

CHAPTER 1

OVERVIEW

Internet and interactive gambling offers the prospect, therefore, of an infinitely flexible gaming machine in every Australian household.¹

Introduction

1.1 Online gambling in Australia is a modern industry that is set to grow as quickly as its enabling technology, the Internet.

1.2 There is currently one licensed Australian online casino. However, Internet bookmakers are operating in most States and Territories. Governments across Australia have issued numerous online gambling licences that will bring further growth to the industry. It is expected that other Australian land-based casinos and gambling corporations will soon launch Internet operations.²

1.3 A significant challenge lies in developing strict regulatory models that meet the challenges posed by this new technology. The models should include, at their forefront, features to assist problem gamblers and ensure the highest consumer standards for protecting players. Some of the regulatory models have not yet been tested by actual operations.³ Others have commenced operation but are being reviewed to cope with fresh regulatory challenges.⁴

1.4 The Committee's inquiry into this matter comes at a time when the regulatory models are in their infancy and are open to further significant reforms. The Committee makes numerous recommendations in this Report that regulate the models. A major objective of the proposed reforms is to institute harm minimisation policies and prevent an increase in problem gambling on the Internet.

1.5 The Ministerial Council on Gambling, as referred to in the Prime Minister's press release dated 16 December 1999, and its associated advisory body, could oversee the policy initiatives that are proposed in this Report and promote the continued improvement of the regulatory models.

1 Productivity Commission 1999, *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, Vol. 2, p. 18.12.

2 'Gaming reform a hard nut to crack', *The Age*, 28 February 2000, p. C2.

3 For example, the Queensland model as constituted by the *Interactive Gambling (Player Protection) Act 1998*.

4 The Northern Territory Government will introduce a new regulatory model for interactive wagering in 2000.

Explanation of terms used

1.6 Online gambling refers to two types of activity: (i) online gaming; and (ii) interactive wagering.

Online gaming

1.7 'Online gaming' is where the gambling event is based on a computer program and the outcome is determined by a random number generator. These activities involve no element of skill and include games such as black-jack, poker, lotteries and electronic gaming machines.

Interactive wagering

1.8 'Interactive wagering' is where the gambling event takes place on a physical race track or playing field. The Internet merely provides a new mechanism for placing wagers.

Online gambling in Australia

Types of gambling activity

1.9 The number of games that could generate online gambling is limitless. Any event that has rules and a definite outcome could lead to gambling activity on the Internet. For example, two people could compete with each other on a computer-generated combat game and bet on the outcome. The competitors could be on opposite sides of the world. Bets could be laid on which football team will score the next goal or whether a golfer will sink the next putt.

1.10 The Internet will also change the nature of gambling environments. For example, digital television technology will enable casino-type gambling in the home environment, and hand-held computers will allow people to gamble on their way to and from work.

Number of operators and players

1.11 Approximately 14 corporations are involved in online gambling in Australia. Some of these have been operating for a number of years and have experienced strong growth. Canbet Pty Ltd had a turnover of \$47 million in 1998-99 and expects that figure to almost double in 1999-00.⁵ Lasseters Online advised that between April 1999 and November 1999, it had attracted almost 16 000 players with a turnover of over \$18 million, and that these figures are continuing to grow by more than 75 per cent per month.⁶ Centrebet had a turnover of \$100 million in 1998-99.

1.12 The corporations report that much of their turnover is generated by overseas gamblers. Canbet Pty Ltd estimates that 98 per cent of its clients are based in the

5 Canbet Pty Ltd, Submission 34, p. 216; *Official Committee Hansard*, Canberra, 1 October 1999, pp. 5-9.

6 *Official Committee Hansard*, Alice Springs, 10 November 1999, p. 172.

United States.⁷ Lasseters Online advised that 68.7 per cent of its customers are overseas-based and the remainder are from the Northern Territory.⁸ The Productivity Commission estimates that in 1998-99 nearly 90 000 Australians or 0.6 per cent of the adult population have gambled on the Internet.⁹

1.13 Australian-based operators must compete with their overseas counterparts. Consumers can quickly move to another online casino, for example, at the click of a mouse. There are currently over 500 gambling sites available on the Internet.¹⁰ Some developed countries with established information technology infrastructures, such as South Africa, have indicated an intention to actively compete with Australia for the global online gambling market.

