

BETFAIR 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**

Table of Contents

EXECUTIVE SUMMARY	3
INTRODUCTION	4
WAGERING REGULATION AND PROBLEM GAMBLING.....	6
Probity.....	6
Integrity.....	6
Problem Gambling and Harm Minimisation.....	8
Anti-Money Laundering.....	9
INTERACTIVE GAMBLING ACT	11
In Play Betting.....	11
Online Interactive Gaming	13
AUSTRALIA’S REGULATORY ENVIRONMENT.....	14
RACING AND SPORTS INDUSTRY FUNDING	15
ADDRESSING THE COMMITTEE’S TERMS OF REFERENCE.....	16
(a) growth of interactive sports betting	16
(b) development of new technologies	16
(c) regulatory framework.....	17
(d) inducements to bet on sporting events online.....	17
(e) risk of match fixing	18
(f) impact of betting exchanges	19
(g) betting on political events	21
(h) regulation of participants.....	21
(i) gambling advertising.....	22
CONCLUSION	23

EXECUTIVE SUMMARY

Betfair operates a fixed odds wagering business. It provides products through a betting exchange platform, where punters effectively bet against one another, in a similar way to buying and selling on the stock exchange. Technically, Betfair operates in a similar way to a bookmaker – accepting bets from customers, but only doing so where it is immediately and fully able to offset the risk of those bets against requests for bets from other customers. A customer can only bet with money they have in their account, so there is no risk of a bet not being paid.

Betfair welcomes the opportunity to make this submission to the Joint Select Committee’s inquiry into interactive and online gambling. The essence of Betfair’s submission is that Governments should consider adopting national regimes that favour regulation over prohibition and promote the movement of consumers towards account-based betting with Australian regulated wagering operators, rather than unregulated and sometimes unscrupulous offshore operators. This approach will ensure that issues surrounding integrity and problem gambling can be managed effectively. The national, regulated approach advocated by Betfair should be accompanied by a series of minimum harm minimisation benchmarks for wagering operators – including the mandatory offering of loss limits, deposit limits and self-exclusion mechanisms to customers.

The wagering landscape in Australia is undergoing a period of unprecedented change. Not since the introduction of totalisator betting several decades ago have there been so many opportunities and challenges - for governments, regulators, consumers and the industries for whom wagering is an important direct or indirect source of income. Technology has led to an international market for gambling products, forever altering the wagering landscape. Racing is no longer the preferred gambling product in Australia for many punters who are now freely able to spend their wagering dollar on an increasing number of online and offline options, from poker machines to casinos and sports as well as poker and other card games. It should be of great concern to Australian policymakers from a consumer protection and fiscal perspective that the current prohibition-based approach to use of offshore online products has not succeeded.

Appropriately, the racing industry and the major professional sports are demanding a seat at the table in negotiations for a fair return from betting companies offering markets on their products. More importantly, many of them are seeking access to betting records to protect their competitions from gambling-related corruption. It’s an area that poses at least as big a risk to the integrity of sport as it does to the racing industry and Betfair has led the way in cooperation with racing and sports bodies on information sharing and product fees. Gambling-related corruption requires the same degree of attention as doping, in order to effectively protect the credibility of sporting competitions for the general public – whether they are gamblers or not.

INTRODUCTION

This submission will directly address the Joint Select Committee's terms of reference in detail, but it will initially provide an outline of Betfair's scope and operations in Australia and internationally, as well as underlining some of the numerous practical measures the company applies in regard to harm minimisation and probity on the consumer side of the business and integrity issues on the supply side.

As Australia's only licensed betting exchange, Betfair believes it has an important contribution to make to the Committee's inquiry. We welcome the opportunity to provide this submission and we would also welcome any opportunity to give evidence to your inquiry.

Betfair is strongly committed to harm minimisation in relation to problem gambling and we maintain a vigilant stance in regard to the integrity of all sports/racing on which we offer betting markets. Betfair is of the view that account-based wagering operators are better equipped than their cash-based counterparts to monitor and address the important issues of problem gambling and sporting integrity.

About Betfair

Betfair operates in a number of countries. It has more than 4.5 million customers worldwide, 200,000 of whom are in Australia and New Zealand. Betfair's Australian operations are regulated by the Tasmanian Gaming Commission in accordance with the *Gaming Control Act 1993* (Tas). Betfair is required to adhere to a number of important probity and integrity provisions under this Act, including:

- the prevention of wagering on illegal events;
- permitting the Tasmanian Gaming Commission to override any betting exchange rules it deems to be oppressive or unfair;
- allowing the betting exchange to freeze player funds immediately where inappropriate activity is suspected; and
- preventing wagering on any event the Commission considers unfit for betting.

Betfair Australasia is a 50-50 joint venture between Crown Limited (ASX listed) and Betfair Limited (London Stock Exchange listed). Betfair's Australasian operations are based in Hobart, where more than 120 staff work in a state-of-the-art data centre. The company also has corporate operations in Melbourne and other staff in Sydney and Brisbane.

