

BETFAIR PTY LTD

**SUBMISSION TO THE SENATE COMMUNITY AFFAIRS
COMMITTEE –**

**INQUIRY INTO THE PREVALENCE OF INTERACTIVE AND
ONLINE GAMBLING IN AUSTRALIA**

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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.

Betfair welcomes the opportunity to make this submission to the Senate Committee's inquiry into interactive and online gambling. The essence of Betfair's submission is that State and Federal Governments should consider adopting regimes that favour regulation over prohibition and promote the movement of consumers towards account-based betting, so that issues surrounding integrity and problem gambling can be managed effectively. This should be accompanied by a series of minimum harm minimisation initiatives for account-based wagering operators – including the mandatory offering of loss limits, deposit limits and immediate self-exclusion mechanisms for 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 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.

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. 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 Senate 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 address 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 internet-based wagering operators are better equipped than their land-based counterparts to monitor and address problem gambling and sporting integrity.

About Betfair

Betfair is the world's largest betting exchange. It offers fixed odds betting, much like a bookmaker, but its customers set their own odds and effectively bet against each other. Betfair acts as the counter-party to every customer transaction. A customer can only bet with money they have in their account, so there is no risk of a bet not being paid.

Betfair operates in a number of countries. It has more than 3 million customers worldwide, 150,000 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 (Tas)* 1993. 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;
- allowing the Tasmanian Gaming Commission to override any betting exchange rules if it deems they are oppressive or unfair;
- allowing the betting exchange to freeze player funds immediately where inappropriate activity is suspected; and
- preventing wagering on an event the Commission considers unfit for betting exchange wagering.

Betfair Australasia is a 50-50 joint venture between Crown Limited (ASX listed) and Betfair Limited (an unlisted UK company with a number of large institutional shareholders). Betfair's Australasian operations are based in Hobart, where more than 100 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.

Betfair's local operations have generated more than \$75 million in revenue since the company began operating under an Australian licence in 2006. The Australian betting exchange site averages 61.8 million hits per day and the UK exchange nearly a billion per day. Half a million bets are processed on the Australian site each day, peaking at upwards of a million during the busiest sports and racing periods.

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. Betfair's revenue is generated by a commission 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.

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'). 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.

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, nor does it allow customers to obtain credit. Betfair 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. For a comprehensive outline of the process involved in opening a betting account with Betfair, see Appendix 1.

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 recently introduced legislation in Victoria, 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 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 new race fields legislation. 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 cooperate 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 into the open and exposed what was already there.

Paul Scotney, Director of Integrity Services and Licensing 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 Betfair staff members who deal directly with customers are required to complete an induction course on responsible gambling. The Betfair website has a suite of measures in place to deal with problem gambling. They include the ability for customers 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. More than 13 per cent of Betfair's customers have accessed at least one of the site's responsible gambling mechanisms in the past month.

Betfair's existing harm minimisation measures (e.g. loss limits, deposit limits and self exclusion) are now being proposed by problem gambling groups as a way to tackle the growing problem of poker machine addiction. The use of smart cards in the gaming industry would merely see the adoption of measures that have long been applied by Betfair.

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: 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 appropriate and 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 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.

ONLINE GAMBLING ISSUES

Free Bets

Wagering operators, like any other legal business, have the right to advertise their services responsibly. The offering of inducements is common practice for all types of businesses and as such, operators in what is a highly competitive market should be permitted to offer inducements to open a betting account - provided such offerings are responsible. Setting monetary limits on inducements would be one way of ensuring this.

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 bets should be limited to \$50.

It is important to note that inducements are not confined to online wagering operators. They are also commonly offered by land-based retail betting agencies such as the TABs.

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.

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

Advertising by Gambling Companies

With the recent repeal of advertising restrictions, wagering companies are now subject to a number of state-based advertising codes of practice. Betfair is of the view that a uniform national advertising code of practice be implemented across the wagering industry. Betfair does not believe there's a need to prohibit advertising where it can be seen by minors. The legal age for gambling is 18 and there are significant barriers preventing minors from access to gambling, particularly online.

Television advertising can effectively be divided into two approaches: general advertising such as signage and commercials and editorial comment. It's unlikely that a television network would integrate betting odds into its sports coverage if it the content was not in

the interests of consumers. The integration of odds into a broadcast can provide valuable content for both the broadcaster and for viewers.

During the 2008/09 cricket season, Betfair entered into arrangements with Cricket Australia and Channel Nine to conduct advertising. This included on-ground advertising and 'plugs' during the cricket commentary. Betfair was informed by the Advertising Standards Board that it had received complaints regarding the advertising on the basis it was aimed at minors and did not meet the prevailing community standards. The Advertising Standards Board found that Betfair's advertising did not breach the AANA Advertiser Code of Ethics or the AANA Code of Advertising and Marketing Communications to Children.

