based, unregulated, illegal betting in the Indian sub-continent. We do not believe that prohibition works as a regulatory framework. It will drive betting underground or push Australian gamblers to off-shore online gambling agencies.

*COMPPS sports each have extensive regulation concerning integrity and sports betting by participants. These regulations are enforced by way of contract and include prohibitions on match fixing and corruption, on betting by participants and disclosure of inside information for betting purposes. To assist in the enforcement of such regulations, COMPPS members have information sharing agreements with betting agencies. Such agreements require agencies to disclose full details of their betting sheets to sports for the purpose of investigation inquiry.*⁴⁸

Advertising and Inducements

Advertising Regulation

Each state and territory has differing advertising codes of conducts and legislation. Sportsbet is bound by guidelines contained in the Northern Territory Code of Practice for Responsible Gambling. The Code has been developed in consultation with a Responsible Gambling Advisory Committee comprising various representatives from the gambling industry, government agencies and community services such as the Salvation Army and Anglicare Top End. The Code (and a NT Responsible Gambling Manual supporting the Code) deals with a myriad of issues relevant to responsible gambling including such issues as training of key personnel in relation to provision of responsible gambling services, provision of information to the public about responsible gambling, the availability of counselling and support services, the protection of minors from access to gambling services and self-exclusion guidelines for problem gamblers.

The Code also contains provisions concerning advertising and promotion in the gambling sector.

⁴⁸ The Coalition of Major Professional & Participation Sports: Submission to the Senate Community Affairs Committee, June 2011

Whilst the Code is a voluntary Code, it contains serious expectations on licensed operators to ensure all measures are applied. The Code and Manual make plain that serious or persistent breaches of their terms could see action being taken against a licensee on the basis that the licensee is no longer “fit and proper” to hold a gambling licence.

The Code outlines the minimum requirements of the gambling providers.

The Code broadly requires that gambling advertising and promotions be delivered in an honest and responsible manner with consideration given to the potential impact on people adversely affected by gambling.

More specifically with respect to gambling advertising, the Code requires;

- compliance with the Advertising Code of Ethics as adopted by the Australian Association of National Advertisers or the Advertising Federation of Australia
- that any television advertising comply with the Federation of Commercial Television Stations (FACTS) Code of Practice
- accuracy and no false or deceptive advertising about the chances of winning a prize or the size of the potential return for the wager
- that no impression be given “that gambling is a reasonable strategy for financial betterment”
- that advertising displays not be directed at minors or portray minors participating in gambling
- that problem gambling signage (including for Internet/telephone sports bookmakers and online licensees) contain appropriate problem gambling warning signage in a clearly visible manner
- that there be no advertising of individuals’ winnings (outside of the providers’ internet site)

The NT Responsible Gambling Manual repeats the above guidelines and furthermore recommends in relation to advertising that gambling providers also;

- not suggest that winning a prize is the probable outcome
- not describe money spent as “an investment”
- not imply that skill can influence the outcome where this is not the case
- not suggest chances of winning are influenced by the length of time or number of attempts
- not offer inducements or promotions which encourage excessive participation
- Not be directed at vulnerable or disadvantaged groups

Sportsbet’s Position on Specific Forms of Advertising

Sportsbet notes the increasing community concerns around the advertising of sports wagering companies. Sportsbet recognised this a long time ago to the point where our company prides itself on being one of the most sensitive and responsible companies within in the industry on advertising our company and our products.

One of the highest priorities for Sportsbet is minimising exposure our advertising has to persons aged under 18.

Sportsbet is working on a company position paper to submit to the Federal Government following its announcement on 27 May that the Government is reviewing the promotion of in-game betting.

