
OVERVIEW

Key points

- The rapid growth following liberalisation of gambling in the 1990s has given way to more 'mature' industry growth.
 - Total recorded expenditure (losses) in Australia reached just over \$19 billion in 2008-09, or an average of \$1500 per adult who gambled.
- Gambling is an enjoyable pursuit for many Australians. As much as possible, policy should aim to preserve the benefits, while targeting measures at gamblers facing significant risks or harm.
- While precision is impossible, various state surveys suggest that the number of Australians categorised as 'problem gamblers' ranges around 115 000, with people categorised as at 'moderate risk' ranging around 280 000.
- It is common to report prevalence as a proportion of the adult population, but this can be misleading for policy purposes, given that most people do not gamble regularly or on gambling forms that present significant difficulties.
- The risks of problem gambling are low for people who only play lotteries and scratchies, but rise steeply with the frequency of gambling on table games, wagering and, especially, gaming machines.
- Most policy interest centres on people playing regularly on the 'pokies'. Around 600 000 Australians (4 per cent of the adult population) play at least weekly.
 - While survey results vary, around 15 per cent of these regular players (95 000) are 'problem gamblers'. And their share of total spending on machines is estimated to range around 40 per cent.
- The significant social cost of problem gambling — estimated to be at least \$4.7 billion a year — means that even policy measures with modest efficacy in reducing harm will often be worthwhile.
- Over the last decade, state and territory governments have put in place an array of regulations and other measures intended to reduce harm to gamblers.
 - Some have been helpful, but some have had little effect, and some have imposed unnecessary burdens on the industry.
- A more coherent and effective policy approach is needed, with targeted policies that can effectively address the high rate of problems experienced by those playing gaming machines regularly.
- Recreational gamblers typically play at low intensity. But if machines are played at high intensity, it is easy to lose \$1500 or more in an hour.
 - The amount of cash that players can feed into machines at any one time should be limited to \$20 (currently up to \$10 000).
 - There are strong grounds to lower the bet limit to around \$1 per 'button push', instead of the current \$5–10. Accounting for adjustment costs and technology, this can be fully implemented within six years.

Key points continued

- Shutdown periods for gaming in hotels and clubs are too brief and mostly occur at the wrong times. They should commence earlier and be of longer duration.
- There should be a progressive move over the next six years to full 'pre-commitment' systems that allow players to set binding limits on their losses.
 - Under a full system, there would be 'safe' default settings, with players able to choose other limits (including no limit).
 - In the interim, a partial system with non-binding limits would still yield benefits, and provide lessons for implementing full pre-commitment.
- Better warnings and other information in venues would help. But school-based information programs could be having perverse effects and should not be extended without review.
- Relocating ATMs away from gaming floors and imposing a \$250 daily cash withdrawal limit in gaming venues would help some gamblers. But the net benefits of removing ATMs entirely from venues are uncertain.
- Effective harm minimisation measures for gaming machines will inevitably reduce industry revenue, since problem gamblers lose so much. However, this would not occur overnight and the reductions may be offset by other market developments.
- Problem gambling counselling services have worked well overall. But there is a need for enhanced training and better service coordination.
- Online gaming by Australians appears to have grown rapidly despite the illegality of domestic supply. Gamblers seeking the benefits it offers are exposed to additional risks and harms from offshore sites that could be avoided under carefully regulated domestic provision.
 - Liberalising the domestic supply of online poker card games, accompanied by appropriate harm minimisation measures, would test whether managed liberalisation should be extended to all online gaming forms.
- Recently enacted race fields legislation has been the main way jurisdictions have addressed the dual reform challenges of preventing free-riding by wagering operators and facilitating a competitively neutral wagering industry.
 - Should the race fields legislation be unsuccessful in either respect over the next three years, a national funding model should be established, based on federal legislation and with an independent price-setting body.
- The arguments for retaining the exclusive right by the TABs to provide off-course retail wagering products are not compelling.
- Governments have improved their policy-making and regulations with respect to gambling, but significant governance flaws remain in most jurisdictions, including insufficient transparency, regulatory independence and coordination.
 - There is a particular need to improve arrangements for national research.

Overview

Gambling was substantially liberalised in most Australian states and territories in the 1990s. Subsequent years saw not only a surge in gambling expenditure and industry growth, but also adverse impacts on many Australians and their families. The consequent backlash within the community led to the first independent national public inquiry by the Productivity Commission in 1999.