How a betting exchange operates

A betting exchange operates in a similar way to a stock exchange. Using sophisticated technology, Betfair administers markets where punters effectively bet against each other. For each transaction one punter is required to 'back' a result and another is required to oppose that outcome by placing a

'lay' bet. Punters are not aware of the identity of their opponents, but Betfair and its regulators have the capacity to view the transactions of every customer in 'real' time. Betfair's revenue is generated by a commission charged to winning customers that is generally between two and five per cent of a punter's net winnings on a particular market.

A number of demonstrations of betting with Betfair, including making a back and lay selection can be found at <http://www.betfair.com.au/demo/>.

The betting exchange model offers participants a number of advantages over traditional wagering products such as bookmakers and totalisator operators. Betfair offers punters better odds, a higher degree of flexibility and more control – through the ability for customers to set their own odds, to back and lay outcomes and to manage their positions more efficiently as odds change.

WAGERING REGULATION AND PROBLEM GAMBLING

1. Probity

Betfair has a strict requirement that every customer verify his or her identity. All users, whether based in Australia or elsewhere, have to meet stringent identity checks in line with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) which is administered by AUSTRAC. Betfair uses the same identity verification test as financial institutions and various other organisations (this test is similar to the previous '100 point identity test'). As a reporting entity to AUSTRAC, Betfair is also required to submit Suspicious Matter Reports and Threshold Transactions relating to withdrawals and deposits from customers.

It is a condition that all Betfair customers allow the company to disclose their identities and personal information (including betting details) to approved government and non-government regulators. Betfair has agreements in place with a range of sporting and racing authorities, who've agreed to protocols on the use and storage of personal information. These strict controls around customer identity and verification also minimise the risk of minors accessing and using Betfair's website.

Every bet placed on Betfair can be tracked to a particular customer. The site records every detail, down to each click of the mouse. It can trace every dollar in and out of the exchange, and all bets can be linked directly to the end customer and their end bank account.

Unlike traditional wagering platforms such as bookmakers and the TABs, Betfair does not accept cash and only permits customers to place bets if they have opened an account.

There are a number of advantages in offering only account-based betting, the key one being that Betfair is always aware of who has placed a bet. The account based model removes the traditional anonymity of punters. It provides significant advantages in controlling and detecting attempts to launder money or to engage in deceptive conduct and it allows for more effective programs for responsible gambling – as will be explained in more detail further into this submission.

2. Integrity

Gambling poses similar risks to the integrity of sport as doping. But unlike the approach used to eradicate doping - where there are stringent and uniform rules in place and regulatory bodies have the right to test athletes for prohibited substances - regulators have been frustrated in their attempts to guard against gambling-related corruption. With the exception of the Victorian sports betting legislation (*Gambling and Racing Legislation Amendment (Sports Betting Act) 2007*), sporting bodies have traditionally had no right to access betting records or customer details held by betting agencies offering markets on their sports.

Betfair acknowledges the need to ensure the integrity of sporting competitions in the face of genuine or perceived threats. The company has invested heavily in technology and human resources to help guard against gambling-related corruption on its platform. One of the strongest weapons for protecting integrity is transparency – both in terms of publicly available information (such as

volumes traded at particular prices over time) and the more sensitive information that Betfair makes available to regulators.

Racing stewards across all codes and in all jurisdictions have real time access to transactions taking place on their races through the Betfair platform. Information-sharing agreements with racing control bodies give stewards access to the personal details of Betfair's customers if and when required. No other wagering operator in Australia has the willingness or ability to track, analyse and share information on wagering activity to the same extent as Betfair.

Betfair's unprecedented audit trail is complemented by information-sharing agreements with industry bodies worldwide. The company pioneered such agreements - and they're now being widely replicated by other gambling operators. Among the sporting bodies that have signed information sharing agreements with Betfair are:

- Australian Football League
- National Rugby League
- Australian Rugby Union
- Cricket Australia
- Football Federation of Australia
- Tennis Australia
- PGA Tour of Australasia
- Associated Tennis Professionals
- International Cricket Council
- FIFA

Betfair has entered into a number of similar information sharing agreements with racing bodies around Australia pursuant to the race fields legislative regime.

Betfair has ready-made information that can be passed on to racing and sporting authorities in the case of a transgression of rules or suspicious behaviour. A number of high-profile cases have been prosecuted both in the UK and Australia using evidence provided by Betfair. The following testimonials from sporting and racing regulators attest to Betfair's unparalleled system and its willingness to co-operate with sporting bodies to assist in the management of integrity:

"There was a lot of fear-mongering when Betfair first came on the scene, but I believe its betting integrity is above reproach. We would love it in Victoria."

Rob Hines, CEO Racing Victoria Limited, The Australian.