1.14 Currently, Australia is a market leader. For example, Centrebet receives between 20 000 to 100 000 Internet hits daily and is ranked in the world's top five Internet sites.¹¹

1.15 One reason for the success of Australian-based operations is that gamblers are attracted to the credibility associated with Australian regulation. Regulation is the responsibility of the States and Territories, which have developed a world class reputation in this field. Mr Desmond McKee, Manager, Taxation Services, Department of Treasury and Infrastructure, Australian Capital Territory Government, stated that:

Australia has a first-class reputation for regulation of gambling industries. Australia's entrance into this arena is known worldwide, and the rest of the world are watching us to see how we perform. ... If Australia does it properly, and that is certainly the intention, then I believe we will get a fair share of that marketplace.¹²

The regulatory models

1.16 Two types of regulatory models apply to online gambling in Australia – one for online gaming, and another for interactive wagering.

Online gaming

1.17 Online gaming represents a new type of gambling activity, for which new legislation had to be developed. Gaming Ministers from all jurisdictions agreed to a

7 *Official Committee Hansard*, Canberra, 1 October 1999, p. 5.

8 Lasseters Online, Submission 29, p. 161.

9 Productivity Commission 1999, *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, Vol. 2, p. 18.9.

10 A list of gambling sites is provided on www.gambling.com, as at 11 October 1999.

11 Productivity Commission, *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, Vol. 2, p. 18.8.

12 *Official Committee Hansard*, Canberra, 1 October 1999, p. 51.

cooperative model for the regulation of online gaming and on 27 May 1997 released the Draft Regulatory Control Model for New Forms of Interactive Home Gambling. This document states that legislation regulating online gaming:

... will seek to ensure the integrity of industry participants, honest conduct of interactive home gaming, minimise the ... harm caused by problem gambling and the proper accounting of taxes.¹³

1.18 The model contains a number of features that are designed to ensure safe gambling conditions for gamblers. For example, high standards apply for the probity of operators, gamblers can set limits on the amount that they gamble, credit gambling is prohibited, and players can be excluded from gambling sites.

Interactive wagering

1.19 Unlike online gaming, the regulation of interactive wagering is based on existing bookmaking legislation that has been modified to enable wagering over the Internet. In this regard, it is similar in principle to legislation that regulates telephone betting.

Problem gambling

1.20 The Committee considered whether online gambling would lead to a further increase in problem gambling in Australia, and how the regulatory models for both online gaming and interactive wagering could discourage any increase.

The potential for an increase in problem gambling

1.21 The Committee identified a number of 'risk factors' associated with gambling. Risk factors refer to conditions that have the potential to increase the level of problem gambling. In summary, they are as follows:

Table 1.1

Risk factors

Risk Factor	Application to online gambling
Increased number and variety of continuous games	Online gambling provides a range of existing games that are continuous. It also has the potential to introduce new types of continuous gambling opportunities, such as lotteries that are drawn on the hour and betting on mini-outcomes in sporting events.
24 hour access	Online gambling operations never close down.
Increased ease of use of the gambling forms	Online gambling provides a range of games that are very easy to use.
Increased social accessibility	Online gambling does not discriminate between social or cultural groups.

13 *Draft Regulatory Control Model for New Forms of Interactive Home Gambling*, 23 May 1997, <http://www.qogr.qld.gov.au/inthogam.shtml>, as at 13 October 1999, p. 3.

Lack of education and information about gambling habits	A lack of information and education about the social and financial risks posed by gambling increases the dangers of gambling. Also, as the transactions are electronic, players may lose track of the amounts they have gambled and lost.
Low outlays	Online gambling allows for low outlays on games such as one-cent bets on black-jack.
Appeal of technology to the younger population	The young adult population (aged 25 years or less) is most likely to develop problem gambling habits and are also the heaviest users of the Internet. ¹⁴

1.22 Each of these factors must be addressed by the regulatory models in order to effectively control problem gambling. The Committee found that currently, the existing regulatory models fail to adequately address problem gambling. For example, the model for online gaming fails to ensure that gamblers are provided with sufficient information about their gambling activity (such as the odds of winning and the amount that they have won and lost). The Committee also found evidence that player exclusions are not working efficiently.

1.23 Similarly, the Committee found that the models for interactive wagering currently fail to account for the challenges posed by new types of wagering activity. For example, gambling on mini-outcomes, such as whether a tennis player serves an ace on the next point, will lead to increased betting activity where the outcome is based on pure chance. In these cases, harm minimisation policies that apply to online gaming need to be implemented.

1.24 The Committee considered two policy options to address the risk factors and counter the potential for increased levels of problem gambling: (i) a prohibition; and (ii) the implementation of strict harm minimisation policies.