Since then, there have been significant changes in the gambling industry and its regulatory environment, with a greater policy focus on community awareness and harm prevention and minimisation. Notwithstanding this, community and political concerns remain evident. There have also been developments within parts of the industry, which have a more national character than before. The Council of Australian Governments accordingly asked the Commission to conduct a follow-up review, with a focus on problem gambling and the scope to consider other aspects of the industry.

Consistent with this, the Commission has not sought to replicate the coverage and depth of its earlier research, but rather to concentrate on providing evidence-based advice to governments about policies that would improve outcomes for gamblers and the community as a whole. A key challenge is to identify policies most likely to be effective in reducing the harms associated with gambling, while preserving most of the benefits. This is a complex task for public policy. The coverage and design of regulation require particular care to ensure that the benefits exceed the costs, and that account is taken of what is often imperfect evidence.

Gambling is a sizeable industry

Gambling is a common recreational pursuit and an enjoyable one for many. Around 70 per cent of Australians participated in some form of gambling in the last year.

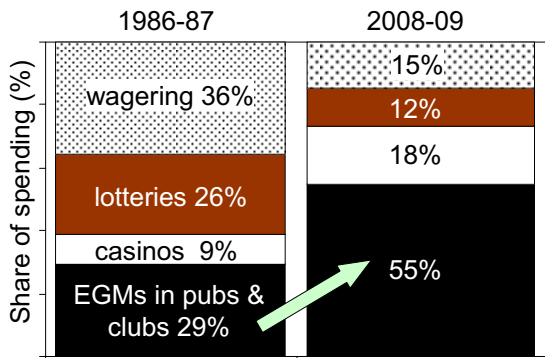
Gambling takes many forms, including Lotto and ‘scratchies’ (the most popular in terms of participation rates, though comprising a relatively small share of spending), electronic gaming machines (EGMs — the ‘pokies’), table games (like roulette and blackjack), wagering and the nascent, but rapidly growing, online gaming.

Gambling is a large industry in its own right (box 1). It is also important for the hospitality industry, given its role as an attractor of customers and revenue.

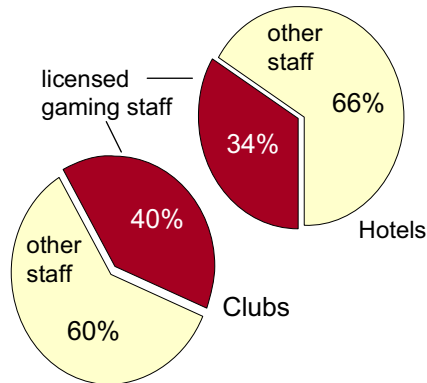
Box 1 Some key facts about the industry

- Total Australian gambling revenue in 2008-09 was just over \$19 billion and the share of household consumption was 3.1 per cent.
- Reliable figures for employment in clubs and hotels are dated. Employment in hotels with gambling was around 65 000 people in 2005, while in clubs with gambling, employment was around 60 000. Industry estimates suggest it would now be around 30 per cent higher. In 2009, around 20 000 people were employed in casinos.
- 5700 pubs and clubs provided gaming in 2008-09. There were also 4500 TAB outlets, 4700 lottery outlets and 13 casinos. The industry structure has changed, with the gaming machine and casino share of spending rising from 40 per cent in 1986-87 to 75 per cent in 2006-07.
- Hotels derived 28 per cent of their revenue from gambling, clubs 61 per cent and casinos 78 per cent.
 - The share for big clubs often exceeds 80 per cent. The 12 biggest clubs in NSW had gaming machine revenue of \$580 million in 2007.
- There were 198 300 electronic gaming machines (EGMs) in Australia in 2009, with 97 065 machines in NSW alone, and only 1750 in Western Australia
 - Annual revenue per EGM was around \$59 700 in 2008-09 with average revenue per venue around \$2.1 million.
 - Annual gaming machine losses per EGM player averaged around \$3700 in NSW; \$3100 in Victoria and \$1800 in Queensland.
- State tax revenue from gambling was \$5 billion in 2008-09 (or 10 per cent of all state tax revenue), with Victoria having the highest tax dependence (13 per cent), and Western Australia the lowest (4 per cent).