“None of the issues of concern before Betfair became licensed over here have come to fruition. That’s because the protocols and information they make available to us is second to none.”

Des Gleeson, Chief Steward, Racing Victoria Limited. Alpha Magazine, June 2007.

“Since the ATP entered into that information sharing agreement, Betfair has, on the few limited occasions we have contacted them, provided relevant and sometimes important information in relation to betting activity on men’s tennis. The detailed information provided by Betfair has been crucial to the ATP’s enforcement of its strict anti-corruption rules.

Corruption in sport has existed for at least as long as there has been gambling on sport. What (if any) corruption is taking place through betting on sport will not be apparent unless all betting operators are encouraged, and if necessary compelled, to work in partnership with sports governing bodies.”

Richard Ings, Executive Vice president, ATP, Written submission to the UK Government’s All Party Betting and Gaming Group’s inquiry into the Effects of Betting on Sport.

“The real watershed for racing was the betting exchanges because they didn’t cause the corruption, they brought it out onto the open and exposed what was already there.”

Paul Scotney, Director of Integrity Services at the British Horseracing Authority

Dishonest or deceptive behaviour is possible on every wagering platform. The best deterrent to this type of behaviour is transparency. An account based system that requires the identity of customers to be verified enables betting operators to quickly identify and expose perpetrators and pass on relevant information to authorities. All wagering operators should be required to enter into information sharing agreements with racing and sporting bodies to enable such bodies to obtain access to all relevant betting data in respect of their sport.

3. Problem Gambling and Harm Minimisation

Betfair takes problem gambling very seriously. It is strongly committed to all reasonable measures to reduce the prevalence of harm from gambling addiction. The company considers itself the industry leader on harm minimisation. It’s twice been named the Socially Responsible Operator of the Year (2006 and 2007) at the annual eGaming awards in the UK.

All of Betfair's Australian employees undertake a nationally accredited Responsible Gambling Services Course on commencement of their employment (and attend a refresher course every 24 months). Betfair has always provided this training to all staff, not merely customer facing staff (as has been the strict legal requirement). The training assists participants to develop the skills and knowledge required to detect, and if necessary assist, a problem gambler.

The Betfair website has a suite of measures in place to deal with problem gambling. They include the ability for customers to elect to impose loss limits and deposit limits on a daily, weekly or monthly basis. Customers are also offered the option of excluding themselves from betting or a third party can intervene to exclude a punter from the site. The minimum period for self-exclusion is six months, but customers are free to set their own, longer periods of exclusion. Customer accounts can be reactivated only after a 'self exclusion review' is conducted by Betfair. Approximately 20 per cent of Betfair's active Australian customers have accessed at least one of the site's responsible gambling mechanisms since opening their account.

Betfair's existing harm minimisation measures (e.g. loss limits, deposit limits and self exclusion) are now being proposed as a way to tackle problem gambling associated with poker machines. Betfair's website maintains links to relevant responsible gambling websites across Australia as well as the national gambling helpline. In addition, all of Betfair's print and online advertising contains responsible gambling messages and the gambling helpline telephone numbers.

As part of their approach to lifting advertising restrictions, the state-based gambling regulators have made many of these responsible gambling measures compulsory. Betfair agrees in principle to this stance, but disagrees with one aspect of the approach: certain of the state-based regulators require their own specific messages to be used. This places wagering operators in the position of having to include a number of different responsible gambling messages in the same advertisement. Betfair believes that a national responsible gambling message should be adopted by the states and territories and that this should be used in conjunction with the national gambling helpline telephone number. A uniform message would be more effective from a harm minimisation perspective.

4. Anti-Money Laundering

Betfair commits significant resources to detecting and preventing money laundering and counter terrorism financing on its platform. Three dedicated anti money laundering staff are based in its UK headquarters and there are four employees in Australia who deal solely with anti money laundering and fraud detection issues. Further to this, Betfair has money laundering reporting officers in the UK, Malta, Italy and Australia. This team was formed in January 2006 and is headed by a former Detective Chief Inspector in the Economic Crimes Directorate of the London Metropolitan Police. All employees working in this area are required to complete the International Compliance Association's Anti Money Laundering Diploma – the highest qualification available in the anti-money laundering and counter terrorism finance field.

Investigations are triggered by certain customer profiles or behaviour - for example, an irregular funding event or a customer's location. The risks are sub-divided into behaviours that are weighted and scored. Meeting a pre-defined 'points' threshold can trigger an investigation.

Continuous monitoring of customer behaviour through the scorecard ensures the detection of money laundering through dormant accounts, compromised accounts, accounts set up with stolen identities and accounts that have been set up specifically for money laundering. This continuous monitoring of customer activity and behaviour is far more effective than a one off identity verification process.

