

FURTHER RESPONSE TO THE SENATE COMMUNITY AFFAIRS COMMITTEE

POKER MACHINE HARM MINIMISATION BILL 2008

Supplementary Questions raised by Senators on Thursday 11th
September 2008

Radisson Hotel Melbourne

By Regis Controls Pty Ltd (Directors: Elik Szewach, Lisa Horten and Ian Donald)

Synopsis

The Senate Community Affairs Committee members raised several questions of Regis Controls Pty Ltd during its presentation in Melbourne on 11th September 2008, which were taken on notice. This supplementary paper provides answers and adds further clarification to the proposed operation of smartcard technology.

The answers in this further submission address:

- The use of smartcards
- Countries using smartcards as a method of gambling harm minimisation
- The cost of converting poker machines to comply with the Bill as tabled
- Internet gambling and the potential increase in this form of gambling if the Bill is enacted and why this form of gambling should be subject to harm minimisation.
- What evidence is there on the effectiveness of harm minimisation measures using smartcards

Synopsis of Additional Research

The 5 countries with the estimated highest per capita expenditure in 2007 on *internet* gambling (Norway, New Zealand, Netherlands, Sweden and US {based on an eCOGRA research study}) either have or are actively planning to adopt some form of **smartcard based harm minimisation for poker machines** and in some cases combining this with a **single limit for internet gambling**

1. **Australia** was rated as number 6 out of 96 countries on per capita internet gambling expenditure in 2007 and may well have overtaken the US in 2008.
2. Some European countries have or are establishing **government owned and operated internet gambling sites** as a result of the very high level of *unregulated* internet gambling and the impact on the balance of payments.
3. Other countries with lower levels of problem gambling have already adopting **harm minimisation measures for poker machines using smartcards** e.g. Austria, Denmark, Slovenia and South Africa. We are not aware of any countries which have implemented USB based harm minimisation measures at this time.
4. Countries which have adopted **national harm minimisation measures** appear to be much more effective in addressing problem gambling than countries which

- have adopted state or provincial legislation.
5. More than 50% of poker machines in Australia are considered to be smartcard 'enabled' today and it is estimated to cost AUD\$500-1000 per machine to convert the remainder. The average life of a poker machine is 5-7 years and virtually all new machines are smartcard enabled today. The total cost of poker machine conversion to USB play could be approximately ten times more than adopting smartcards based on the estimated conversion rate of AUD\$2500 per machine for USB.
 6. There are over 50 suppliers of smartcard operated poker machines and several hundred thousand in operation around the world.
 7. The Australian and New Zealand Gaming Machine National Standard Rev 9.0 established by Australian and New Zealand gaming regulators makes provision for smartcard use.
 8. The smartcard solution can combine a series of harm minimisation measures (monetary limits, time limits per session, day, week, fortnight, identification of problem gamblers **during the session**, warning messages, self and third party exclusion, banning direct use of credit cards, gaming access by minors, record of sessions, deferred payouts, monthly or annual statements of expenditure, single limit for poker machine/internet gambling and other forms of gambling etc etc.
 9. There is **ONE limit on the smartcard which applies no matter how many machines are played in any venue** which cannot be increased (it can be reduced by the player). Whether a player uses one machine or several hundred in each State and Territory to reach their limit the maximum limit does not change for the period set.
 10. The same limit can be applied to regulated internet gambling at some future date.
 11. A combination of harm minimisation measures is proposed and set out subsequently.
 12. Smartcards using a pin for authentication is well established for banking and a biometric version is feasible with the thumbprint read when holding the card and compared with the image stored in the chip(a similar chip is already used in millions of passports). If government wants the player identity can be positively identified as the player inserts the card by comparing the thumbprint with that stored in the chip, without the need for a central database. It is suggested that seniors should be exempt as the whorl (ridges on the thumb) largely disappear after the age of 75!
 13. As smartcards have interoperable standards (ISO 7816) it is suggested that there should be more than one scheme operator (card issue, help desk, software support etc) for reasons of contestability and state/territory based tenders or other geographic basis with provision to prevent multiple cards being issued to a player would be preferable
 14. No scheme operator should have any involvement in or funding from the gambling industry. Current examples of gambling organisations involved in managing harm minimisation schemes around the world illustrate the reasons for potential conflict.

1. Proposed Smartcard Operation

The proposed operation of a smartcard harm minimisation system is outlined in a series of diagrams in this submission.

The harm minimisation tools which a smartcard system provides are summarised below:-

- The card has one maximum limit for the specified period (day, week, fortnight, month or year or a combination of all of these)
- The maximum limit cannot be changed until the end of the period specified in the legislation
- Card holders can set their own lower limit for the specified period
- The one limit applies in all States and Territories and in all venues
- The one limit can be extended to internet gambling subsequently, if required
- The one limit or a new limit can be extended to other forms of gambling if this is causing more problem gambling e.g. casino games such as roulette and table card games
- Amounts below the limit not spent in the period can be carried forward to the next period or preferably not carried forward
- The smartcard can only have electronic value added by a Smart Cashier machine in a gambling venue. This machine will only accept notes, bank and debit cards and not credit cards or line of credit accounts
- The smartcard is programmed not to accept transfer beyond the limit specified (either the maximum or player specified lower limit)
- The smartcard can be either pin and/or biometrically operated. The card has an inbuilt thumbprint 'reader' which compares the image with that stored in the chip when the card is inserted. This prevents lost and stolen cards being used and card borrowing
- The smartcard can be programmed to defer or hold large winnings
- The card can be programmed to give advisory or warning messages e.g. "you have now been playing for 3 hours"
- The card can be programmed to ensure automatic intervention by trained venue staff requesting the card holder to sign an exclusion order. The card is closed down for all machines until the staff member has actually intervened and this is recorded and would be available for inspection by a government appointed inspector
- It is proposed that the card is issued on a 100 point check basis by an independent organisation and comparison of databases ensures that only one card is issued to an individual
- Cards reported lost, stolen or damaged are barred from use anywhere and any residual value and the limit are re-issued on a new card subject to positive proof of identity
- The card is capable of tracking the amount of cash put into any machine whether notes or coin and one limit can be used for electronic and physical cash gambling
- It is suggested that overseas visitors can obtain a smartcard with no limit for the period in Australia subject to passport verification and proof of overseas

residence (up to 25% of Australians have or are entitled to a second passport). A refundable deposit might be appropriate.

