

31 March 2012

Committee Secretary
Joint Select Committee on Gambling Reform
PO Box 6100
Parliament House, Canberra, 2600

**Supplementary Submission from Tom Cummings to the
Joint Select Committee on Gambling Reform –
Inquiry Into the Prevention and Treatment of Problem Gambling**

After making my own submission to this Inquiry, I spent some time reading through the other submissions listed on the Senate Committee's website. I felt compelled to make comment on the assertions made in the submission by the Gaming Technologies Association (GTA).

The GTA submission appears to be focused more on pushing a particular agenda than on contributing to discussion on the prevention and treatment of problem gambling. It uses the "other related matters" term of reference to make their point about the following:

- the "intensity" of Australian poker machines;
- the cost and complexity of changing any aspect of poker machine software.

It is these points that I wish to address.

1. The "intensity" of Australian poker machines.

The GTA asserts that the notion that Australia's poker machines are "high intensity" is a myth. They make the following statements:

In recent years, a myth has grown that Australia's poker machines are "high intensity". This is wrong.

The fact is, Australia's poker machines are among the world's least "intense". Their rate of play is slower and their maximum bet is lower than almost all of the other seven million gaming machines in operation everywhere else in the world.

Almost anywhere other than in Australia, bets can be placed in tenths of a second or less by 'fast forwarding' the reel spin; compared to a reel spin duration of at least three seconds and more usually five seconds in Australia. In many cases, the Maximum Bet is either unlimited or much larger than in Australia.

The actual average hourly revenue of gaming machines in Australia is around \$10.91 or less than 1% of the \$1,200 "hourly loss" which some have suggested.

(GTA submission to the Joint Select Committee on Gambling Reform, 30/3/2012)

There are a number of reasons to discount this statement in its entirety.

Comparison of gaming machines internationally.

In their submission to the Productivity Commission, dated 18/12/2009, the GTA admonished the Productivity Commission for comparing Australia's poker machines with gaming machines from other countries. They stated:

“Care should be exercised when comparing gaming machines internationally.”

To highlight this point, they cited the example of UK gaming machines, which are comprised of:

- “Amusement With Prizes” (AWP) machines; and
- “Fixed Odds Betting Terminals” (FOBTs).

The GTA stated that neither of these machine types was comparable to Australian poker machines. They were right.

Yet in their submission to this Inquiry, they attempt to make exactly this comparison to support their case that Australian poker machines are not “high intensity.”

The “seven million gaming machines” figure comes from their own report, “World Count of Gaming Machines 2010,” produced by Taylor Nelson Sofres Plc (TNS) and commissioned by GTA. The actual figure cited in the report is 7,249,919 gaming machines worldwide. This figure includes:

- Pachinko, Pachislo and Pachisuro gaming machines (Japan);
- Video Lottery Terminals (VLTs) (predominantly USA and Canada);
- Casino-Style Slot Machines (everything else).

The report uses “Casino-Style Slot Machines” as the default category for any gaming machine that is not a VLT or a Japanese skill/token game. In doing so, it places UK gaming machines in the same category as Australian poker machines... despite the GTA's assertion that they are NOT comparable.

In addition to the UK, the report also categorises the gaming machines of Italy, Spain and Germany (amongst others) as “Casino-Style Slot Machines.” Yet these are all member countries of the European Gaming and Amusement Federation (EUROMAT), which states that their gaming machines are “Amusement With Prizes” (AWP) machines. Again, the GTA are on record as stating that AWP's are NOT comparable with Australian poker machines.

It is worth noting that the World Count of Gaming Machines report is fundamentally flawed. No citation or reference is given for any of the figures it contains. I was able to match up machine figures from the report with machine figures listed for member countries of EUROMAT, but no mention of this was made in the report. And the most recent version of the report (2010) states that Japan has 1,635,860 “Casino-Style Slot Machines,” despite the fact that such machines are illegal in Japan.