The ascendancy of gaming machines



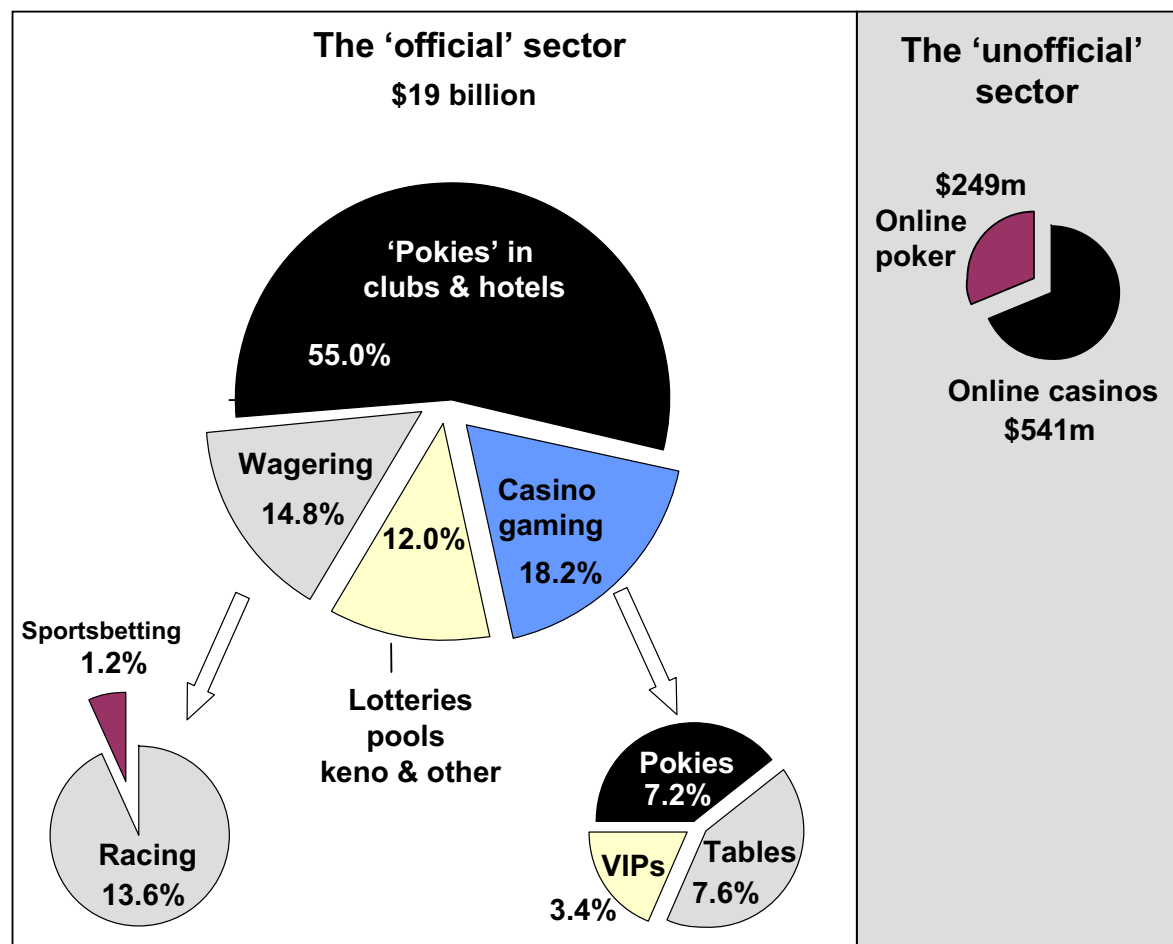
Licensed gaming staff make up a significant share of employment



Gambling is a major employer. That said, it is often hard to determine the staff time and numbers involved in gambling compared with ancillary services (meals, drinks, security, administrative and other services). Nevertheless, just on the gaming side, there were more than 50 000 licensed gaming staff in casinos, clubs and ‘pubs’ in 2005 and this number has probably grown since. Single casinos, like Crown and Burswood, are the largest single site employers in their respective states.

Expenditure can be more accurately estimated, given that it is the base for state and territory taxes. Player expenditure was just over \$19 billion in 2008-09, about the same as alcohol sales (figure 1). That represents around 3 per cent of total final household consumption expenditure, and more than \$1500 for each adult who has gambled in the last year.