- The smartcard would be encrypted to 3DES or higher standard to prevent fraud and hacking, which is a similar level to bank issued smartcards
- The smartcard system could be extended subsequently to track money laundering. The ACC estimates that **\$12billion of drug money is recycled out of Australia per annum** mainly through gambling.
- The card would be used pseudonymously i.e. the card holder remains anonymous unless the card is reported lost or stolen or a warrant or court order is issued
- The card allows for self exclusion or authorised third party exclusion e.g. court order. The card cannot operate in any machine for the period of exclusion
- The card excludes minors due to the 100 point check
- The card could be used to track admittance to gambling venues (or the gaming room part) and some form of intervention could be adopted after a large number of visits
- It is suggested that a small balance reader (costing \$5) is issued with the card so that the card holder can check the residual limit and read a summary gambling results for a period
- It is proposed that there be several smartcard issuers providing personalisation of cards and verifying 100 point checks. This could be provided on a state basis.
- The card provides a more secure audit trail for tax collection reconciliation and ensures that far less physical cash is held on premises
- The smartcard obviates the need for conventional ATMs in gambling venues. The Smart Cashier machine and the card are programmed to comply with all the limits established in the bill and the capital cost and operational cost is far less than existing ATMs. These machines could be operated by venues eliminating the need for expensive bank ATMs and would be subject to routine inspection and testing. Any existing ATMs in casino style venues would not be able to load smartcards with value or download value from player cards.
- It is possible to use the player protection smartcard for a loyalty scheme for the venue. This eliminates the need to carry and insert two cards into each machine used but this is clearly a policy decision
- It is clear that a number of western governments have or will adopt smartcards to protect citizens from the risks of unregulated and insecure internet gambling sites and to protect the balance of payments. Australia would be well positioned to extend the proposed smartcard system to internet gambling in common with many western countries
- It is possible to have two or more purses (and a loyalty application) held on the smartcard. One would be only used for poker machine gambling and potentially internet with all the provisions of the bill incorporated (limits, no credit account usage. The other one could be used for venue purchases e.g. meals, beverages etc and a loyalty application covering one or both purses is possible.
- It is proposed that the purse is compatible with the standard adopted by banks worldwide, Visa and MasterCard etc which is EMV which minimises interoperability issues and potentially allows card holders to transfer winnings directly into a bank account
- It is possible to programme into the card compulsory breaks in play and potentially links to problem gambling support services
- It is also possible to include decision points into the smartcard (*you have lost \$500 in 2 hours are you sure you wish to continue etc*)

2. Countries using Smartcards for Harm Minimisation

There are an increasing number of countries which have or are planning to adopt harm minimisation measures using smartcards for poker machines (also called VLTs in US and Canada and slot machines and EGMs elsewhere) and more recently internet gambling.

US

Beginning in 1988 the US Government and various States negotiated with the Indian tribes to allow casinos with poker machines into Indian reservations. The agreement ensured that no cash can be inserted into poker machines. There are 367 casinos with annual revenue of **AUD\$ 25 billion** currently covered by the Indian Gaming Regulatory Act. A smartcard is used in all these establishments.

The Act also has a series of harm minimisation measures (time limits, minimum percentage payout, maximum wager per spin, etc, etc)

Various surveys and tests conducted in the US during the last 5 years indicate that using a smartcard rather than cash does not increase the average spend per session or the frequency of gambling

South Africa

Smartcards are used for gambling on poker machines in casinos in South Africa e.g. Sun City and are used 100%. Independent surveys across South Africa indicate that there is 96% acceptance of smartcards by patrons.

There are no ATMs allowed in any gambling venue under South African law.

Austria

In Austria poker machines are only permitted in casinos by government legislation. All casinos in Austria used smartcard operated poker machines and there are a series of harm minimisation measures including player tracking.

Norway

The Norwegian government owns the major operator of poker machines (some describe it as a monopoly) which were re-introduced a few years ago, having been banned. Smartcards are used exclusively for the national lottery, for gambling venues and for **Internet gambling via the government owned site Norsk Tipping**. Players are issued with a smartcard and a reader, which plugs into any computer and can only use the smartcard at gambling venues. There are a series harm minimisation measures built into the system e.g. \$180 maximum bet per 24 hours on the Norsk Tipping internet site.

The Norwegian government became so concerned at the amount of money that Norwegians were spending on overseas internet gambling sites that it introduced and now runs its own internet gambling. The government issued 1.75 million smartcards

in less than 2 years. The total population of Norway is 4.6 million so more than 50% of the adult population now has a smartcard and a reader for gambling.

The Government run gambling web site attracts 16-24 year olds who have double the rate of problem gambling compared with older groups.

Many local authorities in Norway are so concerned about gambling venues (controlled by the central government) and the effects of problem gambling that they are threatening liquor licensing bans.

