

Chapter 3

An overview of Electronic Gaming Machines

3.1 This chapter explains the committee's current focus on reducing the harm from electronic gaming machines (EGMs) as among the different types of gambling, EGMs are associated with the majority of gambling problems. The chapter will briefly cover why EGMs are the riskiest form of gambling, the numbers of EGMs and their location. It will also explain the characteristics and features of EGMs which contribute to their attractiveness but also make play of them riskier.

EGMs are the riskiest form of gambling

3.2 It is clear that regular play of EGMs can be problematic. As noted by the Productivity Commission:

The likelihood of harm rises steeply and continuously with the frequency of EGM gambling and expenditure levels...¹

3.3 To illustrate this, the Productivity Commission reported that for gamblers who play EGMs one to six times a year, 0.2 per cent perceive gambling to be a problem. However, for those who play 53 or more times, 27 per cent perceive gambling is a problem (a 170 fold increase in risks, noting rounding of the above estimates). The Productivity Commission concludes that: 'At certain levels of frequency of playing, EGM gambling does not satisfy the criterion of a 'safe' product'.²

3.4 Appendix 3 provides tables (3.1–3.3) from the Productivity Commission report which show that EGM players face more harms and problems rise with the frequency of play. This does not appear to be the case with less riskier forms of gambling such as lotto, scratchies, raffles and bingo.³

Numbers of EGMs

3.5 In 2009 there were 197,820 EGMs in Australia which is 13,296 more than in 1999. The diagram below from the 2010 Productivity Commission report captures the numbers in each state and the state-wide caps in place.⁴

1 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 4.24.

2 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 4.24.

3 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, pp 4.25–4.27.

4 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 2.26.

Table 3.4 EGM caps and counts of operational machines

		<i>Casino</i>	<i>Hotel</i>	<i>Club</i>	<i>2009 Total</i>	<i>1999 Total</i>
NSW	cap limit	1 500	97 500 hotels & clubs		99 000	no cap
	operating	1 500	23 700	71 865	97 065	99 672
Victoria	cap limit	2 500	13 750	13 750	30 000	30 000
	operating	2 500	13 338	13 434	29 272	29 611
Queensland	cap limit	no cap	20 000	24 705	no cap	no cap
	operating	3 502	18 757	23 052	45 311	32 394
South Australia	cap limit	995	12 086 hotels & clubs ^a		13 081 ^a	no cap
	operating	946	11 094	1 555	13 595	12 912
Western Australia	cap limit	1 750 ^b	none	None	1750 ^b	no cap
	operating	1750	N/A	N/A	1750	1 180
Tasmania	cap limit	3 680 ^c	2500 hotels & clubs		3 680 ^c	no cap
	operating	1 280	2 199	173	3652 ^c	2 492
Northern Territory	cap limit	no cap	no cap ^d	no cap ^d	no cap	no cap
	operating	828	432	758	2 018	1 252
ACT	cap limit	none	5200 hotels & clubs ^e		5 200	5 200
	operating	N/A	72	5 085	5 157	5 013
Australia	operating	12 306	69 592	115 922	197 820	184 526

^a Club and hotel EGMs are being progressively reduced to 12 086, which will then become a cap. ^b EGMs include 150 machines in the members-only area of the Burswood casino. ^c Not including TT line ferries, which have 46 EGMs. ^d A cap for Northern Territory clubs and hotels of 1190 is before State Parliament. ^e ACT hotels/ taverns only have access to class-B EGMs, whereas clubs are allowed class-C machines.

Sources: PC (1999); FaHCSIA (2009a); Victorian Commission for Gambling Regulation (2009a); Tasmanian Gaming Commission (2009a); Northern Territory Government (sub. 252); ACT Gambling and Racing Commission (2009b).

Source: Productivity Commission, Table 2.11, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 2.26.

3.6 Each jurisdiction has a slightly different distribution of EGMs between clubs and hotels. The New South Wales government was the only jurisdiction to provide the committee with the numbers and current distribution of its EGMs. This shows the majority are located in clubs. As at 30 June 2010 there were 97,939 poker machine entitlements on the market with 94,915 authorised gaming machines operating in hotels and clubs. 75 per cent were operating in clubs and 25 per cent in hotels. The number of gaming machines in Star City Casino is capped at 1,500 via a ministerial directive issued under the *Casino Control Act 1992*. A more detailed breakdown of the numbers was also provided:

Hotels

- Less than 10 authorised gaming machines – 528 hotels
- 10 to 19 authorised gaming machines – 696 hotels
- 20 to 30 authorised gaming machines – 418 hotels (note: cap of 30 authorised gaming machines at hotels)

Clubs

- Less than 10 authorised gaming machines – 162 clubs
- 10 to 49 authorised gaming machines – 696 clubs
- 50 to 99 authorised gaming machines – 110 clubs
- 200 or more authorised gaming machines – 74 clubs (note: no cap on authorised gaming machines at clubs)⁵

3.7 The distribution for other jurisdictions below was taken from the Australasian Gaming Council database on the gambling industry. In South Australia and Tasmania the majority of EGMs are located in hotels, while in New South Wales, the Australian Capital Territory and Queensland the majority are located in clubs. In Victoria they are fairly evenly distributed across both sectors.

Table 3.5 Estimated number of gaming machines in Australia by venue type (2008-09)

Location	Hotels	Clubs	Casino(s)	Total
Australian Capital Territory	72	5,085	na	5,157
New South Wales	23,742	71,741	1498	96,981
Northern Territory	424	749	840	1,971
Queensland	18,695	23,080	3429	45,323
South Australia	11,179	1,558	960	13,721
Tasmania	2,199	173	1280	3,652
Victoria	13,338	13,434	2500	29,272
Western Australia	na	na	1750	1,750
Total	69,649	115,820	12,257	197,726

Source: Victorian Commission for Gambling Regulation (2009), Annual Report 2008-09, NT Licensing Commission 2008-09 Annual Report, www.olgr.qld.gov.au – Statistics, Office of the Liquor and Gambling Commissioner, Annual Report 2008-09, ACT Gambling and Racing Commission Annual Report 2008-2009, NSW Office of Liquor, Gaming and Racing - interview, Tasmanian Department of Treasury (2009) and Allen Consulting Group (2009).

Source: Australasian Gaming Council, Table 2.9, *A database on Australia's Gambling Industry, 2009-10*, chapter 2, <http://www.austgamingcouncil.org.au/> (accessed 15 March 2011)

3.8 The NSW government advised the committee that a poker machine entitlement trading scheme operates under the *Gaming Machines Act 2001*. This

5 NSW Government, *Submission 110*, pp 3–4.

scheme is intended to gradually reduce the number of poker machine entitlements available through the forfeiture requirements:

Clubs can only trade entitlements between clubs (and each time they do, 1 entitlement is forfeited for every 2 or 3 transferred). Hotels can only trade entitlements between hotels and a similar forfeiture requirement applies regarding cancelled entitlements.⁶

3.9 The committee was informed about a possible perverse effect of this scheme which is that a market has emerged in EGM licences where smaller hotels are purchased for the gaming machine licences, the hotels are closed and the licenses traded away to larger, more profitable venues. The AHA agreed there have been a few cases of this occurring.⁷ The committee is concerned for a number of reasons. The scheme creates a perverse incentive for larger venues to buy smaller venues solely for their poker machine licences. These smaller venues tend to be located in regional areas where the club or hotel is an important focus for the community. The committee also notes how extremely profitable these licences must be for a business to make a commercial decision to purchase a venue only to close it down and receive less machines than they paid for.

