



Independent Gambling Authority

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Ms Lyn Beverley
Committee Secretary
Joint Select Committee on Gambling Reform
Post Office Box 6100
Parliament House
CANBERRA 2600

Dear Ms Beverley

Inquiry into Gambling Reform—Pre-commitment

I refer to Hamish Hansford's letter inviting the Authority to make a submission addressing the considerations in the Joint Select Committee's term of reference (a)(ii), relating to the design and implementation of a pre-commitment scheme.

Basis on which the submission is made

The Independent Gambling Authority, while it is an agency of the State of South Australia, is required to perform its functions independently of Ministerial direction. Its purview is expressly one of the management and regulation of commercial gambling activities to ensure integrity of the gambling product, responsibility in gambling and the minimisation of gambling-related harm. It has no responsibility for, or specific expertise in respect of, the South Australian economy or the revenues of the State.

Those matters are the responsibility of the South Australian Government, which has encouraged the Authority and other agencies to freely participate in this inquiry.

The Authority acknowledges that the Joint Select Committee's terms of reference raise matters of such significance that they are properly the subject of political accountability. These are difficult matters and the difficulty of the present task confronting the South Australian Government and other governments should be noted and respected.

The observations in this submission are therefore those of the Authority alone. They are not intended to convey a critique of the approach taken by the South Australian Government, or any other government, and it would be a matter of serious concern to the Authority if they were to be used in such a way.

General

The 2005 Smartcard Inquiry

At the direction of the South Australian Parliament, the Independent Gambling Authority was commissioned in 2005 to hold an inquiry on how Smartcard technology might be implemented with a view to significantly reducing problem gambling—see section 90 of the *Gaming Machines Act 1992* (SA).

I enclose a copy of the Authority's report, which includes recommendations.

The first recommendation reads:

1. The Government should procure amendments to legislation to require of the regulatory regime that when people play gaming machines, they do so in a way which ensures that—
 - (a) their play is systematically tracked over time;
 - (b) they are able to set limits on their play; and
 - (c) they are able to be excluded (whether at their own request, by the licensee or under the *Problem Gambling Family Protection Orders Act 2004*).

This recommendation was expressed in generic language which did not endorse a particular technological solution, as were the recommendations which followed it. However, then as now, it was understood that a person would need a card to play gaming machines. Once issued with a card, the person would have the option to set limits.

The second, third and fourth recommendations were particular to implementation of the recommendations in the South Australian gaming environment, while the fifth was that there be further consultation on pre-commitment program design.

The report was tabled on 5 July 2005. It is available online at www.iga.sa.gov.au.

Since the Smartcard Inquiry

Since the completion of the inquiry, the Authority has followed developments in the area of pre-commitment (including, but not limited to, reactions to the report). None of these developments has caused the Authority to change its view as expressed in the recommendations.

Observations

Industry opposition

The Authority is aware that, while some in industry (a minority) have supported some forms of voluntary pre-commitment, no-one in industry has been prepared to embrace a scheme where all players' activity is tracked and all players have the option to set binding limits.

However, very few in industry have explained their position as driven by concerns over revenue. Instead, the opposition has been couched in a variety of other terms:

- the cost of implementation (modifications to systems, etc) would be prohibitive;

- the system would be difficult for players to use;
- there are privacy issues;
- gaming machine activity contributes significantly to funding of government and community activity;
- gamblers should exercise personal responsibility.

The concern for revenue is a legitimate one and it is one to which the Authority has itself given consideration (see the discussion of industry viability starting on page 5).

Industry participants should openly set out a position, including their own views about the likely impacts on revenue of both the setting of limits and the transition to a full pre-commitment scheme. As part of this, industry participants should express a view about the level of problem gambling, about the benefits to the community of gaming machine gambling and about the level of problem gambling the community should tolerate to gain those benefits.

Once the likely impacts on revenue are identified and once there has been a proper debate on the costs and benefits of gaming machine gambling—with and without pre-commitment—there will be a context in which other considerations can be addressed.

Gaming machine gambling—a niche entertainment activity

Only about one third of Australian adults will play gaming machines at all in any given year and, of them, a much smaller (and falling) cohort plays regularly (monthly or fortnightly). Whether problem gamblers or not, it is the regular players who provide the critical mass to the gaming machine industry.

Although the industry commentary suggests that pre-commitment will inconvenience the vast majority of people, the truth is that this is a business which will significantly affect less than one-fifth of adults.

The fact that underlying revenue has continued to grow while overall adult participation has declined underlines the need to offer protective options such as a robust and universal pre-commitment scheme.

Cost of implementation

In response to the Smartcard inquiry report, the industry commentary suggested a cost (for South Australia's 13 000-odd gaming machines) in the hundreds of millions of dollars. This number could only be justified on the false premise that every machine would have to be replaced.