Denmark

The Danish government is the major provider of gambling services through Danske Spil which issues smartcards to customers. Denmark may well have the most comprehensive harm minimisation measures including:

- Restrictions on the type of games (based on actual results *red danger games* can be banned i.e. those games most used by problem gamblers)
- Limit on units per day
- ALL gaming limits
- Players can set lower limits
- Self exclusion etc

Netherlands

The Dutch government requires all Dutch customers of casinos (the only legal venue for poker machines) to use their national ID smartcard to gain entry to a casino. All Dutch citizens are required to carry an ID card under separate legislation.

If a customer visits casinos more than 20 times a month they are automatically approached by trained casino staff and asked to sign a self exclusion contract. The procedure is monitored by government inspectors to ensure that casinos are properly facilitating harm minimisation measures for problem gamblers.

Canada

Saskatchewan Gaming Corporation has introduced a Player Club card (smartcard) which is used to monitor at risk gambling behaviour during poker machine play and trained staff are required to intervene.

Nova Scotia

The Nova Scotia government conducted a 6 month harm minimisation trial using smartcards (not USB) which was monitored by Focal Research. 71% of regular players adopted one or more of the harm minimisation measures (spending limit, play limit, 2 day exclusion etc) and 65% of these players continued to use one or more harm minimisation measure beyond the trial.

The average expenditure per player reduced by 15% during the trial but Focal Research reported that there appeared to be little impact on high risk gamblers and the amount of their money spent (it was a voluntary trial).

The government recently signed a contract (estimated by the contractor as AUD\$ 7-9.3 million or the equivalent of \$2500-3320 per machine) with Techlink Entertainment, a major supplier of poker machines, poker machine type games and internet games to fit 2800 poker machines which allows players to set their own limits.

The President and CEO of Techlink Entertainment when announcing the contract was quoted in the local media as saying:

- *The system developed by Techlink targets players who are at risk of developing a gambling addiction. Mr Xidos defines those gamblers as the type to occasionally overspend.*
- *While none of the cards will identify the players, Techlink can track which types of games people like to play and how they choose to spend their money. That's extremely valuable information for game creators, Mr Xidos said. Techlink might sell that information or use it for its own software. Mr Xidos said.*

A separate and much larger government owned organisation Atlantic Lottery operates a series of gambling products and is owned by four provincial governments New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland/Labrador. It announced recently that it was considering issuing *responsible player cards* for all VLT (poker machine) users. The card would be a smartcard and "can be programmed by the player to limit how much they're spending and how long they are playing".... "They can even cut themselves off and keep a record of VLT use"

Sweden

The largest gaming company in Sweden, Svenska Spel, is owned by the Swedish government and has an annual turnover of AUD\$ 3.7 billion (comparable to Tabcorp). The population of Sweden is only 9 million or 43% of the population of Australia.

Svenska Spel issues a smartcard to customers and over one million use one each week. The card provides a series of harm minimisation measures for both poker machines **and internet** including limits per session, per day, per week or month and maximum play time per day/week/month and self exclusion.

Svenska Spel launched internet poker in 2006 and achieved 100,000 registered players **in the first 4 weeks**, which 'exceeded all expectations'.

The Swedish government 'wanted to transfer existing internet gamblers from the unregulated market to the regulated market'. Players can also use mobile phones to gamble on the internet with Svenska Spel and it is not clear how minors are excluded.

3. Cost of Conversion of Poker Machines

More than 50% of poker machines in Australia are considered to be smartcard 'enabled' today although not all these are operating using a smartcard currently and many use a mag stripe for the venue loyalty system. It is estimated that the cost would be some AUD\$500-1000 per machine to convert the remainder.

This cost does not include the software changes required per machine, any additional communication costs, smartcard issue and personalisation, central or integrated back end server systems; non smartcard provisions e.g. single line payout conversion and \$20 note acceptor limits, operational requirements e.g. help desk and card re-issue and other overall systems requirements e.g. procurement and tendering processes.

The average life of a poker machine is 5-7 years and virtually all new machines are smartcard enabled today. The total cost of conversion to USB play could be up to approximately ten times more than adopting smartcards based on the estimated conversion rate of AUD\$2500 per machine for USB.

If a changeover period of two years is adopted then it could be assumed that the 62,000 poker machines which would have been replaced during this period would be purchased/leased as smartcard enabled so the net conversion may only be required for approximately a third of existing poker machines.

There are significant operating savings through using smartcards and many casinos have voluntarily switched, particularly in the US

4. The Potential Increase in Internet Gambling

ABS statistics indicate that 11.3 million Australians accessed the internet regularly in 2006/7 and use of the internet is higher among the younger age groups. Australian children aged between 8 and 11 spend 30 minutes a day on average accessing the internet (ACMA study 2007).

There are some 3000 poker playing type gambling sites on the internet (there are many more if all types of gambling are included).

All forms of internet gambling generate some AUD\$30-50 billion in revenue and the annual growth rate is 30-35% and this is forecast to continue for the next few years.

Betfair in UK averaged 20 million transactions per day via the internet in 2007, four times the total of all European stock markets. PKR a UK based online poker gaming company generated over 2 million members in less than two years from start up in 2006.

comScore Inc, a US based internet research company, issued a report in 2007 which indicated 217 million people worldwide accessed online gambling sites regularly and made an average of 9 visits to gambling sites in one month. The research does not indicate the country of residence.

An independent study by eCOGRA (e-Commerce and Online Regulation and Assurance) in 2007 rated Australians as sixth out of 96 countries for internet gambling expenditure (behind Norway, New Zealand, Netherlands, Sweden and US (prior to the *Federal Wire Act legislation*))

Several hundred of these online gambling sites are either bogus or unethical and/or have totally inadequate regulation.