3.10 The committee is also cognisant of the situation in Western Australia where EGMs are restricted to the casino. Concerns expressed by Premier Colin Barnett that any proposed changes to arrangements around EGMs would force that jurisdiction to open its borders to more EGMs, have been noted by the committee.⁸ The committee wishes to clarify that it is not the intention that the proposed reforms should be used as an opportunity to increase or circumvent current caps and restrictions on the distribution and location of EGMs in jurisdictions. Decisions around the distribution and caps of EGMs should remain a matter for the state and territory governments.

Recommendation 1

3.11 The committee notes that the number of EGMs and their distribution in any jurisdiction is a matter for state and territory governments to decide and recommends that the proposed reforms should in no way be used as an opportunity to increase numbers or alter distribution.

Location of EGMs

3.12 The committee received evidence that the highest concentration of gaming machine density occurs in low-socio-economic areas.⁹ Mr Stephen Doyle, Chairman

6 NSW Government, *Submission 110*, p. 3.

7 Mr John Whelan, *Proof Committee Hansard*, 15 February 2011, p. 17.

8 Premier Colin Barnett, 'Commonwealth threat to introduce pokies in WA', Ministerial Media Statement, 3 February 2011, <http://www.mediastatements.wa.gov.au/Lists/Statements/DispForm.aspx?ID=135886> (accessed 14 April 2011).

9 South Australian Council of Social Service, *Submission 90*, p. 2.

of the St Vincent de Paul Society Queensland Social Justice Committee told the committee:

...Queensland's responsible gambling strategy, which was published in September 2009, demonstrates clearly how the highest concentrations of gaming machines are in lower socio-economic and remote Indigenous communities. So it appears that the industry is targeting those people who we particularly seek to serve in our work.¹⁰

3.13 This concentration of poker machine density in lower socio-economic areas was reinforced by Professor Malcolm Battersby,¹¹ the Tasmanian Gaming Commission¹² and Professor Linda Hancock.¹³

3.14 Related to this issue, Ms Gabriela Byrne, a former problem gambler, raised an interesting point about why people, particularly women, go to the venues:

I believe that one of the common reasons women have problems—there is an increase in women problem gamblers after the introduction of ATMs—has a lot to do with the fact that women like the actual place that they can go to when they are alone. Maybe they are socially isolated. We refer to that as a third place—a home away from home. I have seen a lot of women who say that the place itself is an attraction to start off with and then they fall into the gambling trap because they have nowhere else to go.

So that is one of the issues that needs to be addressed when you talk about rehabilitation. I think clubs and pubs which used to have live music and used to be pubs where people gathered for the sheer pleasure of good company and lively conversations are now venues that just exploit people who are socially isolated.¹⁴

The initial attraction of EGMs

3.15 The committee heard that people were initially attracted to EGMs for various reasons including the safety of the venue,¹⁵ artwork of the machines¹⁶ and to escape difficult personal circumstances. Dr John Falzon, Chief Executive Officer, St Vincent de Paul Society National Council, confirmed that some people see gambling as an escape from difficult circumstances they may be facing:

10 Mr Stephen Doyle, *Committee Hansard*, 14 February 2011, p. 3.

11 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 56.

12 Tasmanian Gaming Commission, *Social and Economic Impact, Study into Gambling in Tasmania – Policy responses*, Report to Treasurer, October 2008, p. 7.

13 Linda Hancock and Michael O'Neil, *Risky business: why the Commonwealth needs to take over gambling regulation*, Alfred Deakin Research Institute, Working Paper no. 11, Deakin University, Geelong, 2010, p. 25, 28.

14 Ms Gabriela Byrne, *Proof Committee Hansard*, 2 February 2011, p. 23.

15 Ms Gabriela Byrne, *Proof Committee Hansard*, 2 February 2011, p. 23.

16 Ms Julia Karpathakis, *Committee Hansard*, 1 February 2011, p. 15.

Where people are in situations of great suffering, they seek something to kill the pain, whether it be alcohol or other substance abuse or intensive gambling, which is not seen as such but as a form of a recreational outlet which, on the surface, is highly accessible and can appear to be quite cheap. But we know the reality is that it is anything but that.¹⁷

3.16 Ms Sue Pinkerton, a former problem gambler, described that initially she played for fun, as part of a social outing:

Prior to coming into contact with poker machines at the age of 40, I gambled regularly, responsibly and without ever losing control or spending more than I could afford. I did this for 20 years. When I first came into contact with poker machines, I gambled on them for the same reasons I gambled on Lotto, went to bingo and visited the race track a couple of times a year—that is, for fun, as part of a social outing and for the pleasure of winning money without having to work hard for it. I play the pokies because I had no reason to believe that this gambling product was any different from all other gambling products I had used much of my life, only I soon discovered that the pokies were and are very different from those other forms of gambling.¹⁸

3.17 Ms Jo Flanagan, Manager, Social Action and Research Centre, Anglicare Tasmania, told the committee that feedback from their counsellors and research indicated:

...that the main reasons for gambling are social isolation, low confidence, poor self-esteem and other problems with capacity. Pokie venues are physically accessible for people with mobility problems, they are centrally located and they are everywhere. As a form of recreation, playing the pokies seems financially accessible, especially when people are supplied with free drinks. Pokie venues are attractive and they feel safe for people who feel physically vulnerable.¹⁹

Are EGMs dangerous?

