Chapter 8

Catering for recreational and low level players

8.1 Chapter three provided an overview of high and low intensity EGMs. The settings of a high intensity machine which allow substantial cash load up, high bet limits, fast games and big jackpots result in a high level of volatility and the likelihood of big losses. Mandatory pre-commitment will help protect gamblers playing these high intensity machines.

8.2 While no EGM is without danger, low intensity machines on the other hand could be configured to reliably limit player losses. This would provide a lower risk gambling environment which is closer to a recreational activity. Occasional and low level players would notice no difference to their playing experience because the game parameters would be the same as what they normally play and the machines would be outside the mandatory pre-commitment system. The committee is drawn towards providing a greater role for low intensity machines, configured to limit losses, to provide venues and players with a greater level of choice. This is further detailed below. However, first the option of a temporary low-value pre-commitment card which was suggested as an alternative to low intensity machines, will be discussed.

The option of a temporary pre-commitment card[1]

8.3 The option of a temporary, low-value card for occasional players for those who may play EGMs only once or twice a year was raised.[2] Mr Alan Moss, Independent Gambling Authority, SA, supported such an option for occasional players:

> There will be other people who perhaps play only occasionally who might choose to get a card or who might choose, on the particular day they go, to get a temporary card for that day.[3]

8.4 Associate Professor Paul Delfabbro noted that one-off low-value cards are already available in NSW:

> So around the world there are those ticket-in type cards that you can buy—New South Wales has them—where you can just buy a $5 card, use it once and that is it, where you make no undertaking to play more regularly to get bonus loyalty points from playing EGMs.[4]

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1 This is also discussed in chapter six.

2 Whether this would be a magnetic card, a smart card or some other manual card was not specified.

3 Mr Alan Moss, *Committee Hansard,* 1 February 2011, p. 31.

4 Associate Professor Paul Delfabbro, *Committee Hansard,* 1 February 2011, p. 69.

8.5 The Productivity Commission also indicated its support for a temporary low-value card, seeing it as an attractive option for recreational players but not for regular gamblers:

> ...it is in fact designed not to allow regular heavy-use gamblers to be able to use lots and lots of these sorts of little cards. It is specifically for that group of recreational gamblers who have a low-level spend. Those that have a more regular spend which is of a higher nature—those who are all high-risk and problem gamblers—do not spend $20 at a time but much more than that and they would end up in the precommitment system. It is designed for that to happen.[5]

Committee view

8.6 The committee notes that the Productivity Commission also saw low intensity machines as a credible alternative to a temporary low-value card.[6] Given the evidence describing the addictive features of EGMs in chapter three and the following arguments emphasising the need to make changes to machine design, the committee is attracted to low intensity machines over a low-value card. This is described further below.

The need for structural change

8.7 In addition to supporting mandatory pre-commitment, a number of witnesses raised the issue of introducing complementary machine design changes. Dr Jamie Doughney for example saw the need for a two-pronged approach, which involves providing consumers with the power to make more rational and considered decisions, which includes measures such as pre-commitment. This approach would also involve changing the structure of the machines to make them less dangerous, including reducing the speed of play or lowering maximum bets.[7]

8.8 Professor Malcolm Battersby also spoke about changing the design elements such as spin rates and recommended that along with pre-commitment, more should be done by governments in this area.[8] As well as supporting the introduction of mandatory pre-commitment Dr Charles Livingstone also spoke about the need to address machine design to reduce the amount of expenditure that is possible for players to lose:

> It is important to distinguish between, on the one hand, problem gambling and, on the other hand, the harm created by problem gambling. A problem gambler who cannot spend a lot of money may still have a problem in the sense that they are preoccupied with gambling, but if they cannot actually

5 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 51.

6 Productivity Commission, *Proof Committee Hansard*, 25 March 2011, p. 21, 24.

7 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, pp 46–47.