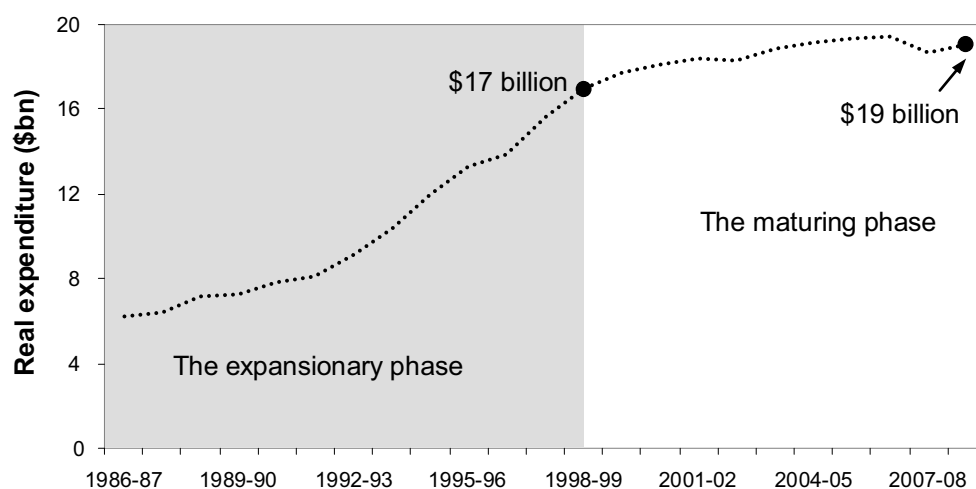
Figure 1 **A multifaceted industry**



EGMs are the dominant source of gambling revenue (figure 1). This is despite the fact that most Australians do not play them at all. (Specifically, 70–75 per cent of adults surveyed indicated that they do not use them in any given year).

The spectacular growth of gambling throughout the 1990s — associated with the sudden liberalisation of gaming machines — has gone, and there is reduced participation across the industry as a whole. Gambling is now a ‘mature’ industry, growing at a rate similar to most other industries (figure 2). The regulatory environment, notably bans on smoking inside venues, has also affected the industry’s growth in recent years.

Figure 2 A ‘maturing’ industry



The aggregate picture masks some important developments:

- A shrinking interest in gambling by some Australians has been partly offset by an intensifying interest by others. Real spending per EGM gambler has grown strongly. For example, in Victoria, average annual spending on gaming machines by those who play them has risen in real terms from around \$1750 per person in 1999 to nearly \$3100 in 2008 (and in NSW from \$2645 to \$3700).
- Casinos increasingly face strong competition in attracting globally footloose ‘high-rollers’ as Asian competitors develop new and expensive facilities.
- Sports wagering has been growing rapidly.
- Online gaming, though invisible in official records, appears to have grown rapidly, and spending could amount to around \$800 million in the most recent year.

Technologies are evolving too. Gambling is already one of the most sophisticated service industries in Australia, deploying (increasingly) advanced information technologies, complex systems for probity checking, and advanced technological developments in gaming machines and online services (underpinned by large R&D budgets). The gaming machine of 2010 differs greatly from that of the early 1990s (and especially the earlier era). There are more features, more networked games,

new graphics, and many more playing styles — as well as significantly increased potential for losses in a given period of play.

The gaming technologies of the future will be substantially different again. New protocols and network systems will provide improved ways of delivering effective harm minimisation, while avoiding many of the costly software and hardware upgrades imposed on venues under current arrangements. And, as gaming converges with the online environment, there is the prospect of new and better gambling experiences for consumers.

Gambling remains an important source of profits and taxes for venues and governments respectively, and this shapes the incentives of both.

- Accounting for changes to GST arrangements, state dependence on gambling revenue has not trended down to any great extent. Gambling taxes still amount to around 10 per cent of state and territory own tax revenue.
- Not surprisingly, as a group, casinos are the most dependent on gambling. However, despite their broader functions in the community, clubs offering gambling also derive the majority of their revenue from gaming machines. Several large community clubs are actually more dependent on gambling than casinos. Hotels offering gaming have roughly half the dependence on gambling revenue as clubs. Many venues have been diversifying their activities to reduce their dependence on gambling revenue.

A unique aspect of the gaming industry (compared with other parts of the entertainment and hospitality industry) is its role in supporting the community, especially sporting activities. All gaming suppliers make community contributions, though many see the Australian club movement as particularly important in this role. As mutual organisations, clubs pay no income tax on mutual income and often are subject to concessional tax rates and higher quotas on gaming machines. For example, NSW clubs with gaming revenue of between one and five million dollars pay 25 per cent tax on this revenue to the government, whereas a hotel with the same revenue would be taxed at 35 per cent. The quid pro quo for this preferential treatment is their role as a source of local community funding and their provision of secure and accessible facilities.