3.18 In arguing for a protection measure such as pre-commitment, some witnesses expressed the view that EGMs can be dangerous for some people. Mr Alan Moss, Independent Gambling Authority (IGA), SA, told the committee why the IGA supports pre-commitment:

We believe that electronic gaming machines are potentially dangerous products. In the hands of a large section of the population they do not cause any trouble, but there certainly is a cohort of EGM users who cannot handle the machines in a way which does not cause them harm. As with any potentially dangerous product, the authority believes it makes ethical and

17 Dr John Falzon, *Committee Hansard*, 14 February 2011, p. 5.

18 Ms Sue Pinkerton, *Committee Hansard*, 1 February 2011, p. 55.

19 Ms Jo Flanagan, *Committee Hansard* 18 February 2011, p. 25.

governmental sense to introduce some measure of regulation. We do it for cars, we do it for guns, we do it for food—anywhere there is a potential for some harm, government generally sees it as being appropriate to regulate.²⁰

3.19 Associate Professor Linda Hancock commented on why she believes EGMs are potentially dangerous:

I think with technological innovation, if we go on the past to inform the future there is definitely a risk that they will become more dangerous. They are potentially dangerous because the harm depends on someone walking through the door of a premise and then someone staying and becoming in usual terms a regular player. There are not many recreational products where you have to be careful of partaking of them on a regular basis. That is why the Productivity Commission and many of submissions to that report and much of the research over the last 10 to 15 years has been coming up to that point. That then I think invokes the national need to consider product safety as part of a Commonwealth jurisdictional focus.²¹

3.20 Ms Pinkerton provided her view on whether the machines are dangerous:

Gaming machine programs are purposely designed to addict. When they were legalised and introduced into South Australia, the industry did not provide research on the impact of problem gambling but they did say that problem gambling would increase and they offered funding to assist in the treatment of problem gamblers that they knew their machines would cause. In effect, the industry knew—they had to know—that there was a problem somewhere with their product: it was addictive, entrapping, harmful and dangerous.²²

3.21 Ms Pinkerton added:

According to Mark Dickerson, when he spoke at the NAGS [National Association for Gambling Studies Australia] conference in Canberra in 2004, after half an hour of continuous play, the average gaming machine consumer has made some 350 different spending/betting decisions. The fact that human decision-making processes do not happen as rapidly as the finger can tap and machines can spin, display a result, be ready to accept the next bet and offer the next win makes gambling on these machines a particularly deadly form of gambling. As a result of the machine features, overspending is common and, according to research, it occurs in over 50 per cent of gambling sessions on the machines. Also, this occurs whether the gambler is a problem gambler or not.²³

20 Mr Alan Moss, *Committee Hansard*, 1 February 2011, p. 23.

21 Associate Professor Linda Hancock, *Proof Committee Hansard*, 2 February 2011, p. 2.

22 Ms Sue Pinkerton, *Committee Hansard*, 1 February 2011, p. 56. Dr Kerry Chambers from Gambling Awareness, Nova Scotia also highlighted the dangerous nature of EGMs, see Dr Kerry Chambers, *Proof Committee Hansard*, 25 March 2011, pp 7–8.

23 Ms Sue Pinkerton, *Committee Hansard*, 1 February 2011, p. 56.

3.22 Ms Pinkerton mentioned the negative response from researchers when she has asked them to play EGMs for research purposes:

Interestingly enough, I have asked a few researchers if they would come with me to a pokie venue and I have said, 'I'll fund your gambling. I want you to come with me and play the pokies for three hours every day for the next two weeks.' Every single one of them said no. I ask them why not and they said, 'Because I'll have a problem at the end.'²⁴

3.23 Mr Tom Cummings, a former problem gambler, expressed his view on whether EGMs are safe:

This is simple misdirection; an attempt to deflect the blame and the public scrutiny from the industry to the players. There is growing evidence that poker machines are designed in such a way as to encourage addiction amongst those who are vulnerable.

This smacks of the "guns don't kill people" argument. Just because the majority of the population would probably be responsible gun owners is no reason to allow widespread access to weaponry. Similarly, just because the majority of the population aren't poker machine addicts does not mean they are harmless.²⁵

3.24 Ms Jo Flanagan, Anglicare Tasmania, stressed that their organisation has focussed their advocacy 'around EGMs because we believe it is a particularly pernicious form of gambling'.²⁶ Dr Jamie Doughney emphasised what he believes to be the overarching principles:

...the harm caused by poker machine gambling and poker machine addiction in our society is severe, and I have set out some of the suicide statistics that illustrate that. It is severe because it is concentrated; it is concentrated, as the Productivity Commission report said, on a relatively small number of people who experience gambling problems, and it is concentrated because that small number of people provides somewhere between 40 and 60 per cent of the revenues in this industry. That creates, to my mind, an unconscionable burden for the continued existence of this industry in the form in which it has operated hitherto.²⁷

Understanding the psychophysiology

Classification of pathological gambling

3.25 Professor Malcolm Battersby explained the diagnostic criteria used to assess problem gambling are under review. The fifth edition of the Diagnostic and Statistical

24 Ms Sue Pinkerton, *Committee Hansard*, 1 February 2011, p. 65.

25 Mr Tom Cummings, *Submission 113*, p. 3.

26 Ms Jo Flanagan, *Committee Hansard*, 18 February 2011, p. 10.

27 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, p. 45.

Manual of Mental Disorders (DSM)²⁸ moves pathological gambling from impulse-control disorder into the classification 'addiction and behavioural addictions'. He explained this process:

There are these large American committees that debate all of these things, whether they move and so forth, and they do it based on evidence. So there is now a lot of biological evidence from brain scans, PET scans, genetic studies and so forth that show that pathological gamblers have similar profiles to other addictions in their brain chemistry, brain reactivity and so forth.²⁹

3.26 He described the development of the view being taken:

From a clinical point of view we would say, and have already been thinking like this for the last 15 years, that this person has an uncontrollable urge to gamble in the same way that someone has an alcohol or drug addiction and that they should have the same considerations by society, including in the legal system, which currently does not recognise it as an addiction. Most people who have a gambling addiction who commit a crime are still jailed, whereas they would put someone else with an alcohol or drug addiction on a diversion program. A Victorian barrister recently asked me, 'Why isn't pathological gambling considered an addiction and a reason to have consideration for sentencing in legal situations?'³⁰

3.27 Professor Battersby described what the re-classification means for treatment:

We already treat people with problem gambling as having an addiction, but a lot of helping agencies around Australia do not. They often provide general counselling, financial support and social support, and they do not really treat it as an addiction. That makes a huge difference to your clinical thinking about what you offer to somebody in terms of therapy.³¹

The positive side of it is that the treatments we have been developing actually result in what some of our clients call a cure. They really believe they have been cured of their gambling addiction because they have found a way of extinguishing the urge to gamble. We are just about to start a randomised controlled trial with Professor Robert Ladouceur, a Canadian professor who has developed a cognitive program. We are going to compare our behavioural program versus the cognitive program, and that is being funded by the Victorian government.³²

28 The DSM is published by the American Psychiatric Association and provides a common language and standard criteria for classifying mental disorders. The fifth edition is currently in consultation and due to be published in 2013.

29 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 58.

30 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 58.

31 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 58.

32 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 58.

How can a poker machine facilitate an addiction?