INTERACTIVE GAMBLING ACT

1. In-Play Betting

In-play betting allows punters to place wagers during the course of an event. For many punters, this type of betting is crucial for hedging bets to minimise their exposure or enable a guaranteed return from an event. Betfair and other Australian wagering operators are permitted to accept online in-play bets from customers who live in overseas jurisdictions such as New Zealand, South Africa and much of Europe. But due to an anomaly in the *Interactive Gambling Act 2001* (Cth), Australian residents are banned from betting in-play using the Internet.

The following table demonstrates in a general sense what is/is not permitted under the Interactive Gambling Act and the anomaly therein:

	Pre-play	In-play
Telephone betting – sport	✓	✓
Telephone betting – racing	✓	✓
Online betting – sport	✓	x
Online betting – racing	✓	✓

Betfair believes restrictions on in-play betting have extended beyond their intended scope, which was to prevent “micro-betting” (or exotic-betting) (i.e. discrete contingencies within a broader event, such as whether the next call of an ODI cricket match would be a wide). The practicality of banning punters from betting in-play using the internet has effectively been rendered obsolete due to the convergence over the last decade (since the Interactive Gambling Act was enacted) of telephone and internet technologies. Betfair also believes the restrictions limit the funding opportunities available to Australia’s major professional sports and effectively encourage Australian residents to wager on sporting events with offshore operators who are not subject to this restriction - which also means that these punters are not afforded protections relating to security of customers’ funds and identities, problem gambling and sporting integrity.

Australia is the only jurisdiction in the world that allows online wagering on sport but at the same time prevents punters from using the internet to place in-play bets. To put it another way, except in Australia, wherever it is legal to place a wager over the internet, it is also legal to do so in-play on a racing or sporting event. Telephone betting is impractical for Australian customers trying to limit risk, particularly in circumstances where an event hangs in the balance (e.g. a tie-break in tennis or the final few holes of a golf tournament). By the time an Australian customer telephones to make an

in-play transaction, the odds will often have changed (through weight of money coming from overseas customers who are betting online). The opportunity to trade out of an existing “position” has thus been missed.

The UK Gambling Commission recently conducted an exhaustive review of in-play betting across Europe, where it has been used by punters for a number of years. The Commission concluded that in-play betting doesn’t require special regulatory treatment – that is, treatment in isolation of other types of betting which occurs before an event begins. Furthermore, the Commission found no evidence to suggest that in-play betting posed a specific, identifiable risk to problem gambling.

Breach of the IGA by overseas wagering companies

An added difficulty for licensed Australian online wagering companies such as Betfair is that many of the larger international online gambling companies do not block Australian residents from betting online in-play on sport. Because there is no law against someone in placing such bets (the prohibition is directed solely at the operator) there is a large incentive for Australians to bet with overseas operators. To Betfair’s knowledge no action has been taken against these operators. This type of betting happens at present and will continue to happen regardless of prohibition-style provisions contained in the Interactive Gambling Act.

Betfair is of the opinion that the Committee should adopt a regulation over prohibition approach in respect of in-play wagering over the internet to ensure that Australians do not continue to wager with illegal offshore operators who have no obligations to promote and action responsible gambling nor provide adequate player protection (e.g. identity and funds) measures. Importantly, these operators have not executed Information Sharing Agreements with Australian sporting and racing bodies and therefore there exists a “blind spot” in relation to maintaining the integrity of Australian sport. It is clearly the case that the hundreds of millions of dollars spent by Australians each year with these operators (on a range of wagering and gambling products) represents a significant missed revenue opportunity for Australian governments.

By removing the anomaly within the Interactive Gambling Act regarding in-play betting online, Australian customers will (as they have historically – most notably with the inception of off-course totalisators in the 1960’s) migrate to Australian licensed and regulated operators who are within the jurisdiction of Australian governments, law enforcement agencies and sports governing bodies.

Convergence

Since the Interactive Gambling Act came into effect 10 years ago, there’s been an increasing degree of convergence between telephones and the internet (and indeed between the locations of customers). Technological advancements have seen telephones develop into mobile computers, capable of streaming a wide range of data and vision from the internet. And with computers now able to be used for live voice and video streaming (as well as a raft of other interactive applications) there are few practical differences between mobile telephony and the internet.

2. Online Interactive Gaming

Poker has undergone a phenomenal rise in popularity in recent years, and as a result, more and more poker and other card game players are turning to the web. It is illegal to offer online poker for money to Australian residents, but that hasn't prevented rogue international operators from creating an enormous customer base here. The Productivity Commission estimated that more than \$800 million is bet by Australians annually on online poker and gaming with illegal operators – and it's a figure that is rapidly growing. All revenues are flowing directly offshore without any taxes being paid in Australia. Of greater concern is that players are gambling in an environment that does not accord with Australian regulations.

Similar to our views on online in-play betting, we believe Australia should move to a regulated environment for online poker and gaming as prohibition is not working. By permitting Australian based operators to offer online poker and gaming, we are of the view that Australians will migrate towards Australian companies because of better customer service, security of engaging with an Australian based company and superior product offerings. An important additional benefit of a regulated environment is that responsible gambling initiatives could be enforced on Australian based operators, as well as a requirement for licence fees and taxes to be paid.