Prohibition of Internet gambling

1.25 A ban would prohibit online gambling operations in Australia, and prevent Australian residents from accessing overseas sites. This is potentially an attractive policy option because it addresses all of the risk factors mentioned above, and would diminish the threat posed by unregulated overseas-based sites that do not provide safe playing conditions.

1.26 A partial prohibition would diminish access to specified online gambling sites. This measure would minimise accessibility and permit limited online gambling activity.

1.27 A prohibition may be able to be implemented using existing technologies. However, it would be costly and difficult to enforce and could be compromised by emerging technologies that bypass the prohibition. This could lead to increased levels

14 Australian Bureau of Statistics, *Use of the Internet by Householders*, August 1999, p. 14; Productivity Commission 1999, *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, Vol. 2, pp. 18.9, 18.18, 18.19.

of gambling with sites that are based in reputable jurisdictions, but do not actively provide harm minimisation policies for problem gamblers. The majority of the Committee believes that a national prohibition is not the best policy option for preventing an increase in problem gambling.

Harm minimisation policies

1.28 A more efficient way to guard against an increase in problem gambling is to introduce further harm minimisation policies that specifically address the risk factors. Table 1.2 summarises the nature of the measures.

Table 1.2

Harm minimisation policies

Harm minimisation policy	Action required
Player and third party exclusions and the identification of problem gamblers	The model for exclusions needs to be improved as there is evidence that problem gamblers are not able to self-diagnose and therefore self-exclude. Similarly, the ability of third parties to identify a problem gambler is severely limited. Online gambling operators must become more proactive in identifying problem gamblers.
Time limits on gambling and the continuity of gambling activity	Limit the speed and duration of gambling activity.
Links to problem gambling information	Provide clear links to problem gambling sites and provide chat-room access to online assistants (refer to Lasseters Online model).
Warnings about the risks associated with gambling	Warnings to be displayed clearly and as part of the logon process.
Advertising	Advertising standards to be introduced that responsibly promote gambling activity and provide clear warnings of the dangers of gambling.
Player manipulation	Ensure that information obtained about people's gambling habits is not used to encourage irresponsible gambling habits.
Public education campaign	National education campaign to be conducted on problem gambling.
Improved customer information - time, odds and financial records	Records detailing the duration of gambling activity, odds of winning and losing, and amounts won and lost, to be provided to the player.

1.29 Each of the policies is discussed in detail in Chapter 3. A heightened level of harm minimisation policies will encourage more responsible gambling habits, and online gambling revenue will not be dependent on problem gamblers.

1.30 Technology currently exists that would assist with the implementation of some of the harm minimisation policies. Smart cards could be used to access all online gambling services and could limit the amount and duration of the gambling. Further, information stored in the cards could be used to identify problem gamblers.

1.31 Harm minimisation policies and the convenience of smart card technology would steer gamblers away from overseas-based gambling sites and their associated risks, and towards Australian sites.

Additional improvements to the regulatory models

1.32 There are other aspects of the regulatory models that should be improved and revised. Table 1.3 summarises the improvements. Each of these is discussed in detail in Chapter 4.

Table 1.3

Improvements to the regulatory models

Issue	Action required
A national cooperative model	The Ministerial Council on Gambling should promote a uniform cooperative approach to the regulation of online gambling in Australia.
Player protection	Measures taken to provide safe playing conditions should apply to all online gamblers. (Currently, different standards apply for interactive wagering and online gaming).
Money laundering	Money laundering on the Internet requires continued analysis at the international level.
Privacy	Standards of privacy as required by the Privacy Commissioner should be maintained.
Security	The security of information such as player data-bases and e-commerce transactions should be continuously monitored.
Access to minors	Minors should continue to be excluded from online gambling and should not be targeted by gambling activity that is designed to appeal to younger markets (for example, gambling activity on computer/arcade games).
Proof of identity	Additional measures should be introduced to ensure that only authorised persons are able to access their own gambling accounts.

Conclusion

1.33 Online gambling in Australia poses a challenge for Australian governments. It exposes Australian residents to potentially dangerous overseas gambling environments where there is limited scope for policy intervention. These overseas environments have an intrinsic attraction for people who seek an outlet for their interest in gambling. The combination of its attraction and accessibility through a medium that is almost impossible to regulate, means that modern measures have to be taken to control it.

1.34 One such measure is to provide the alternative of a safe domestic environment that is subject to a high level of strict regulation and which ensures that the incidence of problem gambling is minimised.