3.28 EGMs are a game of chance and deliver an unpredictable result to the player. Yet people can come to believe that something they do will influence the outcome. Are there elements in the design of the machine which contribute to this? According to many of the expert witnesses there are. Professor Battersby described how the design of a machine can facilitate an addiction:

Basic first year psychology talks about conditioning—Pavlov’s dog right through to Skinner and his box and so forth. We know that human beings can change their behaviour or have their behaviour reinforced in ways that are not productive, through a conditioning model. Machines are designed around conditioning—simple as that. They are designed to increase a behaviour—in this case, putting money in a machine. There is about 50 years of research to show that human beings respond, they change their behaviour, if the reinforcement is intermittent, variable ratio reinforcement. Put in plain person’s language, that means you do not know when the reward is going to come and you do not know the amount of the reward. If I were to say to you, ‘Every five times you press that button, you will get \$5,’ after a while you would get sick of it, even though you were getting regular money. There is no excitement; there is no reinforcement. It is a strange paradox.³³

3.29 Dr Charles Livingstone also spoke about the conditioning aspects of EGMs:

A whole number of design features are incorporated in all poker machines. They have been designed very carefully over a number of years. Work in the United States by Natasha Schull of the Massachusetts Institute of Technology has gone into great detail about the design structures of these machines and how they are constantly being innovated. Essentially, what the machines do is utilise a random reinforcement schedule based on principles of operant and classical conditioning to provide people with intermittent reinforcement, which is very hard to extinguish. Once you start playing a machine, you become attuned to the random reinforcement. You know you are going to win something, you do not know when and, in some cases, it can be quite infrequent. There are different styles of machines which deal to different markets. The basic feature of a gaming machine which makes them, I guess, dangerous as consumer products is this reinforcement—the operant and classical conditioning principles based on the work of BF Skinner, who analysed it in animal studies.³⁴

3.30 Dr Livingstone explained that machines provide both classical and operant conditioning. Classical conditioning is demonstrated by the classic Pavlov dog experiment where a bell rings and the dog salivates as it expects food. Operant

33 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 62.

34 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 32.

conditioning is where intermittent reinforcement rather than regular reinforcement is provided as with EGM wins.³⁵

3.31 Professor Battersby described the physical and emotional responses that can be aroused by poker machine playing:

Human beings and animals have that basic ability to change their behaviour—or a machine has the ability to change their behaviour. What we did not really understand is that one of the facilitators of that is what we now call an uncontrollable urge. People say: ‘When I first started going to the machines, it was exciting. I had this really positive feeling.’ The sympathetic nervous system is activated, your heart rate goes up, your breathing gets a little bit faster and maybe there is a little bit of sweat. So it starts off being a positive experience, but after a while it becomes a really negative, aversive experience. Putting the money or tokens into the machine actually reduces that aversive experience and so it gives people temporary relief. They go, ‘That’s great!’ but what they do not realise is that it actually reinforces the urge for the next time they might have a gambling trigger. That is the oldest bit of psychology research in the world.³⁶

3.32 Research from Canada has identified nine attributes which reinforce the intermittent reinforcement or conditioning. One of these is a near miss³⁷ which results in a higher level of arousal. This high level of arousal for some can become an uncontrollable urge. Professor Battersby told the committee that unfortunately behavioural science has not progressed to the point where it can know which players will develop a problem. However, ‘30 to 40 per cent of regular players in a gaming venue are hooked, so it is not a small number of regular players and it can have quite a devastating effect’.³⁸ He noted that some people can become hooked after a one-off win and described the following case:

The first patient I ever saw was a Chinese woman who did not like gambling; in fact, she came here and it was a machine at one of the venues in Canberra. She was taken on a big night out by her friends to celebrate her birthday. She pressed that button and won \$300 or \$500. There was noise and excitement and people were rushing around and patting her on the back. She woke up the next morning thinking, ‘I’ve got to go back.’³⁹

3.33 For others it can take weeks or months to develop the uncontrollable urge to play. Professor Battersby indicated that the uncontrollable urge to play is combined with the desire to win back losses and he suggested that the design of a pre-

35 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 33.

36 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, pp 62–63.

37 A near miss occurs when the spinning icons on the machine appear to almost line up.

38 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 63.

39 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 63.

commitment system needs to take into consideration the wins so they are not just fed back into the machine:

Some would say that here is a non-problem gambler and they are roughly betting the same amount as a problem gambler but, by definition, the non-problem gambler has not been losing money regularly. This person has two powerful motivations to break limits and to go to other venues. There is the urge and there is the three, two, five, 10 or 20 thousand dollars in debt. Even if they do win a bit it is not enough and they have to keep going and win more. That is the second reason why they keep on losing. Even if they win they will put more money back in. So, whatever regulations end up being recommended in the design of a system, whether mandatory or not, they really have to take into account that—and I notice it was mentioned in the report—and the limit itself has to incorporate the wins that have been gained into the limit.⁴⁰

3.34 Dr Doughney spoke of research showing the addictive properties being similar to a cocaine addiction as:

...in a rapidly delivered environment where you have a variable ratio reinforcement schedule what starts to build up in the brain is the expectation of the reward or the experience that comes with the release of dopamine. The result of that is that, when that does not come, the release of dopamine still functions and you start to develop craving symptoms and so forth and a desire to stay experiencing that stimulus. The stimulus of cocaine does that in buckets. Poker machines deliver it in buckets as well.⁴¹

3.35 The addictive nature of EGMs is even noted by the criminal justice system:

The comments by judges, magistrates and academics throughout the research indicated that they believe poker machines should be regarded as particularly addictive and that their accessibility provides people with greater opportunities to gamble.⁴²

Machine design and features

3.36 Witnesses told the committee that along with the introduction of a pre-commitment system, machine safety reforms are also necessary.⁴³ Dr Charles Livingstone outlined the market research that goes into developing the machines and the games:

40 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 69.

41 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, p. 46.

42 Brett Warfield, *Gambling Motivated Fraud in Australia 2008–2010*, Warfield and Associates, 2011, p. 16, http://www.warfield.com.au/Warfield_Gambling_Fraud_08_10.pdf (accessed 16 March 2011).

43 Associate Professor Linda Hancock, *Proof Committee Hansard*, 2 February 2011, p. 5. See also Dr Kerry Chambers, *Proof Committee Hansard*, 25 March 2011, p. 8.

You have to remember that machines are around 100 years old. Aristocrat tells us in its annual report that it spends something like \$120 million a year on research and development, which is a significant amount of money. I presume they are not wasting that money. We can presume that they are doing a lot of work on trialling features which they hope will have success in the marketplace. Remember that success in the marketplace for a gaming machine means getting people who play them to spend more time and more money on those machines.⁴⁴

3.37 Associate Professor Linda Hancock emphasised that it must be remembered that a gambling problem is not just about the actions of an individual, 'it is about an interaction between a product and a consumer' and the design of the machine affects this interaction.⁴⁵ She described how EGMs have evolved so that they are now more enticing:

...the machines have changed immeasurably over the last 15 to 20 years from the old, literal reel machines with the handle to virtual reels now that are totally computerised and give the illusion of actual reels. There are various estimates of how much the industry has spent on research. They have spent billions of dollars on research into finding the successful platform to entice players to stay longer and spend more. The research done by Dr Charles Livingstone and others comes to the point that the successful platform is one with a continuous offering of the product, virtually without the request of the patron. So these machines are becoming faster and faster.⁴⁶

3.38 This was confirmed by former problem gambler, Ms Julia Karpathakis, who emphasised the intensity at which one can play EGMs compared to other forms of gambling:

The pokies are instant. They take everything—if you put it in there, of course. They are magnetic. It is too hard; you have to wait until the evening or the weekend with a lotto ticket, whereas with the pokies the dollar coins do not look like money and your money does not even look real. The lotto is slower; it is not so fierce and people are not so spontaneous with it....⁴⁷

High versus low intensity machines

3.39 The following provides an overview of the differences between high and low intensity EGMs.

44 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 34.