AUSTRALIA'S REGULATORY ENVIRONMENT

Betfair believes the current state-based system of gambling regulation in Australia is inconsistent and there's a need for a more co-operative framework. There are too many disparities between the various jurisdictions and an entrenched protection of the state-based monopoly TABs (mostly now in private sector ownership). While Betfair believes it's crucial that states be able to offer tax incentives for new business, it is strongly of the view that a nationally consistent approach be taken in regard to regulation.

Betfair is of the view that there is a need for a more efficient way of processing identity checks for new customers. All gambling companies in Australia are reporting entities under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) and therefore have obligations to AUSTRAC. One such obligation is the requirement to verify the name, residential address and date of birth of all new customers to a particular standard. Betfair currently provides customers with two options to verify their identity:

- Physical verification – customers can attend Australia Post or participating newsagents and provide identity documents such as driver's licence and passports;
- Electronic verification – customers can provide their details and Betfair will attempt to match their details against a number of databases including the Australian Electoral Roll and other publicly available databases.

Betfair is the only wagering company which has been provided direct access to the Australian Electoral Roll by the AEC and has to meet stringent obligations to use this database.

Electronic verification is the most efficient way of confirming a customer's identity. The more databases that are available, the more likely it is that an online company can process accurate information and avoid situations of identity theft.

Account Funding

Customers have a range of options for depositing money into their accounts. Some of the more popular methods are direct bank transfer, BPAY and the latest bank transfer mechanism, known as Poli. But as is the trend with most web-based retail purchasing, Betfair's customers overwhelmingly use credit cards - the most efficient and convenient way of depositing funds. In contrast to Betfair's cash-based competitors, problem gambling concerns are reduced through measures such as deposit and loss limits and the ability to self-exclude from the website.

Betfair is of the view that customers should be permitted to withdraw funds directly to the credit card which they used to deposit funds into their account. This provides a closed loop for credit card transactions and would limit the opportunity for fraudulent use of credit cards and money-laundering.

RACING AND SPORTS INDUSTRY FUNDING

Racing

Licensed wagering operators in Australia have traditionally paid all product fees and taxes to the states where they are licensed. For example, a bookmaker licensed in New South Wales paid taxes and product fees to the NSW Government and/or NSW racing industry. The fees were paid irrespective of an event's location.

The funding model originated with the advent of the state-based (and owned) TABs. It was widely referred to as the 'Gentleman's Agreement'. In effect, each jurisdiction permitted TABs and bookmakers to accept bets on each other's racing without the requirement to pay product fees.

Throughout Australia, this funding model has now been replaced by the introduction of race fields legislation. Wagering operators pay licence fees and taxes in the state in which they are licensed, but the race fields legislation means they now have to contribute product fees directly to the racing bodies that control the product from which they are sourcing revenue. Betfair supports this new funding model. It's an arrangement that allows the racing industries in each state to properly reap the rewards of their own products and gives racing bodies a strong incentive to provide a better quality product.

Betfair supports the concept of product fees provided that the fee being imposed is fair and equitable to all wagering operators.

Sports

Betfair has voluntarily entered into Product Fee agreements with all of the major sporting bodies in Australia including the AFL, NRL, ARU, FFA, Tennis Australia, Cricket Australia and the PGA Tour of Australasia. Betfair has agreed to provide the sporting bodies with a percentage of revenue earned from betting on their sports. Betfair firmly believes that sporting bodies are entitled to a share of the wagering revenue derived from their sport.

We note that Victoria has in place legislation (see Part 5 of Chapter 4 of the *Gambling Regulation Act 2003*) which requires wagering operators to seek the approval of sports governing bodies to offer betting on their sport. This ensures that the sports are provided with access to details of all wagering that occurs on their product, providing them with an important tool for upholding the integrity of their sport. Betfair strongly believes that sports should have the right to control the betting on their sports, and currently seeks permission from sporting bodies for any new proposed bet types.

ADDRESSING THE COMMITTEE'S TERMS OF REFERENCE

The prevalence of interactive and online gambling in Australia and the adequacy of the Interactive Gambling Act 2001 to effectively deal with its social and economic impacts, with particular reference to:

- a) the recent growth in interactive sports betting and the changes in online wagering due to new technologies; and*
- b) the development of new technologies, including mobile phones and interactive television, that increase the risk and incidence of problem gambling;*

We take this opportunity to address the Committee's first two terms of reference together because they are inherently linked.

Betfair agrees that the Interactive Gambling Act is outdated and that it fails to adequately cater for the current state of play in the online wagering industry and therefore cannot effectively deal with the social and economic impact of online gambling. The Act has not kept pace with rapid advances in technology with devices such as data and web-enabled mobile phones and the consumer preference for this type of technology.