Reel Spin

The GTA refers to:

“a reel spin duration of at least three seconds and more usually five seconds in Australia.”

The legislated restrictions imposed upon reel spin speeds for Australian states and territories are listed by FAHCSIA under “A National Snapshot of Harm Minimisation Strategies” on their website. They are:

ACT	No restriction.
NSW	No restriction.
NT	No restriction.
QLD	Minimum of 3 seconds.
SA	Minimum of 3.5 seconds for new games. No more than 17 games per minute (for games without reels).
TAS	Minimum of 3 seconds.
VIC	Minimum of 2.14 seconds (with exemptions for certain casino machines).
WA	N/A (no reel-based gaming machines).

From this it can be seen that the minimum legislated reel spin speed in Australia is 2.14 seconds (Victoria), and that the ACT, Northern Territory and New South Wales have no legislated minimum reel spin speed.

There is no basis in fact for the GTA to claim that reel spin speeds in Australia are “more usually” five seconds.

Maximum Bet

The GTA states that:

“In many cases, the Maximum Bet is either unlimited or much larger than in Australia.”

As previously mentioned, comparing Australian poker machines with gaming machines in most other countries is foolish and provides no useful statistical data.

However, it is worth noting that one dominant characteristic of AWP gaming machines (UK, Germany, Spain, Italy, etc) is that they are low-bet, low-return machines. The maximum bet on these machines is £1 in the UK, and ranges from 20 cents to €1 in the other countries. This information can be found by analysing the member country reports provided by EUROMAT.

In comparison, the maximum bets for Australian states and territories, again listed by FAHCSIA, are as follows:

ACT	\$10 maximum bet.
NSW	\$10 maximum bet on poker machines. \$100 maximum bet on multi-terminal gaming machines (MTGMs).
NT	\$5 maximum bet (hotels/clubs). No bet limit (casinos).
QLD	\$5 maximum bet.
SA	\$10 maximum bet.
TAS	\$5 maximum bet.
VIC	\$5 maximum bet (hotels/clubs). \$10 maximum bet (casinos).
WA	N/A (no reel-based gaming machines).

Hourly Revenue

The GTA states that:

“The actual average hourly revenue of gaming machines in Australia is around \$10.91.”

This is true, and leads to **an average yearly revenue of over \$60,000 for every poker machine in Australia.**

But as a stand-alone statistic, it is misleading. There is not a single poker machine in Australia that is played non-stop from venue opening time to venue closing time. The vast majority of Australia's poker machines are unused for several hours every day.

The only way an “hourly average” can have any meaning is if it incorporates the actual number of hours that Australians spend playing poker machines each year. It is obvious that poker machines will not make any revenue when they are not being played.

\$1,200 Hourly Loss

The GTA refers to the "\$1,200 "hourly loss" which some have suggested" and compare it to the irrelevant hourly average figure of \$10.91.

This is a pointless argument and proves nothing. As I mentioned in my previous point, the hourly average of \$10.91 is skewed because it includes the many hours each day that poker machines are not being played.

The \$1,200 hourly loss, on the other hand, is sourced from the Productivity Commission's 2010 report on Gambling in Australia. It is based on the following stated criteria:

- \$10 bet per spin;
- 20 games per minute;
- 90% return to player.

Under these predetermined conditions, a player will indeed place \$12,000 worth of bets in an hour. The 90% return to player would equate to \$10,800, and the loss would indeed be \$1,200... on average.

The figure of \$1,200 is NOT the average hourly loss on Australian poker machines. It is the EXPECTED hourly loss when playing the maximum bet of \$10 per spin, at high speed (20 games per minute) for a prolonged period of time.

The GTA is no doubt aware of this. So for them to compare these figures is a wilful attempt to misrepresent the true situation.

2. Cost and complexity of changing any aspect of poker machine software.

In their submission, the GTA asserts that:

"The cost of upgrading machines for pre-commitment would exceed \$3 billion for gaming machines alone."