In-Play and Commentary Updates of Wagering Odds

Sportsbet is in favour of the phasing out of in-play odds updates either on screen or as noted as part of the commentary. Sportsbet notes that it does not currently utilise this form of advertising in the TV sponsorships with which it is a part

Logos

Gambling companies sponsors logos should not appear on any children's replica clothing or equipment

Advertising

All advertising to carry responsible gambling messaging and references to counselling services

Unlicensed Providers

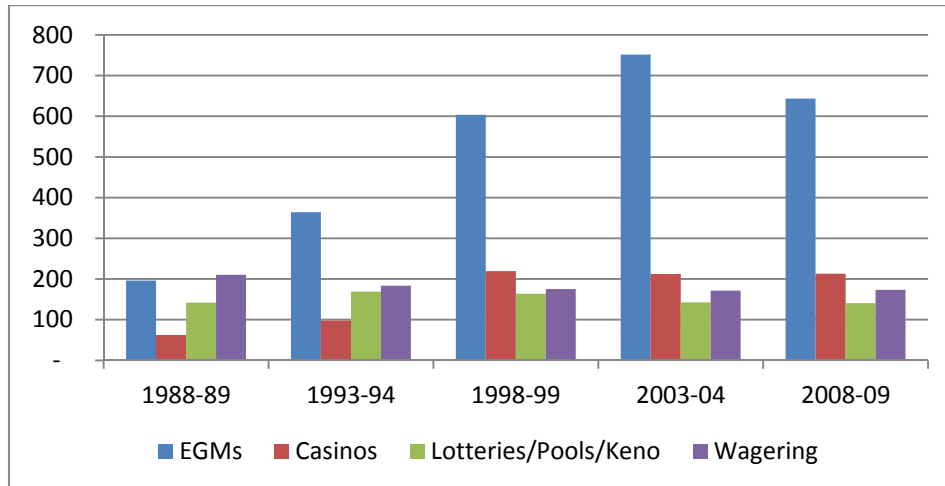
There should be a ban on all advertising by gambling providers unlicensed in Australia and this ban should be enforced.

Inducements

Corporate bookmakers have grown rapidly since their introduction, with turnover increasing nearly 500 percent since 2000. A major contributor to this growth has been the removal of the advertising prohibition in November 2008. Since that time there has been a notable increase in the volumes and variety of advertising of wagering products.

One of the concerns with such an increase in spend with corporate bookmakers is its impact on consumers and, more specifically, whether it has resulted in an increase in the prevalence of problem gambling.

While corporate bookmakers have experienced strong growth in recent times, the real dollar per capita spend on wagering declined in the period 1989 to 2004 and showed only minimal growth between 2004 and 2009 (real spend per capital grew 1% but 2009 spend levels remain below those in 1999 before corporate bookmakers gained material market share). During the same period, the real dollar per capita spend on electronic gaming machines increased over 280 percent to its peak in 2004, before declining in 2009 as a result of the introduction of smoking bans in venues around Australia (Figure 12).

Figure 12 – Real Gambling Spend per Capita – 1989 to 2009⁴⁹

According to Frontier Economics:

“Consequently, while it is true that operators such as Sportsbet have increased their share of the market, it would be incorrect to infer that they have driven an increase in wagering overall. Rather, the flat per capita expenditure on wagering suggests that the growth of corporate bookmakers has been driven by substitution away from traditional wagering service providers.”⁵⁰

This switching is the result of corporate bookmakers offering more favourable pricing, a greater variety of product and more innovation and ultimately results in consumers being better off. Sportsbet notes the Productivity Commission’s Finding 16.5:

“Productivity Commission: Finding 16.5

Offering inducements to wager through discounted prices to new customers is not necessarily harmful, it may primarily serve to reduce switching costs between incumbent wagering operators and new entrants, enhancing competition. The risks for problem gamblers should be assessed and, regardless of whether prohibition or managed liberalisation is the appropriate action, a nationally consistent approach would be warranted”⁵¹

⁴⁹ Frontier Economics (2011), “Sportsbet submission to the Joint Select Committee on Gambling Reform, Economic Overview of Selected Issues”. Included in Appendix 2 of this submission

⁵⁰ Frontier Economics (2011), “Sportsbet submission to the Joint Select Committee on Gambling Reform, Economic Overview of Selected Issues”

⁵¹ Inquiry Report *Gambling* (Productivity Commission, 2010) Recommendation 16.59

Sportsbet believes that when consideration is given to the lack of increase in real wagering spend per capita since the introduction of corporate bookmakers and the lifting of advertising prohibitions, it is clear that consumers are better off as a result of these events. As noted by Frontier Economics:

*“Promotional activities by new entrants will be pro-competitive, if undertaken on a sufficient scale. The Productivity Commission found that inducements may serve primarily to reduce the cost to consumers of switching from incumbents to new entrants, and could therefore be pro-competitive”.*⁵²

⁵² Frontier Economics (2011), “Sportsbet submission to the Joint Select Committee on Gambling Reform, Economic Overview of Selected Issues”. Included in Appendix 2 of this submission

Appendix 1 – Problem Gambling Background Information

Problem Gambling

‘Problem gambling’ is referred to in the Productivity Commission Inquiry Report into Gambling (Productivity Commission Report), which adopts the Canadian Problem Gambling Index (CPGI)⁵³. The questions to assess are as follows:

1. Have you bet more than you could really afford to lose?
2. Still thinking about the last 12 months, have you needed to gamble with larger amounts of money to get the same feeling of excitement?
3. When you gambled, did you go back another day to try to win back the money you lost?
4. Have you borrowed money or sold anything to get money to gamble?
5. Have you felt that you might have a problem with gambling?
6. Has gambling caused you any health problems, including stress or anxiety?
7. Have people criticized your betting or told you that you had a gambling problem, regardless of whether or not you thought it was true?
8. Has your gambling caused any financial problems for you or your household?
9. Have you felt guilty about the way you gamble or what happens when you gamble?

Scoring Instructions for the CPGI

Score the following for each response: never= 0, sometimes= 1, most of the time= 2, almost always= 3. Total your score. The higher your score the greater the risk that your gambling is a problem: zero score (no risk); 1 to 2 (low risk); 3 to 7 (moderate risk) and 8+ (problem gambler). The overwhelming number of gamblers score zero on this scale.

Therefore a score of 8+ on the CPGI assess a person as a problem gambler.

Pathological gambling- The difference between pathological and problem gambling

The following criteria must be satisfied to qualify for a formal psychiatric diagnosis of pathological gambling⁵⁴:

- Persistent & recurrent maladaptive gambling behaviour (Criterion A) as indicated by the presence of five or more of the following (covering dependence, impaired control & harm):

⁵³ Inquiry Report *Gambling* (Productivity Commission, 2010) Recommendation 5.5

⁵⁴ American Psychiatric Association (2000). Diagnostic and Statistical Manual of Mental Disorders Fourth Edition Text Revised. Authors: Washington DC

- i. Excessive preoccupation with gambling (psychological dependence)
- ii. Need to increase amounts gambled to generate the desired level of excitement (tolerance)
- iii. Irritability/ restlessness on cessation (withdrawal)
- iv. Escape from stress (negative reinforcement & motivation)
- v. Continued gambling in an attempt to recoup losses (erroneous & distorted cognitions)
- vi. Lying to conceal extent of gambling
- vii. Repeated unsuccessful attempts to cease (impaired control)
- viii. Commission of illegal acts to finance gambling
- ix. Jeopardized or lost significant relationships, employment or educational career as a consequence of gambling
- x. Reliance on others to provide money to bail them out of financial situations

In addition, it must be assessed that the disorder is not accounted for by a Manic Episode.

The term problem gambling tends to be used to denote the broader population of individuals experiencing adverse gambling-related consequences that may or may not exhibit impaired control or meet full criteria for pathological gambling.

Appendix 2 – Frontier Economics Paper

Sportsbet submission to the Joint Select Committee on Gambling Reform

ECONOMIC OVERVIEW OF SELECTED ISSUES

Context

Frontier Economics has been retained by Fitzpatrick Legal to provide advice concerning the economic propositions that can be made by Sportsbet in the context of its submission to the parliamentary Joint Select Committee on Gambling Reform (hereafter referred to as “the Committee”). The Committee’s terms of reference focus on interactive and online gambling. This paper focuses on some general issues raised by recent trends in wagering, as well as specific issues regarding the regulation of certain types of wagering activities (notably in-run and exotic bets) and regulations relating to the advertisement of on-line gambling and inducements offered by on-line wagering service providers to customers and potential customers.