The most significant shortcoming of the Interactive Gambling Act is that despite stipulating a series of punitive measures for offshore gaming companies that breach Australian law, it hasn't allowed for the prosecution of companies in other jurisdictions who offer poker, online in-play betting and other gaming products. This has resulted in an illicit industry that the Productivity Commission estimated at being worth around \$800 million a year. Betfair believes that any move to strengthen the bans will ultimately prove fruitless and serve only to consolidate the global market positions of the companies that have so far defied the bans. Accordingly, Betfair reiterates its view that the government should take steps to allow Australians betting with these operators to migrate to Australian licensed and regulated operators under strict regulatory controls.

Sports betting is one of the fastest growing areas of the gambling market and is now estimated to be worth \$250 million annually in Australia. While the predominant area of growth in sports betting is in the retail, cash-based sector, it is also growing in the online sector. The rapid uptake of handheld devices that can process data have the capacity to change the way consumer transactions are made, and gambling is merely one area in which this is likely to occur. However, a well-regulated marketplace for online account-based betting has significant advantages over traditional cash-based betting.

The terms of reference contain an inherent assumption that new technology will lead to a rise in problem gambling. Betfair rejects the inference that new technology will, of itself, lead to an overall rise in problem gamblers. On the contrary, Betfair believes that the mechanisms in place for online, account-based betting could in fact lead to a reduction in the overall number of problem gamblers, or a net positive impact. New technology has the capacity to assist in targeting and addressing

problem gambling, much like pre-commitment technology in a poker machine venue. We have the ability to monitor betting patterns of which may assist in the identification of any problem gambling behaviours.

While there is a dearth of research into online gambling, some of the more significant studies have found that it is no more likely to cause problem gambling than its land based counterpart. The British Gambling Prevalence Survey of 2007 found that the rate of problem gambling among the adult population had remained unchanged since 2000. The survey identified 0.5% of the British adult population had a gambling problem, or around 236,000 adults. Betfair is supportive of any trials designed to measure the impact of new technology (in a well-regulated environment) on the prevalence of problem gambling.

c) the relative regulatory frameworks of online and non-online gambling;

The key issue with cash based wagering is anonymity. The existence of anonymous punters is an obvious concern from a sporting integrity perspective. In May 2010, Tabcorp's media manager, Glenn Munsie confirmed that retail, cash-based betting does not have the ability to track a bet to a particular customer. He told *The Age* newspaper: "All they have to do is walk into a TAB anywhere in the state and hand over their money and you will get set. You are anonymous, just another punter off the street".

It is clear that account based betting provides a superior audit trail for sporting bodies to monitor betting occurring on their sports. Account based betting requires the wagering operator to verify the identity of customers and ensures that his or her identity can be made known to racing/sporting authorities, regulators and law enforcement agencies where necessary for integrity management or law enforcement. Further, account based betting would serve as a deterrent to those intending to engage in match or spot-fixing due to the requirement to meet identity verification requirements.

d) inducements to bet on sporting events online;

Wagering operators, like any other legal business, have the right to advertise their services responsibly. The offering of inducements is common place and legitimate for all types of businesses and as such, operators should be permitted to offer inducements to open a betting account - provided such offerings are responsible.

The increasing level of competition in Australia's online and offline gambling market has seen the proliferation of promotions offering "free bets" to new customers. Betfair does not believe that a free bet, of itself, encourages problem gambling, but we believe that free bets should be limited to \$50. Any restrictions on offering inducements should not be confined to online wagering operators and must extend to all offline and cash based operators.

Gambling related inducements are regulated on a state-by-state basis and accordingly there exists inconsistency in these regulations. Betfair strongly advocates that a nationally consistent approach be taken in relation to inducement-based advertising so as to provide wagering operators with a clear, simple and consistent framework in which to operate.

e) the risk of match-fixing in sports as a result of the types of bets available online, and whether certain types of bets should be prohibited, such as spot-betting in sports which may expose sports to corruption.

Match fixing and corruption in sports

It is essential for Betfair's long term sustainability, and that of the wagering industry generally, that its customers have confidence in the honesty of the markets on which they place bets. Betfair's business interests, therefore, are aligned with those of sports governing bodies and governments: all need to ensure that sport is conducted fairly and is free of corruption.

As outlined earlier in this submission, Betfair takes integrity very seriously. As an approved wagering operator of all of Australia's major sporting bodies, it pays product fees to the governing bodies, provides extensive betting information when required and takes a vigilant stance regarding any potential corruption occurring on its platform by analysing betting patterns on all events on which it accepts wagers. Betfair's comprehensive suite of measures in relation to probity ensures that anyone seeking to exploit the betting platform will be caught.

At an overarching level, it is important to recognise that corruption in sport has existed since time immemorial. It is ludicrous to suggest that the advent of online wagering is the trigger for corruption occurring in sports. That being said, Betfair considers that wagering operators have a pivotal role to play in the detection and prevention of match fixing and corruption in sport.