Watchdog groups monitoring such sites report many instances of:

- No payouts
- No response to claims
- Defective software
- Frequent name changes
- Bogus claims of belong to monitoring or regulatory associations
- Sites with locations and/or country of origin denominated as:
 - *Planet Earth*
 - *Who knows/who cares*
 - *Cowboy Town*
 - *Moonbase Alpha*
 - *Magic Fairy Land*

Crime prevention organisations are aware that hackers deliberately target many of these sites which have inadequate security measures and obtain credit/debit card numbers/user names and password details of individuals and steal money first and thereafter often on-sell the cardholders' details to third parties.

The online gambling industry basically admits that it is targeting the 20-40 year old market which has very high internet use. Many observers believe some online providers are targeting under age gamblers. In some Scandinavian countries the legal age for internet gambling is 15, although there are current moves in Finland to raise this to 18.

Various research studies in the US in 2006/07 indicate that:

- 75% of 12-18 year olds have undertaken some form of gambling in the last year
- 70% of online gamblers register with four or more sites
- **Teenagers are three times more likely to become problem gamblers than adults (*New York OASIS study*)**. Studies into smoking indicate similar findings and the tobacco industry has long targeted teenagers.
- Depending on the US state between 3 and 5% of all calls to gambling helplines were from minors
- 172 online gambling sites offshore still accepted registration and play from US citizens after the Federal Wire Act gambling law was introduced
- 30 out of 37 online gambling sites which were tested registered under age college students in the US and allowed them to gamble via the internet (*also after the Federal Wire Act law on internet gambling*)

Australians can obtain a bank issued Debit card aged 16 (Visa/MasterCard) which enables them to gamble on the internet. A pre-commitment debit card can be legally purchased below the age of 16, which also allows minors to gamble on the internet without their parents' knowledge. The pre-commitment debit card is similar in concept

to pre-paid phone cards (no age limit) which are widely used by teenagers in Australia.

Online gambling via 3G mobile phones is now a major growth area for the gambling industry and teenagers in Australia can gamble 24/7 again without their parents' knowledge using a pre-paid phone card.

In summary the continued growth of the gambling industry is reliant on attracting new problem gamblers. The younger the gambler the more likely they are to become a problem gambler.

The other major implication of the Bill is that problem gamblers are likely to turn to online providers to gamble once their limit is reached or they are excluded from gambling venues. Currently there are virtually no restrictions on internet gambling such as limits, speed of play, use of credit cards, warnings, use of 3G phones etc.

Teenagers can be barred from gambling venues by adopting smartcards which are issued based on 100 point ID verification. The same technology can be used to control internet gambling. A plug in smartcard reader can be purchased for between \$AUD5-10 and the reader can be readily plugged into virtually any computer.

All 24/7 internet gambling sites are offshore and are likely to have an increasing negative effect on Australia's trade balance. Some Scandinavian countries are now actively encouraging internet gambling organisations to establish themselves in their country for this reason alone. Internet gambling is a large and growing problem for Australia and it would be prudent to formulate future harm minimisation measures within the context of this current bill.

5 Effectiveness of Harm Minimisation Measures

The table below summarises the harm minimisation measures which a proposed smartcard system would contribute based on some evidence of comparable systems overseas.

Policy initiatives which are independent of smartcards such as educational initiatives, number of gambling venues and number of poker machines are not included.

Table: Suggested Effectiveness of Harm Minimisation Measures using Smartcards

Policy Initiative using a Smartcard based system	Estimated Effectiveness on Problem Gambling ¹
Smartcard monitoring of cash and electronic gambling	*****
Overall limit per period	*****
Potential restriction to regulated smartcard enabled internet gambling sites	*****
Time limit imposed	*****
Lower limit set by player	*****
Use of Smart Cashiers and no ATMs in venue	*****
Self exclusion for a period	*****
Third party ordered exclusion	*****
Self assessment test	*****
Regular financial reporting	*****
Barring minors	*****
Venue admittance by card	****
Warning messages	****
Compulsory breaks	****
Automatic intervention after a time or amount spent	****
Decision points during play	****
Deferral of payouts for significant wins	****
Direct payment of significant wins into bank account	***
Biometric smartcard to prevent card swapping	***

¹Estimated effectiveness on problem gambling based on other countries experience with the harm minimisation measures using smartcards.

***** Highly effective

*** Moderate impact

Multiple measures are recommended as problem gamblers are very adept at getting round single restrictions e.g. use cash gambling if this is not monitored by using the smartcard system