45 Associate Professor Linda Hancock, *Proof Committee Hansard*, 2 February 2011, p. 11.

46 Associate Professor Linda Hancock, *Proof Committee Hansard*, 2 February 2011, p. 2.

47 Ms Julia Karpathakis, *Committee Hansard*, 1 February 2011, p. 10.

High intensity EGMs

3.40 Dr Charles Livingstone told the committee that Australian EGMs are high intensity or high risk machines where there are high price levels and very high bet limits which means you can lose a lot of money very quickly:

...you can put a lot of money into them, you can bet a lot every time you press the button, but they have relatively high prizes and so they are highly volatile...Australian style machines are generally regarded as very high impact by world standards.⁴⁸

3.41 In a more detailed explanation of high intensity machines he stated:

These are games with bet limits as high as \$10 per spin, maximum prizes of around \$10,000 (although linked jackpots permit higher prizes), and 'load-ups' of up to \$10,000...these settings are very high and clearly permit very large sums of money to be expended very quickly—up to \$1,500 per hour...⁴⁹

3.42 Dr Richard Woolley spoke about the tendency for people to bet on multiple lines which allows them to bet large amounts:

It is kind of a very rational and prudential insurance policy. The worst thing that could happen would be to see a win come up on a line that you are not playing. It effectively draws a lot of expenditure for them because you make multiple bets at any instant because you are worried about that effect.⁵⁰

3.43 In addition to allowing large amounts of money to be expended, these high intensity or high risk machines are volatile which means that the average returns 'are rarely if ever achieved' as the outcomes are skewed by the small number of high wins.⁵¹ The volatility of machines is explained in more detail below.

3.44 Dr Livingstone compared the situation in Australia with the United States where high intensity machines are generally limited to casinos and very few jurisdictions allow high intensity machines in local venues. He added that this is also the case in Canada and under British regulation high intensity machines will also be limited to casinos.⁵² Dr Richard Woolley added that in Britain the regulators decided to limit the number of high intensity machines to about 1,000 or fewer for the entire country.⁵³

48 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 31.

49 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 2.

50 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 34.

51 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 2.

52 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, pp 31–32.

53 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 32.

3.45 Professor Battersby stated that he did not believe there were sufficient safeguards on the intensity at which people can gamble on EGMs:

In most states it looks like the machine designs—the spin rates, in particular—have been allowed to go up. There is a link between the denominations of the bet—the one cent or the five cent bet—the lower the denomination, the more likely you are to get that reinforcement and larger number of credits and spin rates of the machines. So when you look at South Australia versus Victoria and overall expenditure on machines, the machines and the numbers have stayed about the same. They have gone down a bit in South Australia but in Victoria the actual expenditure has been going up like that, and the single biggest thing that correlates with that is the increase in the machine spin rates.⁵⁴

Low intensity EGMs

3.46 Low intensity machines on the other hand have low bet limits, low maximum prizes and low load-ups.⁵⁵ These features combine to produce a machine where the losses per hour are significantly less than the losses per hour possible on a high intensity machine.

3.47 Reducing the maximum prize reduces the volatility of outcomes, meaning that the return to players would be more likely to be achieved over a shorter period.

3.48 Reducing the load-up limit to \$20 is likely to be 'an effective complement to this approach, reducing the 'danger' element in such games and rendering them much more entertainment focused.'⁵⁶ The Productivity Commission in its report on gambling also found that reducing the maximum load-up limit 'would have a useful role as a brake on high intensity play' and consequently recommended this level be set at \$20.⁵⁷

3.49 Dr Livingstone and Dr Woolley provided further detail on the financial risks posed by low intensity machines from a study conducted for the South Australian Independent Gambling Authority in 2008 and emphasised that :

In this study we found the average bet on popular low credit value (i.e., 1 and 2 cent) EGMs to be between 33 cents and 79 cents per spin. This means many gamblers bet at considerably higher levels, around \$1 per spin, even on these low credit value machines. Gambling at this level makes average losses of \$120 or more per hour likely for many users. As these broadly

54 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 64.

55 'Load-up' refers to the maximum cash input that can be inserted into a machine at any one time. The load up limit currently varies across jurisdictions, from \$100 in Queensland to \$10,000 in NSW.

56 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 2.

57 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.37, 11.39.

popular EGMs were also popular amongst problem gamblers in our study, there remains a considerable risk of financial harm for problem gamblers if losses can be sustained at such a rate. It is thus important to ensure that parameter values on low risk machines would be set at levels where harm was very unlikely to occur.⁵⁸

3.50 Dr Livingstone provided the committee with findings from further modelling he had undertaken with Dr Kevin Harrigan, where the cost per hour and average session durations of various bet limits were simulated, using an available stake of \$40.⁵⁹ The modelling showed that as individual bet limits were lowered, the cost of play per hour fell, also resulting in longer session times and reduced volatility. He concluded that:

Lowering maximum bets clearly produced a considerable benefit for poker machine users by spreading the distribution of session times towards a greater likelihood of closer to average returns, resulting in longer session time and, importantly, reduced volatility of outcomes. The hourly cost for the 50% of users who achieve at least the median session duration is considerably reduced and is much closer to what many would agree is a reasonable cost for an entertainment product...⁶⁰

3.51 The issue of low intensity machines is further discussed in chapter eight.

High volatility

3.52 Mr Peter Cercone, Chief Compliance Officer, Playtech, a leader in the gambling software technology market in Europe explained high volatility:

...any game that has a high volatility means that there is more mathematical, theoretical chance for a higher than average win than a game that has almost a flat volatility—in other words, a volatility that has many wins of a small nature as opposed to very few wins of an extremely large nature, being a high-volatility game.⁶¹

3.53 Dr Woolley spoke about the volatility of outcomes on all machines which means the results you can expect as a player are very uncertain and this is what makes them for some people so addictive. One dimension of this volatility is time spent playing, which is the amount of entertainment you get for your money:

As the Productivity Commission found, if you walk in with \$30 and you gamble in a standard kind of way, the average time you will get, the average amount of entertainment you will receive, is 13 to 14 minutes, but in more than half of the cases you will only get four minutes. You will go in with a certain expectation, which, as Charles has outlined very well, is

58 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 3*, p. 1.