The social contributions by clubs are highly valued by many. However, it also needs to be acknowledged that:

- these contributions tend to be narrowly focused on sports activities and on subsidised benefits for club members. The value of contributions to the broader community is a small share of the value of the tax concessions. Comparisons across jurisdictions with differing levels of club dependence on gaming revenue

suggest that clubs with gambling do not stimulate volunteering or community participation in sport, as is sometimes claimed. Decisions about the allocation of gaming machine surpluses sometimes lack appropriate governance and transparency arrangements

- the lower taxes and other concessions that fund clubs' contributions mean less revenue for governments (or higher taxes for taxpayers). Governments have the capacity to allocate funds to roads, rail, healthcare and many other spending areas through the usual budgetary process, and to be politically accountable for their decisions. The concessions also have the potential to distort investment more generally in the economy.

Against that backdrop, the large tax concessions on gaming revenue enjoyed by clubs in some jurisdictions (notably New South Wales) cannot be justified on the basis of realised community benefits. There are strong grounds for these concessions to be significantly reduced, though this would require phased implementation to facilitate adjustment by clubs.

Many also regard the substantial employment in the industry (box 1) as an additional significant community benefit. However, the presence of jobs in an industry does not mean that those jobs are additional in a net sense, since most if not all the people concerned would have been employed in other industries were the gambling industries smaller. As one industry grows, others contract (an observation made by competing entertainment providers at the time gambling was liberalised). The people employed by the gambling industry have skills that are highly valued in the service sector as a whole, and they primarily work in large population centres where there are many other employment options. As a result, the longer-term employment effects of the gambling industry are likely to be negligible (a finding supported by analysis commissioned by the industry itself). Nevertheless, rapid shocks to any major employing industry can place pressure on unemployment in the short term, which provides one argument for staged policy transitions.

Like most other industries, the real benefits of the gambling industry depend on the extent to which consumers enjoy its products. That value amounts to many billions of dollars — and a major challenge for policy is to avoid putting it at risk through poorly targeted regulatory measures.

Gambling is enjoyable for most, but harms some people

The majority of people gamble with enjoyment and without harm, and many gambling forms are benign. As the Australasian Gaming Council puts it, gambling can be just part of a 'cheerful night out'. The most popular form of gambling,

lotteries, poses no substantive risks, and this applies to many other types of gambling, such as bingo. Other than ensuring that these games are conducted honestly (and are appropriately taxed), governments have a limited role in regulating these gambling forms.

The potential for significant harm from some types of gambling is what distinguishes it from most other enjoyable recreational activities — and underlines the community’s ambivalence towards it. (One large-scale survey found that three-quarters of Australian adults thought that gambling did more harm than good for the community — a view unlikely to apply to most other legal recreational pursuits.)

Harms associated with gambling are experienced by many people and to different degrees. Yet for some — so-called ‘problem gamblers’ — those harms are more intense and damaging to themselves, their families and other related parties.

How many people have severe problems?

While precision is impossible, estimates of the number of problem gamblers in Australia lie in a range around 115 000. (These estimates are based on the widely used Canadian Problem Gambling Index — a set of structured questions about adults’ gambling behaviours that indicate the prevalence and severity of gambling problems — box 2.) The numbers of people who have ever experienced problems with their gambling — so called ‘lifetime’ prevalence — are considerably higher than annual prevalence estimates.

It is also estimated that the number of gamblers at ‘moderate risk’ range around 280 000. People at moderate risk are also relevant for public policy — just as in relation to alcohol use or obesity — in that they still experience harm and some may progress to more serious problems.

Adult prevalence rates can be misleading

It is commonplace to represent prevalence estimates as shares of the *adult* population, but these figures can be highly misleading.

Currently adult prevalence rates are 0.7 per cent and 1.7 per cent of the adult population for problem and moderate risk gambling respectively. That looks small — and indeed some segments of the industry have suggested that consequently the social policy significance of such problems is also small. However, to put these figures in context, only around 0.15 per cent of the population are admitted to hospital each year for traffic accidents and around 0.2 per cent of the population are

estimated to have used heroin in the preceding year. Small population prevalence rates do not mean small problems for society.

Box 2 Measuring problem gambling

Despite the different methods for measuring problem gambling, it generally involves identifying people experiencing a cluster of significant harms: health problems, financial distress, difficulties controlling gambling and psychological impacts. All recent Australian prevalence surveys have employed the Canadian Problem Gambling Index (CPGI), which has been clinically validated for use in general population prevalence surveys.