8 Professor Malcolm Battersby, *Committee Hansard*, 14 February 2011, p. 59.

> spend vast sums of money on high-impact machines—or, at any rate, their rate of expenditure is substantially reduced or slowed—the amount of harm done by that person's problem is reduced. We would argue that both sides of that equation need to be addressed if you are to have a solution that is as complete as possible. But that does not mean that just because we can only address some part of the problem we should not do that, because precommitment is undoubtedly going to have many benefits for many affected individuals and prevent people from developing gambling problems.[9]

8.9 Dr Charles Livingstone and Dr Richard Woolley summarised their shared view that the 'ideal model would combine compulsory, universal, effective precommitment with structural change of machines. So that is a seatbelts and airbags model'[10] to provide the maximum level of protection to all consumers. Dr Woolley described pre-commitment as being the most direct way of eliminating the stream of income from problem gamblers from the market. However, he emphasised that this should be implemented along with changes to the design of EGMs which would slow the rate at which players lose money. He added that this is connected to sustainability of the industry, citing the common view expressed by many in the industry that they do not wish to receive a single dollar from problem gamblers.[11]

8.10 Dr Jamie Doughney argued that supplying potentially harmful products, EGMs, should not be an unfettered right; EGMs should be made as safe as possible:

> All of this points to the fact that we have before us a harmful product and an addictive product for many of the people who use it regularly. Again, that means that we should look at the responsibility question, as we do with other harmful products, not only through the user's perspective but also through the perspective of the supplier. The responsibility question that we should ask—which I set out on page 5 of the submission that I presented to you—is: we must ask whether the supplier should have an unfettered right knowingly to supply the dangerous or harmful product and in consequence share in the full responsibility for the harms that result. We do this with many products that serve a useful purpose in our society—a useful purpose that however is constrained, restricted and made safe, or at least as safe as we can possibly make it, by the way we regulate the supply of those products. Gambling is in that category and therefore, because of the unconscionable burden, the duty to protect those who are problematic gamblers overrides any other question, for example, about facility, revenue of venues and so forth.[12]

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9 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, p. 40.

10 Dr Charles Livingstone, *Proof Committee Hansard*, 2 February 2011, pp 39–40.

11 Dr Richard Woolley, *Proof Committee Hansard*, 2 February 2011, p. 40.

12 Dr Jamie Doughney, *Proof Committee Hansard*, 2 February 2011, pp 45–46.

8.11 The Victorian Interchurch Gambling Taskforce suggested making some EGMs available that operate in 'safe' mode[13] which may or may not be pre-commitment enabled. If not pre-commitment enabled, then these machines could only be operated in the 'safe' mode.[14]

8.12 In their 2010 report into gambling the Productivity Commission explored the concept of an 'airbag' EGM as an alternative strategy to minimise the losses from EGM play. The type of machine the Commission envisaged had a range of harm limiting features including increasing the 'return to player' to 100 per cent and limiting the volatility of the machines. In their model, these 'progressive' features of the machine would be activated by the insertion of a player loyalty card.[15] In evidence to the committee, the Productivity Commission also noted that low risk machines could be an alternative to the low-value card they envisaged for occasional players.[16]

Low intensity machines

8.13 Submissions argued that low intensity EGMs that are specially configured[17] be considered as part of an overall strategy to reduce harm. Dr Charles Livingstone and Dr Richard Woolley suggested these low intensity EGMs be considered, particularly for smaller venues:

> It is possible that EGMs could be configured to allow for both low and high intensity modes of operation, depending on whether the user utilised a pre-commitment system or not. However, it would be feasible to permit small venues to operate only low impact EGMs and thus escape the necessity of pre-commitment.[18]

8.14 The advantages of low intensity machines with modified parameters which significantly reduce losses were listed:

> Such a game would conform to its average returns more closely than highly volatile games currently deployed throughout local clubs and pubs in Australia. At present, it is readily possible to lose $400 over the course of around 20 minutes poker machine use in all relevant Australian jurisdictions. Low-risk games, however, would require a user to devote an average of 7 hours to such a level of loss. Clearly, such a system would

13 A maximum loss limit of around $20 per hour. Victorian InterChurch Gambling Taskforce, *Submission 35*, p. 6.

14 Victorian Interchurch Gambling Taskforce, *Submission 35*, p. 6.

15 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.39–11.40.