59 Bet amounts modelled were: \$1.80, \$0.90, and \$0.45.

60 Dr Charles Livingstone and Dr Kevin Harrigan, *Submission 118*, p. 4.

61 Mr Peter Cercone, *Proof Committee Hansard*, 25 March 2011, p. 53.

conditioned by your engagement with the devices, but you will be let down very badly on more than half of the occasions. You will get less than a third of the time you were expecting. Chasing after that time can only be done by spending more money.⁶²

3.54 The other dimensions of volatility are the frequency and timing of wins and losses:

Having a wide band of volatility in the outcomes means that someone can win one very big prize which can make up for a lot of accumulated losses by a lot of other gamblers. It takes a long time for the machines to return the advertised return to players—the lifetime of a machine in some cases.⁶³

Jackpots

3.55 As already mentioned the frequency and timing of winning is highly volatile and this is also the case for jackpots which appeared to be a feature that kept people at the machine longer as the following exchange with a former problem gambler indicates:

Senator XENOPHON—When you were playing the machines, were there any features of the machines, things such as—

Ms Karpathakis—Yes, the jackpots.

Senator XENOPHON—The jackpots?

Ms Karpathakis—Yes.

Senator XENOPHON—Even if it was a small jackpot?

Ms Karpathakis—Yes, because it would build up. You knew it would build up and then eventually, hopefully, you would win it. You would stay on there as long as you possibly could or someone else would get it.⁶⁴

3.56 The excitement generated by jackpots was also mentioned:

The reels kept rolling over and seemed to hesitate just ever so slightly on the big one and just rolling off the big jackpot. I would say to myself ‘keep going, that was so close, you just missed the jackpot’.⁶⁵

3.57 In addition to high maximum bets Dr Livingstone also spoke about high jackpots as another dangerous characteristic of the machines:

If you want to know what the most danger[ous] characteristics of gaming machines are, it would be quite reasonable to say: high maximum bets and high maximum prizes. Those two characteristics create a machine that is

62 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 35.

63 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 35.

64 Senator Nick Xenophon and Ms Julia Karpathakis, *Committee Hansard*, 1 February 2011, p. 15.

65 Pokies Anonymous, *Submission 34*, p. 1.

likely to be much more dangerous than one which has a modest maximum bet and a much more modest prize.⁶⁶

3.58 Dr Richard Woolley told the committee about the Japanese case where their machines were allowed to accumulate jackpots:

In the Japanese case, they found that when they allowed their pachinko machines to become more like our machines—‘pachi slots’, they called them—they had a feature that allowed the accumulation of jackpots. This led to an elevation in the available top prize. As far as the Japanese regulators were concerned, this led to the emergence of a whole new sector of consumers who they described as ‘committed gamblers’. They had not seen that before because their product is actually entertainment—gambling is illegal. Quite simply, they just brought in regulation 5, as they called it, and knocked out the ability to accumulate jackpots and, therefore, lowered the volatility of outcomes, and it went back to being a more standard entertainment product without the feature that we see characterising all of our gaming in pubs and clubs here.⁶⁷

3.59 Jackpots can also be linked across a number of machines. Mr Declan Martschinke, Maxgaming, spoke about the ability of the company to provide ancillary services such as linking a number of machines to display a jackpot above those machines.⁶⁸ Mr Peter Hall, Maxgaming, called this a wide area jackpot.⁶⁹ The Gambling Impact Society (NSW) expressed the view that linked jackpot prizes and individual machine prizes do not encourage recreational play of the machines and recommended that they be banned.⁷⁰ The committee was advised that linked jackpots are not permitted in the Gaming Machines Act in South Australia but there is no such prohibition in the Casino Act.⁷¹

3.60 Even though linked jackpots are indicated as such in the display, there is potential for a player to be confused. A player may not understand what a linked jackpot means and may assume the jackpot displayed on their machine applies to just that machine and not a multitude of others. Even if they understand what a linked jackpot is a player almost certainly would not know how many other machines are linked to it.

66 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 36.

67 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 35.

68 Mr Declan Martschinke, *Proof Committee Hansard*, 3 February 2011, p. 3. Maxgaming, *Submission 19*, p. 9; See also Mr Ross Ferrar, Chief Executive Officer, Gaming Technologies Association Ltd, *Committee Hansard*, 14 February 2011, p. 39.

69 Mr Peter Hall, *Proof Committee Hansard*, 3 February 2011, p. 6.

70 Gambling Impact Society (NSW), *Submission 36*, p. 8.

71 Independent Gambling Authority, *Submission 33*, Attachment A, p. 6.

Other features causing concern

Credits

3.61 Credits refer to virtual money generated by the machine during the game. Credits do not normally appear as a dollar value but as a number, eg. 100 credits which may be as little as \$5.00.⁷² This creates the potential for confusion for players. Mr Stephen Menadue described how the use of credits is not only confusing but makes it difficult to keep track of how much money you have put in a machine:

The amount of money that is actually spent in the form of credits is overlooked, not only by the gambler—because it is not real; its is not passing through their hands—but by those observing the figures and everything else. I may walk into a hotel with \$100. I may put \$100 through, but I may spend \$1,000 in the meantime and not really know, at the end, that I have spent \$1,000, because it has all been in the form of credits on the machine ticking over. I am just playing. Credits are not money. It is not in my hands...I cannot count the amount of times that I was so happy. I might have put a fair bit through a machine, but I was so happy that I had just won 100 credits, which might be only \$5.⁷³

3.62 Apart from the confusion about the true value of credits in dollar terms, there is also the potential for the player to put their wins/credits back into the machine when chasing losses. The committee was pleased to see a prototype EGM at Aristocrat which allows players to 'bank' wins instead of allowing them to be accrued as playable credits.⁷⁴

Appearance and sounds

3.63 Witnesses also mentioned the artwork, appearance and sounds of the machines. Some found particular artwork more attractive than others.⁷⁵ Dr Charles Livingstone told the committee:

Some people have studied the symbolism on the machines. We know a machine with particular symbolism in the artwork will be very attractive whereas the same machine with different artwork will be less successful in the market. It is likely that some of the symbolism actually works to provide a greater incentive for people to play the machines.⁷⁶

72 Mr Stephen Menadue, *Proof Committee Hansard*, 18 February 2011, p. 47.

73 Mr Stephen Menadue, *Proof Committee Hansard*, 18 February 2011, p. 47.

74 Aristocrat, *Submission 38*, p. 2.

75 Ms Julia Karpathakis, *Committee Hansard*, 1 February 2011, p. 15.

76 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 34.