The CPGI assesses the risks based on the frequency and breadth of the problems gamblers experience. The screen asks people to rate the frequency of nine behaviours/attitudes over the last year of gambling, with the options on any question being never, sometimes, most of the time or almost always. The questions are:

1. Have you bet more than you could really afford to lose?
2. Still thinking about the last 12 months, have you needed to gamble with larger amounts of money to get the same feeling of excitement?
3. When you gambled, did you go back another day to try to win back the money you lost?
4. Have you borrowed money or sold anything to get money to gamble?
5. Have you felt that you might have a problem with gambling?
6. Has gambling caused you any health problems, including stress or anxiety?
7. Have people criticized your betting or told you that you had a gambling problem, regardless of whether or not you thought it was true?
8. Has your gambling caused any financial problems for you or your household?
9. Have you felt guilty about the way you gamble or what happens when you gamble?

Scoring Instructions for the CPGI

Score the following for each response: never = 0, sometimes = 1, most of the time = 2, almost always = 3. Total your score. The higher your score the greater the risk that your gambling is a problem: Zero score (no risk); 1 to 2 (low risk); 3 to 7 (moderate risk) and 8+ (problem gambler). The overwhelming number of gamblers score zero on this scale.

Risks should be assessed for people who are exposed to risky gambling forms

From a public policy perspective, it is also important to assess the degree to which the harms people experience are associated with gambling behaviours (such as playing frequency and duration) and environmental risk factors (such as venue conduct and the gambling form). This helps determine the appropriate target for regulation. Accordingly, assessments should be focused on:

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- the specific products that are most related to harm, rather than the broad and safer class into which these products fall (for instance, accidents in ultralight aircraft rather than aircraft generally). Considering the risks of problem gambling associated with the consumption of all forms of gambling, including benign forms like lotteries, conceals the elevated risks associated with particular gambling forms
 - those who regularly engage in a risky activity or use a risky product, and not for the broad group of people who never or only occasionally use them (for example, the health risks for people who often eat unhealthy foods, rather those who infrequently do so).

Reflecting this, most gambling policy interest needs to centre on people playing *regularly* on *riskier* forms of gambling. For these people, the risks and problems loom large.

A focus on electronic gaming machines — where most harms arise

In particular, the risks associated with playing gaming machines are higher than other gambling forms.

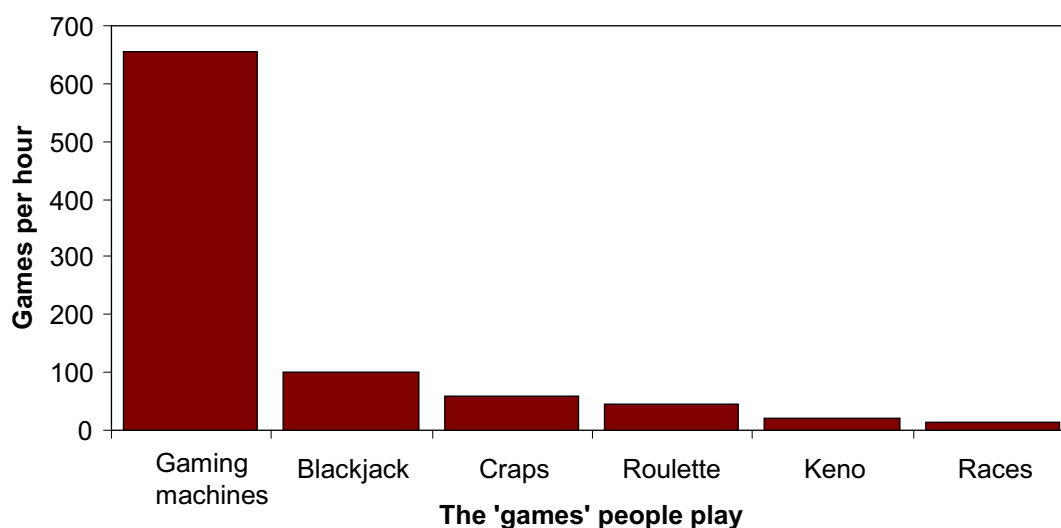
- They account for the biggest single slice of overall gambling expenditure in Australia — 62 per cent of the total, compared with 15 per cent for wagering and 7 per cent for table games (figure 1). They are probably also one of the most important sources of enjoyment for gamblers.
- The risks of problem gambling increase significantly with the frequency of playing EGMs. The Commission estimates that among those who play weekly or more on gaming machines, around 15 per cent are problem gamblers with an additional 15 per cent at ‘moderate risk’.
- They account for around 75–80 per cent of ‘problem gamblers’ and are found to pose significant problems for consumers in general.
- They are widely accessible throughout the community in all jurisdictions except Western Australia (which has fewer problem gamblers as a result).
- Regular gaming machine players (those playing at least once a week) are estimated to spend on average around \$7000–8000 per annum, a sizeable share of household incomes, and a key source of harm to some.
- There are vulnerabilities, extending beyond problem gamblers, arising from widespread misunderstandings about how gaming machines actually work. For instance, the evidence shows that many people believe they can recover losses by continuing to play (‘chasing losses’), and that machines run ‘hot’ or ‘cold’ (with over 50 per cent of gaming machine players believing this). The