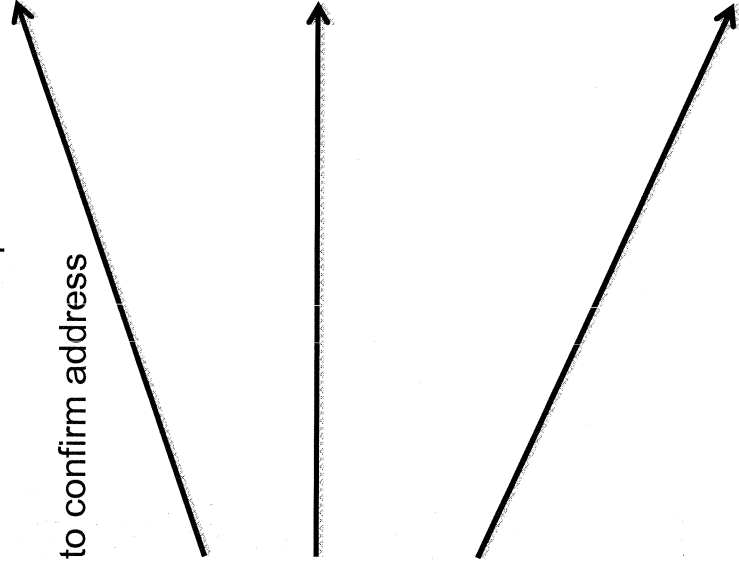
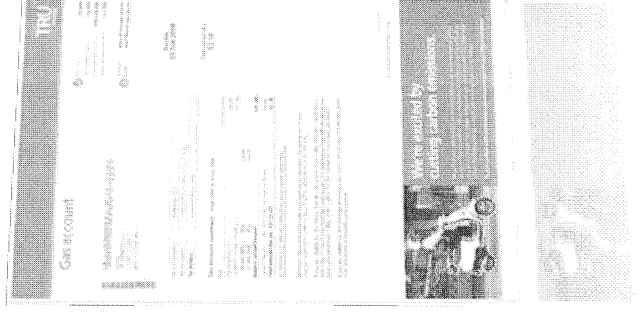
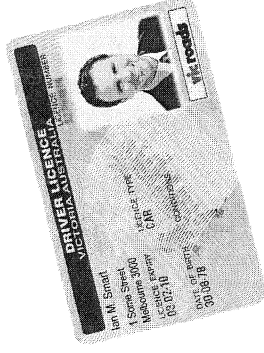
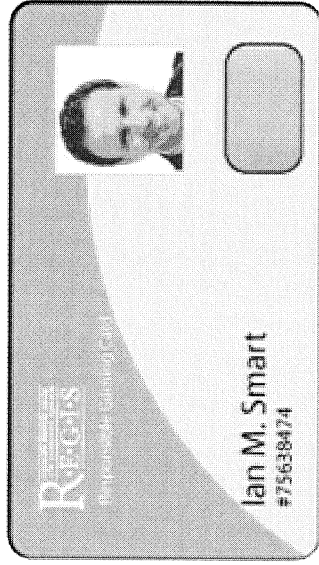
The Responsible Gaming Card

A player must first register (100 point identity check) to receive their own personal responsible gaming card. at an approved venue such as at an Australia Post outlet who can then email or post the completed form to the scheme operator. The player's card can be sent to the players address, followed by a separate letter with the PIN.

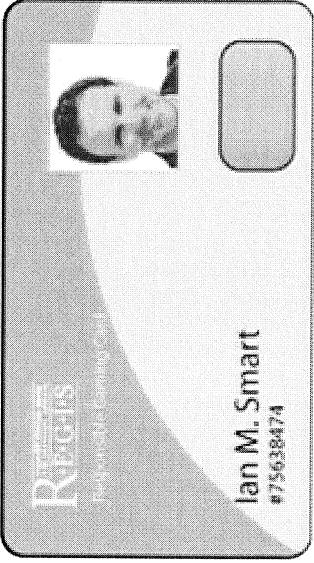
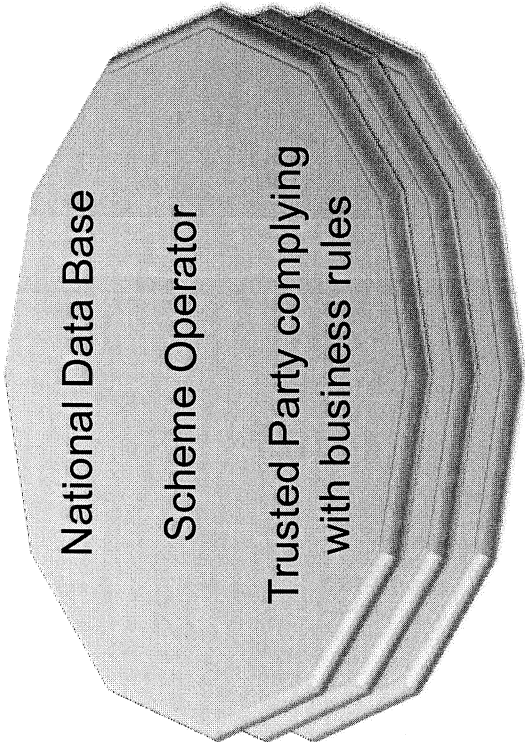
© Regis Controls Pty Ltd

To register for a personalised responsible player card you need –
100 - 150 points ID check

- Photo ID – Drivers license/passport/birth certificate etc. - proof of age and person
- Bank statement or rates/telephone bill to confirm address