16 Productivity Commission, *Proof Committee Hansard*, 25 March 2011, p. 21, 24.

17 EGMs can be characterised as high or low intensity. A low intensity machine is configured for play at a lower intensity, for example by employing a slower 'spin rate', or allowing lower bet limits. See chapter three for further discussion around low-intensity machines.

18 Dr Charles Livingstone and Dr Richard Woolley, *Submission 26*, p. 5.

> impose a much reduced burden of harm on users who wish to make use of poker machines...[19]

8.15 Dr Livingstone and Dr Woolley suggested that a low intensity machine with appropriate intensity limiting parameters could operate outside the mandatory pre-commitment system as:

> It is very unlikely (based on research undertaken on modified poker machines in 2001, commissioned by the poker machine industry) that recreational or 'entertainment' pokie gamblers would notice much difference about the machines – except that they would provide them with a more regular experience of entertainment in a greatly risk-minimised environment.[20]

8.16 The Productivity Commission also agreed that low intensity machines were an alternative to the low-value card they had envisaged for occasional players:

> The alternative of that is they have access to a low-level intensity machine. There are a bank of machines which play at a different rate and they are controlled so that the amount of expenditure is quite low. Most recreational gamblers may not enter the precommitment system.[21]

8.17 The committee heard that it should be possible to run EGMs which offer both high intensity (with mandatory pre-commitment) and low intensity modes of operation as EGM stock is replaced.[22] Dr Livingstone and Dr Woolley also suggested that eventually all EGMs should offer pre-commitment capability, even low intensity, to provide players maximum control over their gambling.[23]

Lower maximum bets

8.18 The committee heard evidence that lowering the maximum bet on EGMs could reduce harms. The Productivity Commission argued that current bet limits are set too high to constrain the spending of problem gamblers.[24]

8.19 Currently, how much can be bet on each game and how fast the EGM can be played varies across jurisdictions. In some jurisdictions games can be played as fast as

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19 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, pp 2–3.

20 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 3.

21 Mr Robert Fitzgerald, *Proof Committee Hansard*, 15 February 2011, p. 50. This view was also repeated to the committee on 25 March 2011, *Proof Committee Hansard*, 25 March 2011, p. 24.

22 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 3; Productivity Commission, *Proof Committee Hansard*, 25 March 2011, p. 21.

23 Dr Charles Livingstone and Dr Richard Woolley, *Supplementary submission 2*, p. 3.

24 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.24.

the button on the EGM can be pushed.[25] With maximum bet limits currently set at between $5 and $10 per game this means hourly losses can be excessive. The average loss on a machine which allows a game to be played every three seconds with a maximum bet per game of $10 is around $1,200 per hour. In comparison, the average loss on a similar machine with a maximum bet of $1 per game is around $120 per hour.[26]

8.20 The Productivity Commission argued there was a strong *prima facie* case for lowering the maximum bet limit. This limit should be low enough to constrain the spending of problem gamblers but not so low as to affect the enjoyment of recreational gamblers.[27] As EGMs are marketed as recreational devices, it argues, the cost of playing them should reflect this.[28] This would also bring them into line with the UK and New Zealand where maximum bet limits have been reduced. Most categories of machines in the UK now have a maximum stake of £1, whilst in NZ it is $2.50.[29]

8.21 Dr Charles Livingstone and Dr Kevin Harrigan provided the committee with modelling on lower bet limits which confirmed that harms were reduced the lower the bet limit was set.[30]

8.22 The Productivity Commission pointed to a study by Professor Alex Blaszczynski[31] as further evidence that lower bet limits would reduce harms to problem gamblers. The study found that problem gamblers were more likely to place bets in excess of $1. The study looked at the effectiveness of various machine modifications[32] and found that of those proposed:

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25 NSW, NT and ACT do not set limits on the speed of play. Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.7.

26 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.7. Reducing the speed of play to every 5.5 seconds would reduce losses on a $1 bet to $65 per hour.

27 Productivity Commission, *Gambling*, vol.1, Commonwealth of Australia, Canberra, 2010, p. 11.21.

28 Productivity Commission, *Gambling*, vol.1, Commonwealth of Australia, Canberra, 2010, p. 11.23.

29 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.23.