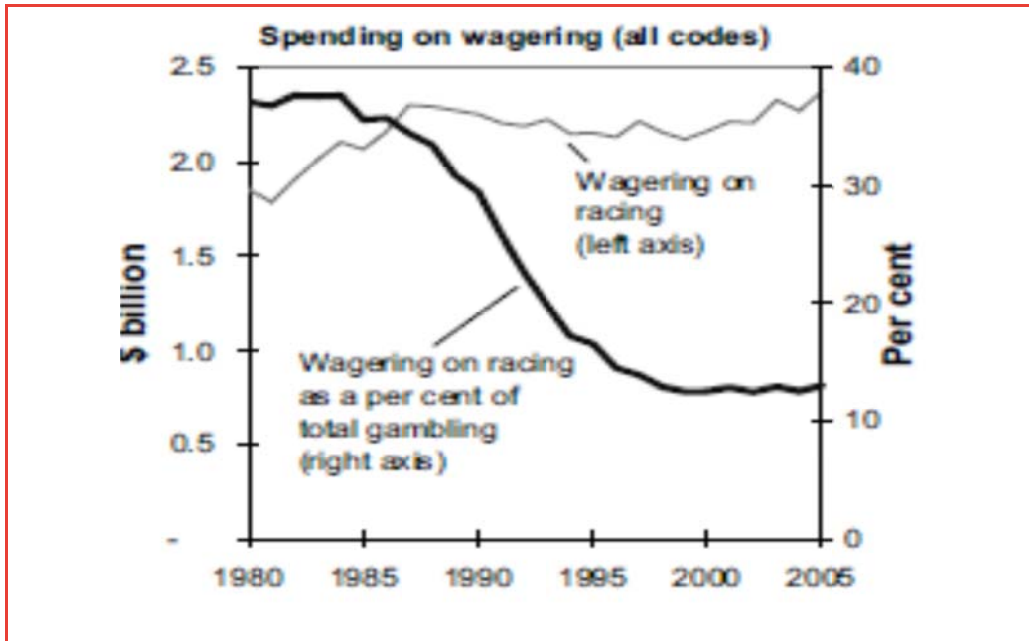
General issues regarding on-line wagering

A useful starting point is to consider trends in real expenditure on all wagering activities (that is, on-line and other forms) over the last three decades. This will help to establish:

- whether the introduction of on-line wagering has increased overall real wagering expenditure per head of population; and
- whether the liberalisation of advertising regulations governing on-line wagering have increased overall wagering.

Data provided by the Productivity Commission suggest (see Figure 1) that there has been an increase in real wagering expenditure on racing since 1980, though much of that increase pre-dates (by about a decade) the introduction of on-line wagering. The Productivity Commission notes that, since the introduction of on-line gambling since 2000, corporate bookmakers offering such services have increased their share of the market. It notes that some of this growth is due to punters switching away from TABs and on-course bookmakers, but suggests that some of this growth also reflects an increase in wagering expenditures overall.