Left unchecked, gambling may pose as great a risk to the integrity of sport as doping. But unlike the approach used to eradicate doping - where there are stringent and uniform rules in place and regulatory bodies have the right to test athletes for prohibited substances – sporting regulators have been frustrated in their attempts to guard against gambling-related corruption, mainly because of a lack of cooperation from the wagering industry.

Betfair embraces the recommendations of the NSW Law Reform Commission whose report into "Cheating at Gambling" advocated that:

- (a) NSW should implement a specific statutory cheating offence in relation to sporting and other events. The offence would carry a maximum penalty of up to 10 years imprisonment and should extend to:
 - 1. insider trading in a similar vein to the Corporations Act provisions;
 - 2. cheating for reasons other than gambling; and

3. certain individuals (including players and officials) who have knowledge of cheating, but fail to report it.
- (b) NSW should codify gambling legislation into a new Gambling Act and establish an independent gambling authority with responsibility for all gambling activities (similar to the Victorian Commission for Gambling Regulation); and
- (c) a national approach should be pursued to ensure that cheating and corruption laws are consistent and that appropriate integrity measures are in place for all competitive sports

Betfair agrees with each of these recommendations and believes that a national sports related cheating framework is imperative in order to deter potential corruption in Australian sports.

Exotic Betting

Micro or exotic betting involves placing a bet on an incidental aspect of a sporting contest. Betfair does not offer exotic betting on events that are open to manipulation and considers that wagering operators must be sensible in the types of markets that are offered to customers. The reality – at least in Betfair’s case – is that 95 per cent of the money wagered on most sporting events is on the actual outcome of a sporting event.

As an approved wagering operator of all of Australia’s major sporting bodies, Betfair seeks approval from the relevant governing body for all markets it intends to offer on a sporting event. Betfair does not offer markets or bet types without specific approval. The sports themselves are in the best position to determine whether a particular bet-type is liable to any form of corruption or manipulation. Accordingly, any decision should remain in the hands of the sporting bodies to reasonably determine the number and types of exotic markets that are offered on a particular event.

f) the impact of betting exchanges, including to bet on losing outcomes;

Betting exchanges offer an efficient, cost-effective mechanism for gambling on sports and racing events. The exchange’s similarity with a stock market lends itself particularly well to punters seeking to trade during the course of an event by ‘backing’ one outcome (buying) at a high price and ‘laying’ it at a lower price (selling). The exchange model allows gamblers to set their own prices and seek better value odds, helping to further extend their gambling dollar.

It is not immediately apparent to some people that laying generally involves risking a larger sum of money for the potential return of a smaller sum of money (e.g. a lay bet of \$10 at odds of 11.0 means risking \$100 for the chance to win just \$10). Backing is the reverse in that it is risking a smaller sum of money for the potential return of a larger sum of money (e.g. a back bet of \$10 at odds of 11.0 means risking just \$10 for the chance to win \$100). A punter places a lay bet when he or she thinks that the odds are too short – it’s the same as an investor selling shares when he or she think the price has peaked.

When a customer places a bet on a winning outcome with any betting operator, they are betting that the other outcomes will lose. This is clearly illustrated in head to head sporting contests when a bet to win on one team is the equivalent of a bet for the opposing team to lose. In respect of contests with more than two runners (for example horse racing), a betting exchange provides an efficient platform for customers to lay a horse. There is a misapprehension that the only betting platform on which a punter can lay horses is a betting exchange. This is not the case. It has long been possible to oppose horses through “traditional” channels and technology has made it even easier. It can be achieved via a bookmaker or the TAB, simply by backing all other selections in the race.

With automated bet placing technology now common on the TABs, placing a lay bet can be achieved with the touch of a single button. There are, for example, a number of inexpensive software packages already on the market that facilitate the process of opposing horses using existing TAB and bookmaker platforms. Furthermore, anyone with even a basic understanding of Microsoft Excel can build an application in less than an hour.

Betfair has been licensed in the United Kingdom since 2000 and in Australia since 2006. Betfair is regulated by the Tasmanian Gaming Commission pursuant to the *Gaming Control Act 1993* (Tas) and is required to meet a number of stringent probity and integrity obligations. Furthermore, Betfair has entered into numerous agreements with sporting and racing bodies to provide complete access to all betting records to assist the sporting bodies in managing the integrity of their sports.

Upon becoming licensed in Tasmania, Betfair was permitted to offer its services to all Australians. In January 2007, Western Australia enacted legislation prohibiting the operation of betting exchanges in the state and making it an offence for residents to use a betting exchange. The Western Australian government justified the prohibition on the basis that betting exchanges supposedly threatened the integrity of racing in WA. The legislation was ruled constitutionally invalid by the High Court.¹ The Court found that a prohibition is not “necessary for the protection of the integrity of the racing industry of that State” (paragraph 110) and that the regulation imposed by Tasmanian legislation (i.e. the *Gaming Control Act 1993* Tas) is effective and non-discriminatory. In reaching its decision, the High Court compared the three types of betting operators in the Australian marketplace – totalisators, bookmakers and betting exchanges – and determined that Western Australia was not permitted to treat betting exchanges differently on the basis of integrity.