consequence of these faulty cognitions is that people make expenditure decisions based on significant underestimation of the price they are paying for the good. People often have faulty beliefs, but most of these beliefs do not have the adverse consequences that can arise here.

- Prices of playing gaming machines are poorly disclosed, while the fact that receipts are not issued accentuates the tendency for gamblers to underestimate their spending. (When the Australian Bureau of Statistics asked people to estimate their gaming machine losses, they found the losses added to around 3 per cent of the real total.)
- The conditioning effects of random and intermittent payouts, combined with the capacity for rapid repetition of games — some hundreds per hour — can encourage sustained gambling (figure 3).

Consequently, state and territory harm minimisation policies have focused on this form of gambling, as has this report.

Figure 3 The speed of play varies greatly^a



^a These relate to routine playing styles, but people can play faster or slower.

Are the problems easing?

Although it is not possible to be definitive, it is likely that problem gambling prevalence rates have fallen among the adult population over the past decade — a positive outcome for Australians. However, that reduction is a misleading indication of the current risks from gambling, because it ignores the waning popularity of gambling and the need for policy to focus on risks for regular players of less safe gambling forms (box 3).

Box 3 **Is prevalence falling?**

In Australia, the two most common methods for measuring problem gambling have been the CPGI (described in box 2) and the South Oaks Gambling Screen (SOGS) — which was used in the Commission’s 1999 national prevalence survey.

While they have some overlapping questions, the two methods use different thresholds for defining ‘problem gambling’, so that the SOGS usually identifies a higher prevalence rate than the CPGI. This makes it difficult to determine trends in prevalence rates over time since the SOGS was the dominant instrument in the late 1990s and the CPGI in the 2000s. That difficulty is compounded by the fact that:

- no national survey has been undertaken since that of the Commission in 1999, with the current evidence drawn from sporadic state and territory surveys conducted at varying times
- problem gambling is a phenomenon that many people try to conceal
- it is hard to precisely measure the prevalence of relatively uncommon conditions
- estimates will fluctuate from year to year because of sampling error.

That said, the Queensland Government has conducted four surveys using the CPGI over the seven years from 2001, and these suggest a systematic decline in adult prevalence rates in that state. Results for other jurisdictions are more equivocal, though some results also point to reductions in adult prevalence rates. The likely reduction in problem gambling among the adult population is a positive outcome.

Falling prevalence rates may reflect several factors:

- natural adaptation after the sudden exposure of all adults to riskier (and for many, novel) forms of gambling in the 1990s. Subsequently, many people who developed problems resolved them and rates of EGM playing have fallen
- while there may be questions about the effectiveness of many government policies, significant effort has still been devoted to addressing some of the harms — and some of those effects should show up in the numbers.

Above all, the falling adult prevalence results are consistent with the fact that exposure to the most risky form of gambling, EGMs, has also been declining. A smaller proportion of people are playing regularly. (Indeed, the coincidence of falling adult prevalence rates and reduced exposure to EGMs provides additional supporting evidence of the causal links between EGM playing and harm.)

Among those exposed, the story is different. There is no evidence that the share of EGM spending accounted for by problem gamblers has fallen. In the most reliable series of surveys, there has not been any significant decline in problem gambling rates among those most exposed to risks (weekly players of gaming machines).

The evidence is consistent with the view that regular EGM playing continues to pose serious risks of harm — which is relevant to regulation of that gambling form. Reduced adult prevalence rates is a misleading indicator of *these* risks, in the same way that the lower prevalence of lung cancer in the population does not attest to safer cigarettes, but to reduced smoking.

There is no evidence that the share of total spending accounted for by problem gamblers has decreased. In addition, the most reliable series of surveys show no significant reduction in problem gambling rates among regular gaming machine

players. These are the major indicators relevant to regulation or other policies relating to gaming machines.

The still considerable scale of the problems, explains why governments generally accept that the problems remain of an order that warrant continued policy attention.