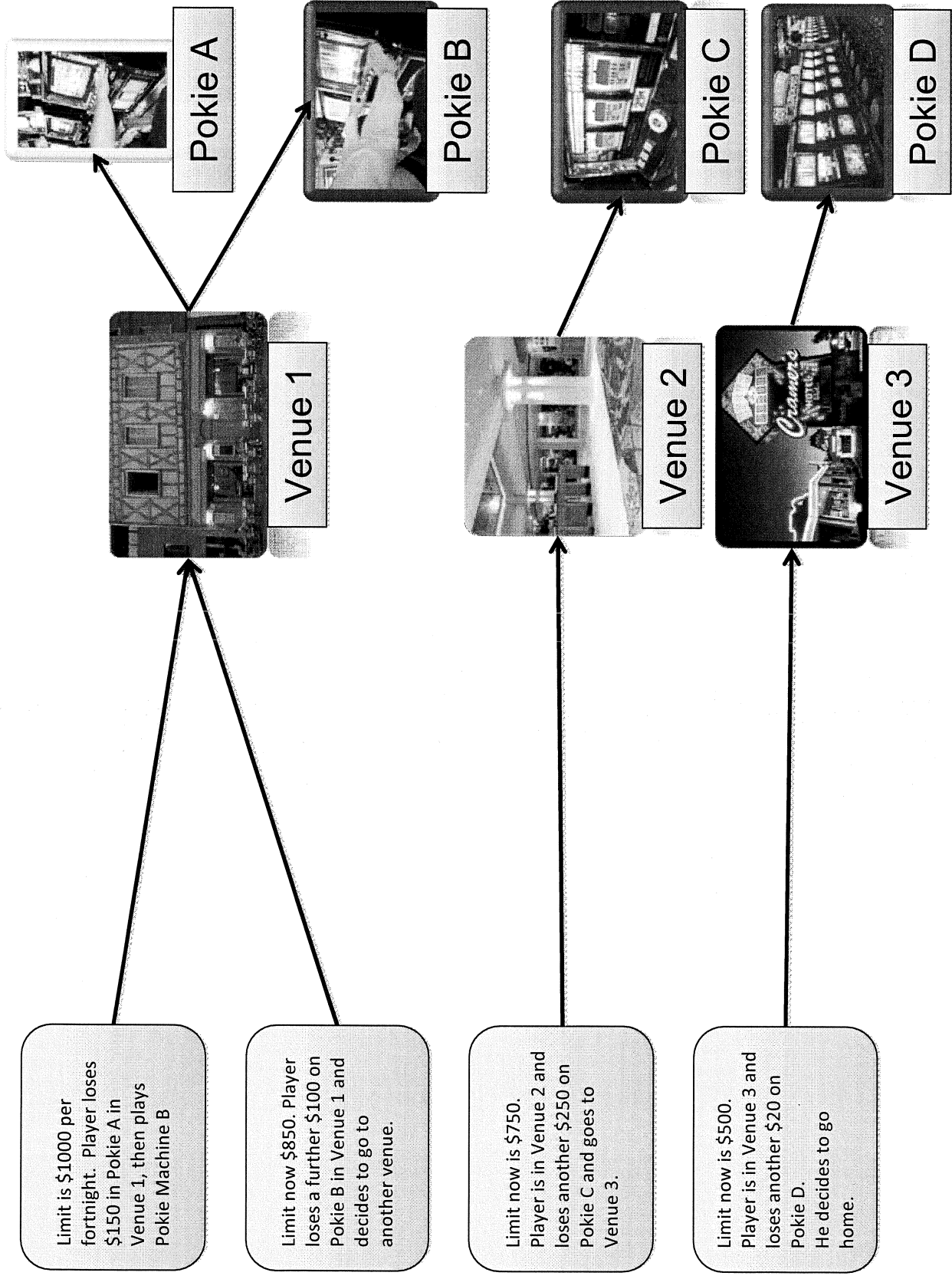
The player's details are registered with a national database governed (NON GAMBLING INDUSTRY) by a trusted party e.g., Government, semi government or an authorized third party which guarantees compliance with the business rules ensuring confidentiality of all information.



Some of the features that can be built into the responsible gaming card:

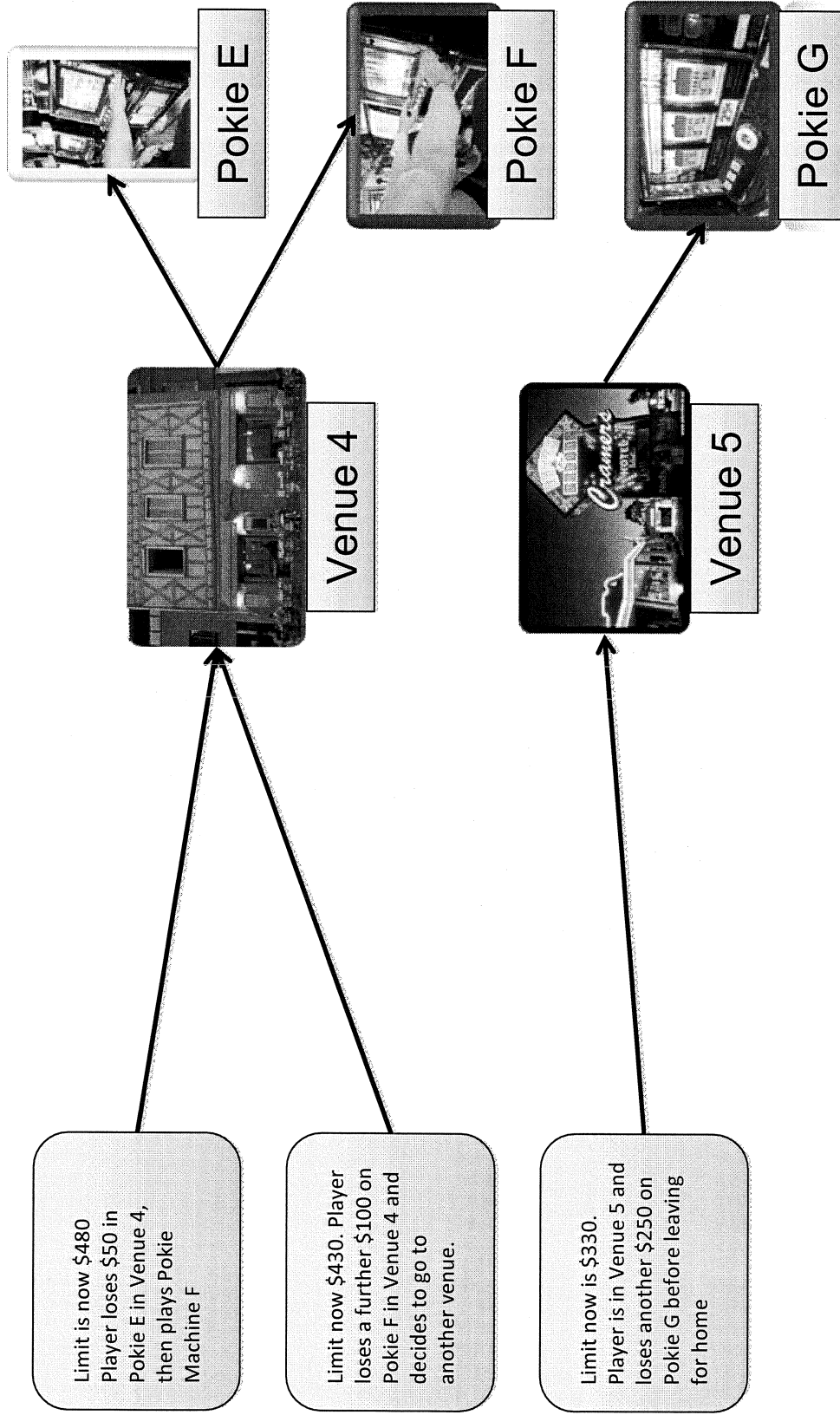
- Limit the amount that can be lost within a certain time frame e.g. \$1000 per fortnight (card shuts down thereafter)
- Responsible up to date messages displayed on Poker machine e.g. you have lost \$500 do you wish to continue?
- Ability to enforce a break by the player e.g. a few minutes, a day a week a month
- Ability to self exclude immediately e.g. a day a week a month or a year
- Ability to keep track of the limit and close down the card e.g. \$1000 per fortnight regardless if digital and/or real cash is used to play with
- Ability to operate on Pokies, internet, pay TV, and ban credit card betting and use by minors
- Can be PIN or biometrically operated
- Operates across all venues and all machines, internet and pay TV maintaining **one limit**