As outlined earlier in this submission, racing and sporting industry bodies have embraced the betting exchange model as an effective tool in the detection and prevention of gambling related corruption. There is no evidence to suggest that since Betfair’s arrival in Australia, allowing punters to place lay bets has been the cause of any gambling related corruption in Australian racing or sport.

¹ (2008) 234 CLR 418

g) the implications of betting on political events, particularly election outcomes;

Betfair considers that betting on events other than sports or racing events should be determined on a case by case basis and take into account the integrity concerns of the relevant contest, public interest and the subject matter of the market.

Betfair considers that political events are legitimate contests that are clearly in the interest of the public. Due to size of any given election taking place in Australia (be it at a federal or state level) and the stringent controls imposed by the Australian Electoral Commission (or the relevant state body) there are no integrity concerns with offering these types of markets. Further, we do not consider that wagering on elections is contrary to the public interest.

h) appropriate regulation, including codes of disclosure, for persons betting on events over which they have some participation or special knowledge, including match fixing of sporting events

Betfair would be supportive of any additional regulation regarding participants betting on sporting/racing events. The two key integrity issues involve match fixing and the sale or disclosure of what can be described as 'price sensitive' information.

Currently the *Gaming Control Act 1993* (Tas) – the legislation that governs Betfair – stipulates that no interested party is permitted to wager with Betfair on an event they are associated with. This legislation captures any players, managers or officials who are in a position to influence sporting/racing events. Betfair has an obligation to disclose any breach of this legislation to the Tasmanian Gaming Commission – which has the authority to refer a breach to the Tasmanian Department of Public Prosecution.

Furthermore, all of the major sporting organisations and the racing industry have rules in place that ban participants from betting on the sports where they have a direct interest. Sporting authorities are confident they have the ability to detect foul play and believe they are well-equipped to continue policing their own competitions. Pursuant to information sharing agreements with sports and racing bodies, Betfair has a disclosure obligation if any players or officials are placing bets on events they are associated with. Betfair has brought such situations to the attention of a number of Australian sporting organisations and conducts regular audits of its customer database to ensure that interested persons are not involved with any form of wagering on their particular sport.

Betfair is of the view that an additional step in the fight against corruption in sport is a prohibition on the provision of credit to sporting participants (including athletes and officials) by wagering operators for their betting on sports other than their own. Credit is routinely provided by many wagering operators to their customer base – which is a completely reasonable service to provide

customers. However we believe that such a service should not be extended to participants of sporting codes due to the real and perceived integrity risks.

If a sporting participant becomes significantly indebted to a wagering operator, pressure may be exerted by third parties to provide them with sensitive information regarding the sport to erase the debt. As was illustrated with cricket, once such information is provided to a third party the participant may be pressured to engage in further nefarious activity. We believe sporting codes should be encouraged to include in their codes of conduct for participants that credit is not to be accepted from all wagering operators, regardless of the sport the participant bets on.

(i) Gambling advertising: the level of gambling advertising, the display of odds at venues and during match broadcasts; commentators referring to the odds; and the general impact of gambling advertising on sport.

With the recent repeal of advertising restrictions, wagering companies are now subject to a number of state-based advertising regimes. Betfair is of the view that a uniform national advertising code of practice should be implemented across the wagering industry and therefore welcomes the Committee's inquiry into gambling advertising.

Betfair has always ensured the advertising of its services are offered in a responsible manner and adheres to the various laws and industry codes which apply. All Betfair advertising includes a responsible gambling message and the National Gambling Helpline.

On Friday 27 May 2011, the Federal Government announced that it would take measures to reduce and control the promotion of live odds during sports broadcasts. In first instance the Federal Government is permitting the broadcast industry a 12 month period to establish an industry code of conduct to control this type of advertising. Betfair is committed to engaging in this process to ensure that its advertising is presented in a socially responsible manner.

In relation to venue-based advertising and retail at-ground wagering services offered by wagering operators, Betfair considers that, as a legal product, wagering should be permitted to be advertised in a responsible manner. There are a number of current legislative advertising requirements across the states which wagering operators must adhere to and Betfair ensures it meets those. Any further requirements must be applied equally to all wagering operators who legally offer their services regardless of the sport – including the racing codes.

CONCLUSION

Betfair welcomes the Committee's inquiry into online gambling. We believe internet-based wagering in Australia has come a long way in recent years, but that more can be done to improve regulation and to help reduce the prevalence of problem gambling. We would welcome any opportunity to address the Committee's hearings into online gambling and believe we can make a significant contribution to any discussions about the future of online gambling in Australia.