The reality is that technical solutions exist which enable full pre-commitment to be implemented for under \$1 000 per machine. In the context the money earned by gaming machines this is a minor cost.

Cash on card

In the 2005 Smartcard Inquiry report, the Authority noted acceptance of a “cash-on-card” approach by the Concern Sector stakeholders who participated. By this, the Authority understood that the player would not use banknotes or coin to play, but would apply funds to play from a card (or through an account based mechanism).

There had been an issue that players would lose sense of the value of their play if they did not use physical money to operate the gaming machines, and that this could encourage problematic behaviour.

At the time the Authority accepted that the potential technical advantages (for pre-commitment) from having the cash on card overcame this issue. In addition, the Authority saw there being significant advantages—in terms of reduced security requirements and operational cost savings—in having cashless gaming machines.

If anything, the continuing reliance on “plastic money” for everyday transactions in the general community reinforces the Authority’s view that cash-on-card offers a better outcome than a system which uses cash in conjunction with a card (or an account based mechanism).

Need for a national system

Clearly, there would be great benefit in a truly national pre-commitment system.

However, gaming machine gaming is, in essence, a “local” activity. As every system would need to cater for one-off or casual users as a matter of course, the major advantage of a national system would be seen in major border centres.

Noting that there are significant differences between the Australian jurisdictions which license gaming machines (both in their technical infrastructure and their commercial arrangements), the major benefits of pre-commitment would still be realised if, instead of having a national system, each jurisdiction had a pre-commitment system which met national minimum standards.

Impact on other responsible gambling regulation

Once a full pre-commitment system were implemented (with appropriate decision support), the Authority anticipates that it would significantly roll back other, less direct, regulatory requirements (for instance, under the mandatory responsible gambling codes of practice for which it is responsible).

Intervention

There has been some industry commentary suggesting that pre-commitment is the precursor to the State making decisions about how much people can gamble.

In South Australia, there is already legislated policy (in the form of the *Problem Gambling Family Protection Orders Act 2004*) which sets out the circumstances when it would be appropriate for an agency of the State to intervene to protect the needs and welfare of gamblers’ family members.

Key implementation risks

Industry viability

The Authority initially understood that the opposition of industry participants related to the impact which the setting of limits would have on revenue. Over time, the Authority has seen that this opposition is more closely linked to a “frictional” impact where players stop playing because of the impediment posed by the need to open an account or obtain a card.

Each concern is real and each is worthy of detailed consideration on its own merits.

There should be a way to manage the frictional impacts of the transition to technology which supports pre-commitment.

The gaming industry’s experience of the introduction of smoking bans in licensed premises is analogous. The range of impacts of full smoking bans varied from premises to premises, suggesting that some licensees, with time, careful planning and investment, were able to adopt superior approaches to their patrons’ responses to full smoking bans.

In addition to licensees establishing convenient areas for smokers to take their breaks without leaving the premises, in some jurisdictions limited “outdoor” gaming areas were allowed. In terms of pre-commitment, the licensee effort needs to focus on making the transition to account based gaming both simple and attractive, on starting early and allowing enough time. The analogue to the “outdoor” smoking areas is, of course, the Productivity Commission option of allowing low impact gaming machines to continue to operate outside the pre-commitment arrangements.

If the frictional impacts can be managed, the second limb of the viability question is whether the setting of limits will itself reduce revenues to levels at which the industry would not be viable.

Acceptance of the existence of problem gambling means that the setting of limits should itself cause a reduction in revenue. (If that reduction would make the industry unviable, the continuation of the industry is unsupportable.)

The historical pattern of revenue is one of strong underlying growth, even with the rate of participation by adults remaining static or declining. While the setting of limits itself presents a challenge for the industry, the things which make gaming machine play attractive to the current body of players should also make it attractive to new players. Policy makers and regulators need to accept that, in order for the industry to remain viable, new players will need to be recruited to make up, over time, the revenue lost when limits were reached.

These challenges can only be properly answered by industry (albeit with support from policy makers and regulators). However, the Authority is satisfied that, if adequate time is allowed and implementation is commenced early, the frictional impacts can be contained. The Authority expects that the underlying growth in

gaming machine activity experienced from the mid-1990s onwards will continue and that (again, with careful management), revenue will recover.

Product failure

The other key risk is that, while all the players will have the option to pre-commit, many will not set limits and, of those who do, many will set limits that are ineffectual.

The systems deployed need to give industry participants sufficient incentives to deliver the pre-commitment product to players in such a way that the players will both continue to play *and* set limits which make their play sustainable. These incentives need to be informed by systematic, ongoing monitoring of the performance of pre-commitment to ensure a tailored response to trends.

Please let me know if there is anything further which would assist the Joint Select Committee.

Yours sincerely

Robert Chappell
Director