Limit the amount that can be lost within a certain time frame e.g. \$1000 per fortnight

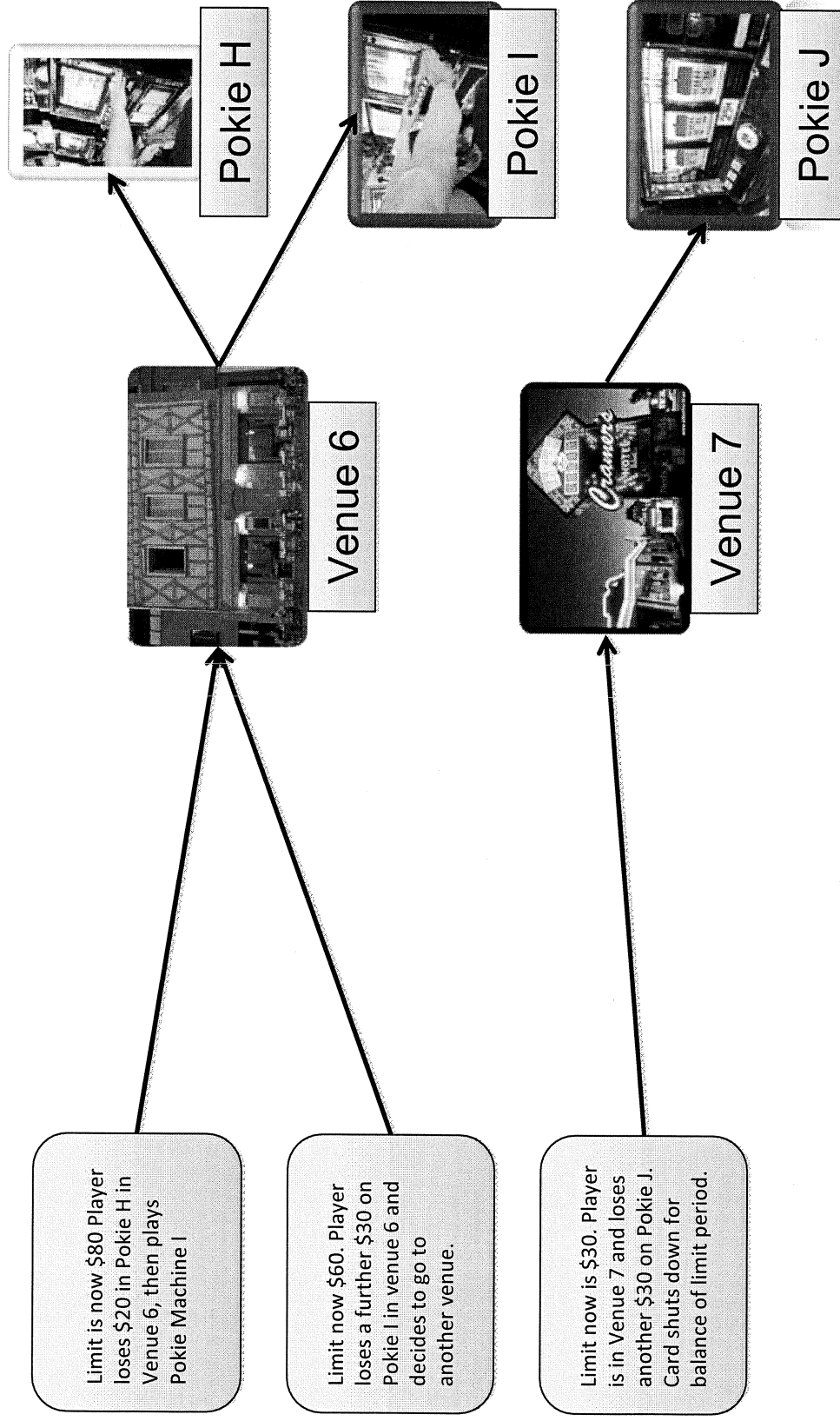


© Regis Controls Pty Ltd
The above took place on Friday night, December 1st

It is now the 8th of December (1 week later) and the player decides to try his luck again