3.64 In addition to artwork, research has found that flashing lighting increases irresponsible gambling intentions.⁷⁷

3.65 Problem gamblers also described the importance to them of the appearance and sounds of the machines. Mr Stephen Menadue told the committee:

I guess it was a combination of sight, sound and the excitement of winning.⁷⁸

3.66 He went on to vividly recount the particular conditioning effect of hearing the bell sound associated with 'free games', played on a television commercial:

I believe that, with most manufacturers, the way the free games are announced is with a bell. I remember, close to a year ago, a commercial on television which had a bell in it at exactly the same frequency used in poker machines. Every time I heard this commercial, my heart raced because I suddenly thought, 'Free games'. When you are in the poker machine venue and you hear someone's bell go off, you get jealous because they have got free games. If you get the free games and you happen to be playing a big bet at the time, you can get a lot of money back. The conditioning behind the bell is evil.⁷⁹

Free games

3.67 Dr Livingstone provided detail on EGM wins providing regular reinforcement through particular features. For example, when a player gets a combination of symbols the machine runs a 'feature', typically 'free games'⁸⁰ which are frequently multiplied by two or as much as five. Dr Livingstone stated that

This is a highly desirable 'reward', which people are very motivated to try to achieve. They appear intermittently at random, but nonetheless when they do appear people get very excited and find them very attractive.⁸¹

3.68 Mr Stephen Menadue spoke about his experience with the 'free game' feature:

A lot of manufacturers of poker machines have a bell system and a free game system. Not all the machines have this, but where you get a certain combination on your reels you get entitled to free games, which give you triple the normal winnings during those free games...⁸²

77 K Finlay, H Marmurek, V Kanetkar and J Londerville, *Assessing the Contribution of Gambling Venue Design Elements to Problem Gambling Behaviour*, Toronto, Ontario Problem Gambling Research Centre, 2007, p. 4,
<http://www.austgamingcouncil.org.au/images/pdf/eLibrary/3169.pdf> (accessed 4 April 2011).

78 Mr Stephen Menadue, *Proof Committee Hansard*, 18 February 2011, p. 45.

79 Mr Stephen Menadue, *Proof Committee Hansard*, 18 February 2011, p. 48.

80 The price of which is factored into the overall return to player ratio.

81 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 33.

82 Mr Stephen Menadue, *Proof Committee Hansard*, 18 February 2011, pp 47–48.

Losses disguised as wins

3.69 The committee also heard about a particular feature of concern: 'losses disguised as wins' or 'fake wins'. This is where the amount you win is less than the amount you bet but the machine will respond like a win. For example, you bet \$5 but 'win' back \$2—a net loss of \$3—but the machine tells you it is a win. This provides an enormous amount of positive reinforcement to the player and the loss is disguised:

This leads to what our colleague Kevin Harrigan from Canada has called 'losses disguised as wins', which is an integral design feature of many poker machines. For example, if you are betting on a nine-line 1c machine and you bet on each line—so you bet 9c per spin—if you win 4c the machine will go off as though you have had a prize when in fact you have lost 5c. Kevin's work on Canadian machines—they are called VLTs there, but they are essentially the same type of device—has demonstrated that, as you increase bets and line betting, something like half of the wins you get are in fact losses but they are disguised as wins. So you are getting an incredible rate of reinforcement. It doubles the amount of reinforcement you are getting.⁸³

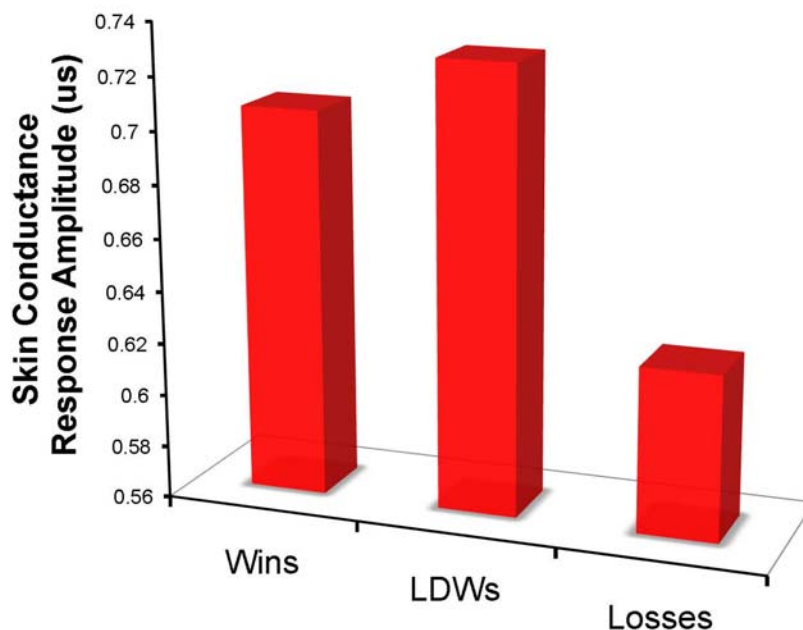
3.70 The following chart by Professor Kevin Harrigan, University of Waterloo, Canada, was provided during a presentation at Monash University in April 2010 and shows that the level of arousal in a player for a loss disguised as a win is even greater than for a win.⁸⁴

83 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 34.

84 Information available from: <http://www.med.monash.edu.au/healthsci/files/monash-lecture-april-2010.pdf> (accessed 25 February 2011).

Losses Disguised as Wins: Our Research Results (Perspiration)

(in press, *Addiction*)



3.71 Professor Battersby also spoke about the deceptiveness of this feature:

That is one of the nine features that is in that Canadian report. The idea that you are winning but you keep losing—that is kind of the idea. The machine tells me that I am winning but every time I look at my credits they are going down. It is a very deceptive system.⁸⁵

3.72 In a study, Professor Alex Blaszczynski et al acknowledged:

It is possible that fake wins sustain interest in and contribute to the addictive nature of EGM play. These results also support the possibility that the inherent arousal in EGM gambling may be the primary reinforcer, with monetary gain serving as a secondary reinforcer.⁸⁶

3.73 It was pointed out to the committee that this feature is severely restricted under Queensland, Tasmanian and Northern Territory regulations.⁸⁷ Mr Ross Ferrar, Chief Executive Officer, Gaming Technologies Association was asked why the feature was not restricted in the other states. Mr Ferrar responded:

85 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 65.

86 Benjamin J. Wilkes, Craig J. Gonsalvez and Alex Blaszczynski, 'Capturing SCL and HR changes to win and loss events during gambling on electronic machines', *International Journal of Psychophysiology*, vol. 78, 2010, p. 271.

87 Senator Nick Xenophon, *Committee Hansard* 14 February 2011, p. 37.

Our members notify players of payouts. What you are suggesting is like someone betting on five of the horses in the Melbourne Cup and spending \$10 each, four of them lose and the other one wins \$1 and not telling the player that he has won \$1 on that. Our members have tackled that by having different intensities, if you like, of payout notification. Where there is a win of say 10,000 credits, you will have a maximum level of sound effects and graphics on the screen to notify the player of that win. Where there is a mid-level, where there is a lesser level—our members have already addressed that.⁸⁸

3.74 Mr Ferrar then stated that his members comply with the jurisdictional regulatory standards.⁸⁹ The committee recognises that jurisdictional standards are not uniform on this issue. The weaknesses of the current national standards is discussed below in relation to consumer protection and in more detail in chapter seven.

Committee view

3.75 The committee believes that the issue of fake wins needs to be addressed through the national regulatory authority which the committee is proposing in chapter six.

Recommendation 2

3.76 The committee recommends that aligning jurisdictional standards on the issue of 'fake wins' be referred to the national regulatory authority (see recommendation 28) with a view to agreeing a national approach.