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

31 Alex Blaszczynski, Louise Sharp, Michael Walker, 'The assessment of the impact of the reconfiguration on electronic gaming machines as harm minimisation strategies for problem gambling', Report for the Gaming Industry Operators Group, University of Sydney, Sydney 2001, http://www.psych.usyd.edu.au/gambling/GIO_report.pdf (accessed 12 April 2011).

32 The study looked at a range of parameter limiting measures for EGMs, including reducing the spin rate, limits to note acceptors and reducing the maximum bet to $1.

> ...reducing the maximum bet size would produce the intended benefits with no evidence of unintended negative consequences.[33]

8.23 The findings from this study confirm analysis from the Productivity Commission that few recreational gamblers stake more than $1 per game. In fact 88 percent of recreational gamblers stake less than this amount, but at-risk and problem gamblers are more likely to stake over $1.[34]

8.24 The Commission concluded that a bet limit set around $1 would strongly target problem gamblers[35] while recreational gamblers would not notice the lower bet limit as they 'typically bet at low levels anyway'.[36] Consequently, the Commission recommended that all new machines be capable of being played with a maximum bet limit of $1 per button push, with this feature being activated on all EGMs in 2016.[37]

8.25 Witnesses with whom the committee spoke also supported a $1 bet limit. Associate Professor Linda Hancock drew the committee's attention to the Productivity Commission's recommendation of the $1 bet limit, and argued:

> Precommitment needs to acknowledge that you are not going to be able to really help the people who are at moderate risk or at grave risk or in the zone. So what you need to then consider, in my view, are the products themselves and the environments that they are in. That then brings in the $1 per button press.[38]

8.26 Professor Alex Blaszczynski also agreed:

> Reducing the maximum bet would have an impact on some problem gamblers. The question is how large an impact it would be.[39]

8.27 Dr John Falzon, St Vincent de Paul Society, concurred:

> ...there are strong grounds to lower the betting limit to around $1 per button push instead of the current $5 to $10...[40]

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33 Productivity Commission, *Gambling,* vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.15.

34 12 per cent of recreational gamblers spent more than $1 per button push; compared to 22 per cent of low risk gamblers, 31 per cent of moderate risk gamblers and 50 per cent of problem gamblers. Productivity Commission, *Gambling,* vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.12.

35 Productivity Commission, *Gambling,* vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.28.

36 Productivity Commission, *Gambling,* vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.20.

37 Recommendation 11.1. Productivity Commission, *Gambling,* vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.29.

38 Associate Professor Linda Hancock, *Proof Committee Hansard,* 2 February 2011, p. 5.

39 Professor Alex Blaszczynski, *Proof Committee Hansard,* 4 February 2011, p. 44.

8.28 In her evidence to the committee, Ms Margie Law, Anglicare Tasmania, saw the $1 bet limit as being part of a larger strategy involving pre-commitment:

> ...doing harm minimisation measures that improve lighting or put a clock in the room are still very important but they are not likely to reduce the amount of time or money a person with a gambling problem would spend; whereas, $1 bet limit and precommitment are much more likely to reduce the amount of money spent.[41]

Other parameter settings

8.29 Dr Jamie Doughney emphasised the need to address a number of parameter settings:

> The other thing we can do is give people better control on the demand side, not only through increased knowledge but through increased capacity to make rational and informed decisions: bet limits, load-up limits, speed of machines or maximum bets. All of those sorts of things operate on the supply side, and they constrain both what the industry can supply and the product that can be accessed by the gambler.[42]

8.30 The committee heard that reducing jackpot amounts and maximum load-ups[43] along with bet limits would also reduce volatility and harms. Dr Livingstone described high jackpots as one of the most dangerous characteristic of the machines.[44] He and Dr Richard Woolley agreed that a reduced maximum jackpot prize of $500 would reduce the volatility of the game:

> ...reducing the maximum prize to about $500 would reduce the inherent volatility of the game maths of the game, which means that the average rate of return to players would be much more likely to be achieved over the short term.[45]

8.31 Further modelling by Dr Charles Livingstone and Dr Kevin Harrigan shows that with a maximum bet of $0.90, and a maximum prize of $500, the average loss per hour was around $92. They concluded that these parameters:

> ...appear very likely to reduce the harm associated with poker machine use, via significant reduction of costs of use.[46]

8.32 Adding that:

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40 Dr John Falzon, *Proof Committee Hansard,* 14 February 2011, p. 3.