It is now the 12th of December and the player decides to try his luck again

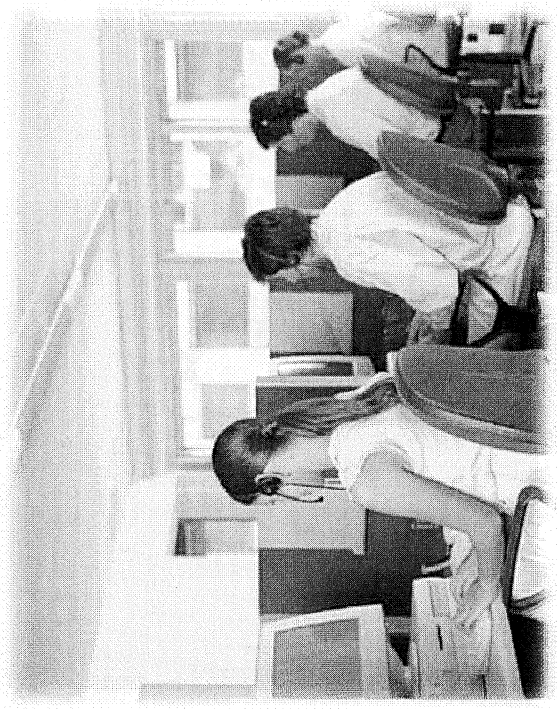


Self Exclusion (self imposed ban)

Call the National Call Centre number (24/7) 1300 smart card (1300 7678 2273). The number is printed on the card. Call center then verifies the person as being the card holder and immediately puts a flag on the card for the period nominated.
There are other methods such as venue exclusion terminals, consoles that can be fitted to the poker machines, internet access etc.



Ian M.
Smart



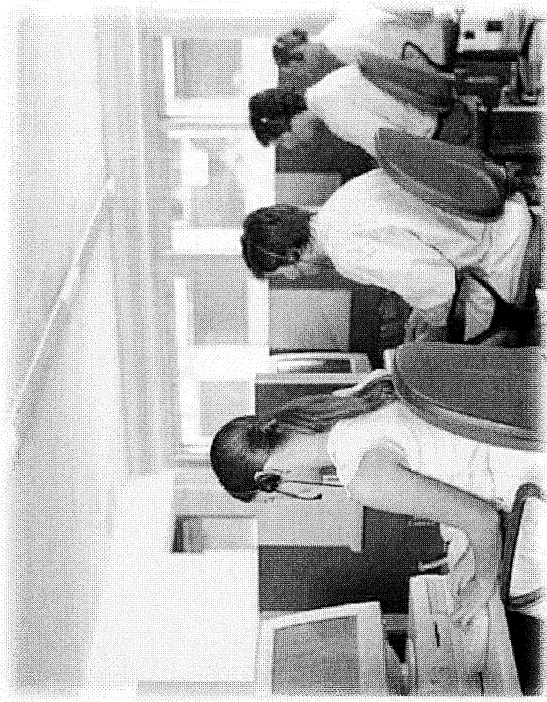
National Call Centre

How to change the limit

Call the National Call Centre number that verifies the person as being the card holder, confirms the new lower limit and immediately updates the new lower limit, which is updated on the card when next inserted into a poker machine. To raise limit governing rules must apply example cooling of period, justification to increase limit etc.



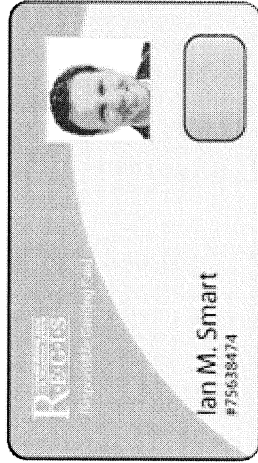
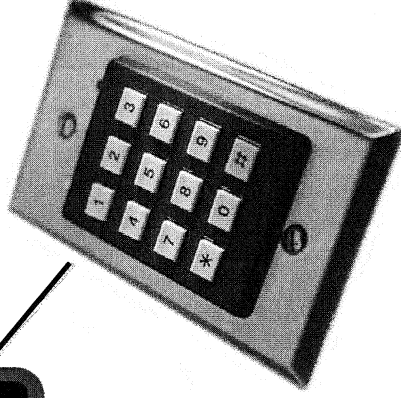
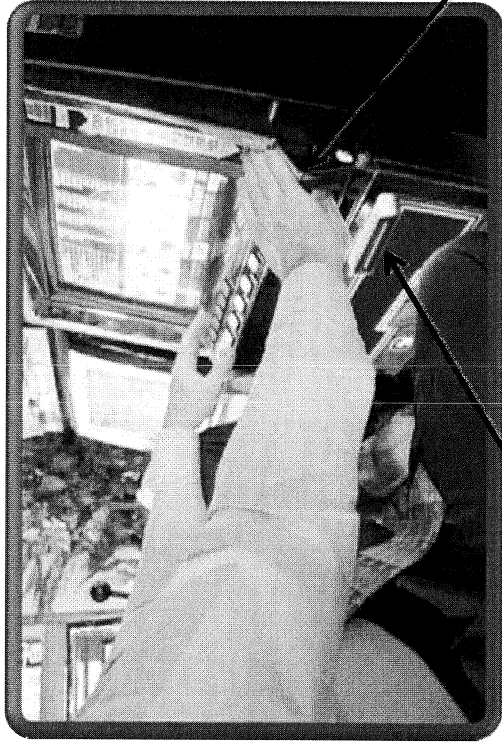
Ian M.
Smart



National Call Centre

How to use the card with a PIN

The Player inserts their personalized responsible gaming card into card reader situated on the front of the poker machine. The player enters the PIN into the code pad, which is then accepted/rejected, allowing the player to commence play. *Note: Government may wish to provide a warning to very frequent players "This is your fifth visit this week and you have lost \$xxx already.*



How to use the card with Thumb Print

The Player holds the card with their thumb when inserted which is then matched with a biometric image of the thumb print stored in the chip on the card.

P.N The player is registered to the central data base but **there is no central data base recording of anyone's thumb print.**