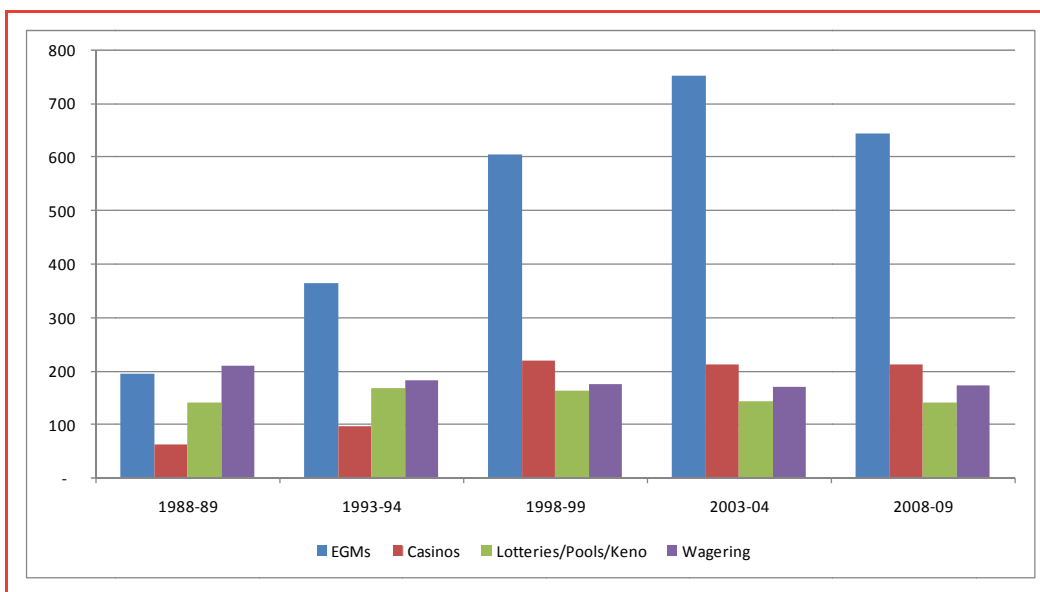
Figure 1: Real expenditure on wagering



Source: Productivity Commission (2010)

While the data on real expenditure can establish that the market for wagering has grown, they are not sufficient to establish on their own what the causes are. Indeed, if wagering activities are measured in terms of real expenditure per capita, we find that wagering has remained broadly flat over the last 10 years, and indeed that it has declined slightly since the late 1980s. This contrasts with the increase in gambling expenditure driven by electronic gaming machines (EGMs)

Figure 2: Real expenditure on wagering per capita (adult population)



Source: Based on Productivity Commission expenditure data and ABS statistics

Consequently, while it is true that operators such as Sportsbet have increased their share of the market, it would be incorrect to infer that they have driven an increase in wagering overall. Rather, the flat per capita expenditure on wagering suggest that the growth of corporate bookmakers has been driven by substitution away from traditional wagering service providers.

It is also questionable to what extent any increase in wagering expenditure would create a policy issue. The general thrust of the Productivity Commission's approach to gambling as a whole is that is "an enjoyable pursuit" for many Australians and that this enjoyment drives the social benefits of gambling. At the same time, the Commission excluded expenditure from problem gambling from its calculus of benefits; and it suggested that the overall direction of policy would be to target measures that address those at significant risk of harm while preserving the benefits for those who enjoy gambling. In relation to wagering activities, the main points to note are that:

- Most harm is to be found in gaming. The main policy implication this raises is for the liberalisation of on-line gaming activities, not on-line wagering.
- There is no conclusive evidence that increased participation in on-line wagering activities drives problem gambling in relation to gaming (whether on-line or offline).

The regulation of advertising for on-line wagering

An issue of interest to the Committee is the appropriate regulation of promotional activities, by which we mean both advertising and the use of inducements (such as discounts, rebates or free bets). In considering the question of appropriate regulation it is important to take into account the overall structure of the market for wagering activities.

The relevant market is for all wagering activities, whether on-line or through physical premises. The Productivity Commission found in its enquiry that the market for wagering activities had been characterised by market power on the part of the incumbent TABs, and that this lowered consumer welfare. It noted that:

protective barriers in the retail wagering market continue to stifle the consumer benefits of greater competition. In particular, the off-course retail monopoly held by the TABs means that consumers have worse odds than those that a competitive market would deliver.⁵⁵

The Productivity Commission also noted that while various factors influenced the extent to which pay-out rates varied internationally across wagering activities, market power by incumbents was one reason why pay-out rates were lower in Australia compared to more competitive environments such as the UK. The Productivity Commission attributed the greater market power of incumbents in Australia to both the legacy of past arrangements, and certain on-going restrictions on competition such as exclusivity arrangements.⁵⁶

When incumbents retain market power, promotional activities can play an important role in affecting the prospects for competition. Incumbents have an incentive to invest heavily in advertising to retain market share. Indeed, the returns to an extra dollar of advertising spent by an incumbent are likely to be much higher than to a new entrant. This is because an incumbent

⁵⁵ Productivity Commission (2010), Gambling, Report No. 50, Volume 2, pp16.6 to 16.8

⁵⁶ Productivity Commission (2010), Gambling, Report No. 50, Volume 2, pp16.6 to 16.8

already enjoys a reputational advantage in the market. A newer entrant, by contrast, has to invest much more heavily in promotional activities to reach a threshold level of brand recognition.