The illusion of player returns

3.77 Each jurisdiction advertises a return to player (RTP) percentage which is a measure of the value of prizes awarded by a game as a percentage of all bets made. There is a theoretical RTP percentage which is calculated from the mathematical design of the game and represents the expected return from a large volume of game play, the game cycle. The actual RTP percentage is calculated from the metered values of all bets and wins occurring during the life of a game.⁹⁰ So the RTP percentage is unlikely to be relevant for a particular session. The RTP rate is controlled by individual state government legislation but is typically set at around 90 per cent.⁹¹ Dr Charles Livingstone and Dr Richard Woolley explained the RTP in the following exchange which indicated that achieving the absolute return to player might take a million spins:

88 Mr Ross Ferrar, *Committee Hansard*, 14 February 2011, p. 37.

89 Mr Ross Ferrar, *Committee Hansard*, 14 February 2011, p. 37.

90 Information available from:
http://www.olgc.sa.gov.au/default.asp?page=gaming.Games_and_Machines.Web_Site RTP02 1203.htm (accessed 1 March 2011).

91 Responsible Gaming Networks, *Submission 39*, p. 16.

CHAIR— ...Did you say that a machine that makes a big payout might not make another big one for the life of the machine?

Dr Woolley—It is perfectly possible. It is perfectly feasible that a machine that has to conform to RTP over the course of several million spins, which is what it usually takes, could do that by offering its maximum prize once. There is a difference in the way machines are marketed to gaming venues, between what they call drip feeders, which are machines that offer a relatively regular, smaller level of prizes, and the odd machine that is more likely to produce a big hit.

CHAIR—So, with a machine that has a high level of volatility, it is quite conceivable that someone could play that machine for 12 hours and achieve nothing even close to the regulated return in that jurisdiction.

Dr Livingstone—Absolutely.

Dr Woolley—Certainly. That is definitely the case.

Dr Livingstone—Achieving the absolute return to player might take a million spins. Even getting close to the return to player might take a million spins or so, regularly.

CHAIR—So a player could conceivably go in every night for a week and lose the lot?

Dr Livingstone—Absolutely. They could go in every night for a year—

CHAIR—And lose the lot?

Dr Livingstone—Yes. And they usually do.

Dr Woolley—The other point about that is that, because of this volatility, there is no real way to develop a sound understanding of price—of what you are getting for a certain amount of money. That is very unusual in any consumer market, to find that discrepancy between what your return will be for what you are going to pay.⁹²

3.78 Professor Battersby told the committee that people can think the RTP percentage means the return to them from a machine for a day when it can be over the lifetime of a machine.⁹³ He summarised the difficulties for players to understand the odds:

The Canadian report, basically, says that the electronic gaming machines are pretty well the only form of gambling where the player does not really know what the rules are behind the game. You go to blackjack, roulette or even on the horses, you know you have got a one in six chance of winning—or whatever it is—whereas, for the machine design there are all these features about the machine that you have no real understanding of. Most people do not understand how the machines actually work. They see the headline ‘eighty-eight cents in the dollar’ and think that there is a good

92 Mr Andrew Wilkie MP, Dr Charles Livingstone and Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 36.

93 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 64.

chance they will win. They do not realise that 88c is won by somebody over the other side of Adelaide who has won \$2,000 and they are actually going to lose in order to support someone else's one-off win.⁹⁴

3.79 The Productivity Commission also highlighted that the RTP percentage is not clearly understood:

...it is not clear that players are aware that a higher return to player implies a lower expected cost of play per hour, and that the differences can be significant. An EGM that pays 87 per cent return to player costs 13 per cent of turnover on average to play and is therefore 60 per cent more expensive to play than one that pays 92 per cent (where the cost is 8 per cent). Thus the return to payer percentage can make a substantial difference to the cost of play and the amount of time that a given stake will last.⁹⁵

3.80 Although the committee did not receive information from jurisdictions on information campaigns the committee understands that jurisdictions have undertaken public awareness campaigns on gambling issues.⁹⁶ However, the introduction of pre-commitment provides a valuable opportunity to reinforce information about the costs of playing an EGM and broader information on gambling. The committee notes and supports the suggestions of the Productivity Commission in this regard.⁹⁷

Recommendation 3

3.81 The committee recommends that the public information campaign on pre-commitment (referred to in chapter six) include other messages connected to pre-commitment including clear and simple messages explaining the Return to Player percentage and the warning signs of problem gambling.

What do the current national standards say about consumer protection?

3.82 Witnesses were concerned about the national standards for a number of reasons. One was that the current national standards cover only technical issues and do not include consumer protection measures. Dr Charles Livingstone detailed his concerns with the current national standards:

An issue we believe needs to be comprehensively addressed in any national reform of the industry is the establishment of real national technical standards. At the moment there is a set of national technical standards but these appear to have been retrofitted to what people were doing prior to their implementation. I think we have had regulators tell us that that is how

94 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 65.

95 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 8.18. See also Sarah Collerton, 'Pokies should show odds of losing', *ABC News online*, 8 October 2010.

96 See Convenience Advertising, *Submission 100*, pp 6–12.

97 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 8.24.

they came into being—they looked at what was happening now and decided to regulate it to that level. That means that there is no consumer protection focus in those regulations. They do not take into account issues of consumer safety or protection; they simply go to technical issues, by and large. In fact, I think almost universally they go to only technical issues.⁹⁸

3.83 Dr Richard Woolley added:

We have argued for a long time that the Australia-New Zealand gaming machine standards should incorporate as one of the objectives in the innovation process the issue of consumer safety. At the moment it is left outside of the main framework and it is up to individual states and territories to attach those kinds of objectives as an appendix.⁹⁹

3.84 Dr Woolley told the committee that the current parameter settings for machines were developed in an ad hoc way from what was already in place and Dr Livingstone added that they are not uniform across Australia as they 'vary wildly from state to state'.¹⁰⁰ The national standards are discussed in more detail in chapter seven.

Conclusion

3.85 Evidence shows that EGMs generate the vast majority of problem gambling and the problems rise with the frequency of playing. In fact the committee notes that due to the reliance on self-reporting and the shame and denial problem gamblers experience this is likely to mean that the numbers of people experiencing problem gambling are underreported.¹⁰¹

3.86 Given the high intensity at which one can play, the availability of EGMs, their ability to condition behaviour and the design features outlined to the committee, the committee supports the view that EGMs are potentially dangerous for some people. Therefore measures to protect consumers and reduce harm are a responsible course of action.

3.87 The losses 'disguised as wins feature' was of particular concern given that this has been recognised and action in this area has already been taken by some jurisdictions. The next chapter will provide more detail about why consumer protection and population health approaches are necessary.

98 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 34.

99 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 35.

100 Dr Charles Livingstone and Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 36.

101 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 63; Tasmanian Gaming Commission, *Social and Economic Impact, Study into Gambling in Tasmania – Policy Responses*, Report to the Treasurer, October 2008, p. 5.