And:

"Whether for a \$1 Maximum Bet or for Mandatory Pre-Commitment, the costs of changing gaming machine software are about the same."

These statements summarise the GTA position on modifying poker machines for either pre-commitment or \$1 maximum bets. They are based on faulty logic and incorrect assumptions and should be summarily dismissed.

The fundamental error in the GTA's figures is that they assume that all of Australia's poker machines will be reconfigured **immediately**. In their submission, they discuss the cost of upgrading poker machines in NSW and Queensland, and conclude:

"The cost of an immediate reconfiguration of this inventory would exceed \$2.5 billion."

Additionally, in their media release dated 9/11/2011, the GTA asserted that the total cost to change Australian poker machines to \$1 maximum bets was **in the vicinity of \$3.25 billion**.

This conclusion ignores that fact that any legislative changes regarding poker machines, whether they be for pre-commitment or \$1 maximum bets, would not take effect until (at this stage) at least 2017. That means that over the next 4 years, any new poker machines could conceivably be designed to support pre-commitment or \$1 maximum bets, with NO conversion costs. Indeed, this was the approach taken recently when Victoria passed legislation that lowered the maximum bet from \$10 to \$5.

This conclusion also ignores the natural replacement cycle for poker machines in Australia. In their submission to the Productivity Commission, dated 18/12/2009, the GTA spoke of the time-frame for the routine replacement of poker machines in Australia. They stated:

"Almost all gaming machines in Australian states and territories are routinely replaced over a 10 year cycle."

It therefore stands to reason that approximately 10% of Australia's poker machines are routinely replaced every year. It also stands to reason that these would be the oldest machines, for the GTA's statement to be true.

Applying this premise to the GTA's calculations yields some interesting results. Rather than use the figures from their submission to this inquiry (which were only for NSW and Queensland), I will use the figures from their 9/11/2011 media release.

In that media release, the GTA stated:

Australian gaming machines -

Cost to change to \$1 bet limits/\$500 payout limits

- a) 25% (50,000 gaming machines) less than 3 years old = around \$5,000 per machine (\$250 million)
- b) 25% (50,000 gaming machines) 3-5years old = \$10,000 per machine (\$500 million)
- c) 50% (100,000 gaming machines 5+ years old = \$25,000 per machine (\$2.5 billion)

Total cost = \$3.25 billion

Using the GTA's own stipulation of a 10 year routine replacement cycle, by January 1 2017 approximately 40% of Australia's current poker machines will have been replaced. Again, it is expected that these will be the oldest poker machines.

If poker machine manufacturers begin incorporating legislative changes into their machines from January 1 2013, then by January 1 2017 we would have the following scenario:

- 40% (80,000 gaming machines) configured to support pre-commitment / \$1 maximum bets. No conversion costs (\$0).
- 25% (50,000 gaming machines) requiring software changes only. Conversion costs of \$5,000 per machine (\$250 million).
- 25% (50,000 gaming machines) requiring software/hardware changes. Conversion costs of \$10,000 per machine (\$500 million).
- 10% (20,000 gaming machines) requiring replacement. Replacement costs of \$25,000 per machine (\$500 million).

Total cost = \$1.25 billion

Even without challenging the GTA's figures for software and hardware changes, it can be seen that their estimate for conversion is inflated by \$2 billion.

In closing, it is my professional opinion that the complexity of the task of implementing either pre-commitment or \$1 maximum bets for poker machines, while significant, has been drastically overstated by the industry and the GTA.

I do not make this claim lightly; I have a degree in Information Management and Computing, and 18 years professional experience in the information technology field of the banking and insurance sectors in Australia. I have a wealth of experience in the analysis, coding, testing and implementation of legislative and mandated changes to systems comprising thousands of programs and related components, and I was heavily involved in the massive industry work effort to prepare computer systems for Y2K.

I have absolutely no doubt that the position of the GTA is predicated upon their desire to prove why changes cannot be applied to their industry, rather than an honest and accurate assessment of the actual work that would be involved.