This characterisation of the role of promotional activities in the context of competition between firms helps us to understand that:

New entrants will seek to invest heavily in advertising and inducements; we would expect that the returns to advertising spending would only materialise after a threshold level is exceeded.

Promotional activities by new entrants will be pro-competitive, if undertaken on a sufficient scale. The Productivity Commission found that inducements may serve primarily to reduce the cost to consumers of switching from incumbents to new entrants, and could therefore be pro-competitive.⁵⁷

Incumbents will seek to invest in promotional activities, but they also stand to gain from restrictions on such activities. This is because their reputational advantage as incumbents means that an inability to spend an extra dollar on such activities will disadvantage new entrants to a much greater extent than it would the incumbents.

Restrictions applying to on-line gambling

Australian on-line wagering service providers are currently precluded from using the internet to provide in-run and exotic betting products. However, such products may readily be accessed by Australian consumers through overseas service providers. The Productivity Commission found that the diversion of consumption from domestic to foreign providers may not be desirable to the extent that foreign providers are not necessarily subject to the same regulatory requirements in terms of harm minimisation as local providers.⁵⁸ The general thrust of the Productivity Commission's report is that managed liberalisation coupled with regulation is preferable to outright prohibition, particularly given the enforcement costs of prohibition in a globalised market place. International cooperation could offer one way through which approaches to harm minimisation can be standardised.⁵⁹

Many of the concerns regarding in-run and exotic betting relate to the effects of these bets on the integrity of sports competition. As with the issue of harm minimisation, prohibition is unlikely to present a tractable solution, since it will divert betting from providers in well regulated jurisdictions to providers in jurisdictions that are not well regulated, or into the illegal betting market. Indeed, the evidence suggests that it is the activity of illegal betting markets, essentially those based in Asia, that have a corrupting influence on world sports.⁶⁰

By contrast, registered wagering service providers in Australia have integrity agreements with organisers of sporting activities. They also have a track record of monitoring suspicious betting

⁵⁷ Productivity Commission (2010), Gambling, Report No. 50, Volume 2, pp16.58 to 16.59

⁵⁸ Productivity Commission (2010), Gambling, Report No. 50, Volume 2, pp 15.1

⁵⁹ Productivity Commission (2010), Gambling, Report No. 50, Volume 2, pp 15.32

⁶⁰ See for example, Declan Hill (2011), The Battle for the Soul of Sport, Submission made to the Parliamentary Inquiry into Interactive and Online Gambling and Advertising., available at http://www.aph.gov.au/senate/committee/gamblingreform_ctte/interactive_online_gambling_advertising/submissions.htm

activity and reporting these to the relevant organisations, and in collaborating in inquiries.⁶¹ The appropriate approach to ensuring integrity would require that betting activities be legal and that they be subject to regulatory frameworks including integrity agreements. It would also require implementing supporting measures (such as developing anti-corruption hotlines) and developing international frameworks for collaboration on ensuring integrity.⁶²

About Frontier Economics

Frontier Economics is an economics consultancy based in Melbourne, with offices in Brisbane and Sydney, and associated practices in London, Madrid, Brussels and Cologne. Frontier Economics specialises in applied economic analysis, including program reviews, industry regulation, institutional restructuring and reform, transactions advice, competition policy, and litigation support.

⁶¹ For example, in a widely publicised case in 2007, Betfair voided betting on a tennis match between Nikolay Davydenko and Martin Vasallo Arguello after detecting unusual betting patterns, and then collaborated with the Association of Tennis Professionals (ATP) in year-long inquiry, which was the longest of its kind.

⁶² See for example, Declan Hill (20110, *The Battle for the Soul of Sport*, Submission made to the Parliamentary Inquiry into Interactive and Online Gambling and Advertising., available at http://www.aph.gov.au/senate/committee/gamblingreform_ctte/interactive_online_gambling_advertising/submissions.htm;