41 Ms Margie Law, *Proof Committee Hansard,* 18 February 2011, p. 10.

42 Dr Jamie Doughney, *Proof Committee Hansard,* 2 February 2011, p. 47.

43 Load-up refers to the amount of cash which can be loaded into the machine prior to commencing play.

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

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

46 Dr Charles Livingstone and Dr Kevin Harrigan, *Supplementary submission 1,* p. 3.

> The public benefits of adopting a low-risk high-risk pre-commitment system would therefore be considerable.[47]

8.33 Restricting the maximum load up, or cash input, was also identified by the Productivity Commission as being part of an effective harm minimisation package.[48] It recommended that cash input be limited to $20, with no further cash allowed to be inserted until credit on the machine falls below $20.[49]

Committee view

8.34 The committee agrees that as part of the approach to reduce the harms from problem gambling, it is necessary to address those design features of EGMs which have created a dangerous product offering a high risk gambling experience. High intensity machines with the possibility of large, but infrequent wins have taken the gambling experience far away from the low risk recreational activity it used to be. Mandatory pre-commitment for all those playing high intensity machines will provide greater protection and control for those who choose to play them. While recognising that no EGM is entirely safe, the committee also believes that increasing the availability of low intensity machines, either on their own or in combination with high intensity machines with mandatory pre-commitment, would provide greater choice for those players seeking a lower risk, more recreational activity. It would also provide greater choice for venues and this is further discussed in chapter nine. The committee recognises that with the introduction of this type of machine it would be prudent to monitor the effects on gambler behaviour, losses and for any unintended consequences such as gamblers playing for longer periods.

8.35 The committee notes the advice of the Productivity Commission and other experts around the appropriate parameter settings for low intensity machines. For example, the recent modelling by Dr Charles Livingstone and Dr Kevin Harrigan that supports the findings of the Productivity Commission that a lower maximum bet limit would result in average hourly losses being reduced.[50] The committee is satisfied that reducing the bet limit will reduce harms to problem gamblers, but will not adversely affect the enjoyment of recreational gamblers, who typically play with lower bet amounts. The committee agrees with expert advice that a bet limit of $1 per game on low intensity machines would appropriately target problem gamblers without diminishing the enjoyment of low level, recreational gamblers.

8.36 In addition to the parameter settings noted by experts and the Productivity Commission above, the committee believes there are other variable parameter settings

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47 Dr Charles Livingstone and Dr Kevin Harrigan, *Supplementary submission 1*, p. 3.

48 Productivity Commission, *Gambling*, vol. 1, Commonwealth of Australia, Canberra, 2010, p. 11.35.

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

50 Dr Charles Livingstone and Dr Kevin Harrigan, *Supplementary submission 1*, p. 3.

such as RTP (Return to Player) percentage that will need to be addressed in order to ensure an average hourly loss for players.

Recommendation 36

8.37 The committee recommends that low intensity machines, configured to reliably limit player losses to an average loss of around $120 per hour, do not need to be part of the mandatory pre-commitment system. Specifically the committee recommends these machines feature a $1 maximum bet limit, a $500 maximum prize and a $20 maximum load up. The use of these machines should be monitored by the national regulatory authority to identify any unintended consequences and the extent to which they contribute to reducing problem gambling prevalence rates.

Recommendation 37

8.38 The committee recommends that the timeline to introduce low intensity machines with the parameters specified in the recommendation above is consistent with the timeline to implement mandatory pre-commitment.

8.39 While the committee expects to see that all new machines coming onto the Australian market would be equipped for mandatory pre-commitment, it is not a requirement for low intensity machines. In addition, the committee will monitor the effects of the reforms proposed in this report.