INTERACTIVE GAMBLING ACT

1. In-Play Betting

In-play betting allows punters to continue wagering 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) (“Interactive Gambling Act”), 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	✓	✓
Cash betting - sports	✓	✓
Cash betting - racing	✓	✓

Betfair believes restrictions on in-play betting have extended beyond their intended scope, which was to prevent “micro-betting” (i.e. discrete contingencies within an event, such as whether the next ball 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 of telephone and internet technologies. Betfair also believes the restrictions limit the funding opportunities available to Australia’s major professional sports and place local licensed wagering operators and punters at a material disadvantage to their overseas counterparts.

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. The ban on this particular type of betting

would seem to run counter to the policies of both major parties, which have committed to continuing advancements in technology.

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.

Several overseas operators are routinely breaching the Interactive Gambling Act by offering Australians the opportunity to bet online in-play on sport in spite of the ban. To Betfair’s knowledge, no action has been taken against those parties.

The UK Gambling Commission conducted an exhaustive review of in-play betting across Europe, where it has been used by punters for a number of years. The Commission concludes 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 Australians from betting online in-play on sport. Because there is no law against someone in Australia betting online in-play on sport (the prohibition is directed solely at the operator) there is a large incentive for Australians to bet with overseas operators. As a result, licensed Australian wagering operators are permanently losing the business of punters who are lured to these sites by offering in-play sports betting online. This means that transactions are not regulated in Australia, there is no requirement to place national harm minimisation measures in place and no taxes or product fees are returned to governments or sporting bodies in Australia.

Convergence

Since the Interactive Gambling Act came into effect seven 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 to Australian residents, but that hasn't prevented rogue international operators from creating an enormous customer base here. It's estimated that more than \$800 million is bet by Australians annually on online poker and gaming – and it's a figure that is rapidly growing. All revenues are flowing directly offshore without any taxes being paid in Australia. Furthermore, players are gambling in an environment that does not accord with Australian regulations. Two recent examples of media coverage on this issue are attached at Appendices 2 and 3.

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. It's a situation that's led to a phenomenon called 'forum shopping' - where online operators seek the most appropriate regulatory environments. Many corporate bookmakers and totalisator operators have based their headquarters in the Northern Territory or the ACT in a bid to escape the rules laid out by other states. 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 national 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 for the purposes of verifying the identity of its customers. Betfair 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.

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 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 is now being 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 new legislation means they now have to contribute product fees directly to the racing bodies that control the products. 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. Furthermore, it gives racing bodies a strong incentive to provide a better quality product.

Betfair supports the concept of this new funding model 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 now has in place sports field legislation (Part 5 of Chapter 4 of the *Gambling Regulation Act 2003*) which requires wagering operators to seek the approval of sporting bodies to offer betting on their sport.

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.

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. The Act has not kept pace with rapid advances in technology and is unable to address the convergence of this technology with devices such as handheld data 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 who 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 in an industry that the Productivity Commission now estimates 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.

a) the recent growth in interactive sports betting and the changes in online wagering due to new technologies;

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 statistics show that 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.

(b) the development of new technologies, including mobile phones and interactive television, that increase the risk and incidence of problem gambling;

The assumption inherent in this statement is that new technology will lead to a rise in problem gambling. Betfair rejects the inference that new technology will lead to an overall rise in problem gamblers. On the contrary, Betfair believes 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 a smartcard does in a

retail poker machine venue. We have the ability to monitor the betting patterns of customers and put measures in place to deal with any pattern of problem gambling. 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.¹

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;

Betfair believes there are solid arguments in favour of implementing uniform national standards across retail and online betting. These could include the use of smart cards for land-based betting where users could easily be identified in cases of potential fraud. Loss limits and deposit limits could also be applied in the same way they are on the Betfair platform. 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".²

(d) inducements to bet on sporting events online;

Inducements to gamble are a legitimate way of promoting a business in what is a highly competitive, legal marketplace. Betfair does not believe there is evidence to suggest a correlation between problem gambling and the provision of inducements to gamble. Any policy aimed at curbing inducements should extend to cash-based betting as well as online.

(e) 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

¹ See: http://www.gamblingcommission.gov.uk/research__consultations/research/bgps/bgps_2007.aspx

² "AFL can't trace cash bets: TAB", *The Age* (sport), 7/5/2010, Page 2

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 the odds are too short – it's the same as an investor selling shares when he or she thinks 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 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 other selections in the race. With automated bet placing technology now common on the TABs, this 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 Court³. 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.

(f) 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 of what can be defined 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 breaches to the Tasmanian Gaming Commission - which has the authority to refer a breach to the Tasmanian Department of Public Prosecutions.

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 Memoranda of Understandings 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.

³ Betfair Pty Limited v Western Australia [2008] HCA 11 (27 March 2008)

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.