Assessing the harms

The harms from problem gambling include suicide, depression, relationship breakdown, lowered work productivity, job loss, bankruptcy and crime. For example, a 2008 survey found that gambling was the most common motivation for fraud and that the average loss was \$1.1 million per incident. Moreover, the rough counts of people directly affected ignores the ‘ripple effects’ of problem gambling. For each problem gambler, several others are affected — including family members, friends, employers and colleagues. A recent Tasmanian survey found that 50 per cent of people said they personally knew someone who was experiencing serious problems with gambling and around 13 per cent of people identified at least one family member with a serious problem.

While it is hard to quantify some aspects of these harms, such as suicide, the evidence suggests costs equivalent to many thousands of dollars per person affected. When these costs are accumulated across people with significant problems, they amount to some \$4.7 billion annually using conservative estimates.

The major contributor to harm is the large financial losses experienced by problem gamblers.

Problem gamblers are big spenders

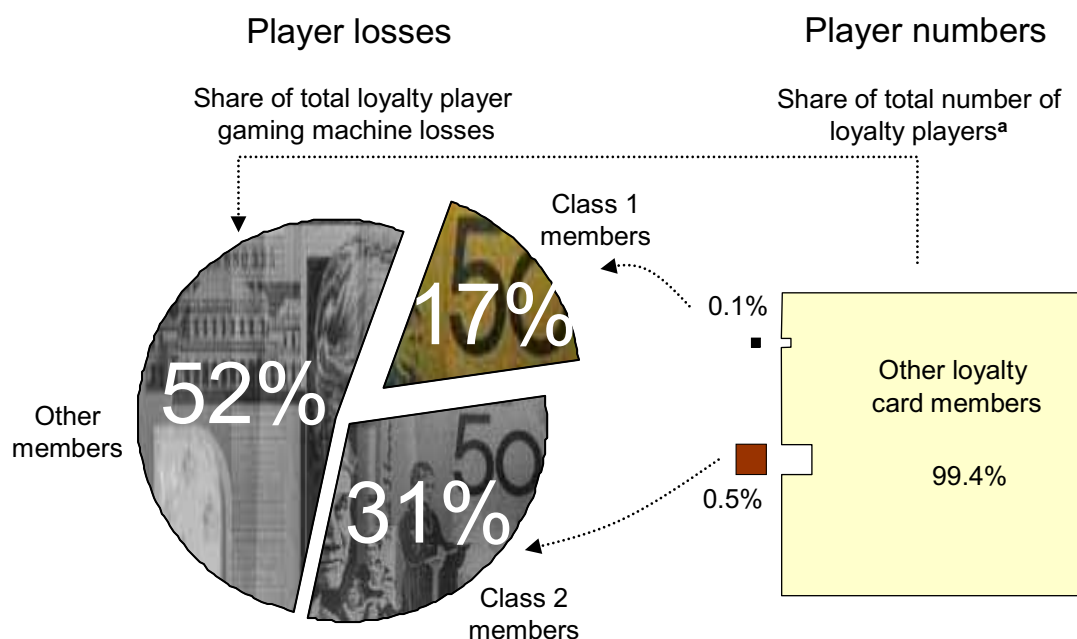
Problem gamblers figure disproportionately in total gaming machine spending. As they play many sessions per year, for longer sessions and at greater intensities than do recreational players, problem gamblers lose large amounts of money. (Data on the spending of loyalty members from a large Australian club shows how significant a few EGM gamblers can be to total spending. While some of these will not be problem gamblers, the strong association between high levels of spending and problem gambling, supports that many are likely to be — figure 4.)

The Commission estimates that problem gamblers’ share of total Australian gaming machine losses range around 40 per cent. Some estimates raise the possibility that the share could be as high as 60 per cent or, in the most conservative case, as low as a (still significant) 22 per cent. This means that, at a *minimum*, the ‘small’ group of

problem gamblers currently account for \$2.6 billion of gaming machine losses. Moderate risk gamblers account for an additional substantial share. Even taking the lowest estimates, therefore, it is evident that a large proportion of industry (and taxation) gaming machine revenue comes from these two groups of gamblers. Inevitably, policies that could effectively address the problems posed by gaming machines would have a significant impact on industry and government revenues.

The other implication of problem gamblers' high frequency of playing and their longer session lengths is that they are disproportionately represented in gaming venues. The results of one NSW survey suggested that while problem gamblers accounted for around 3 per cent of gaming machine players, they accounted for more than 16 per cent of the total time spent by EGM players. Problem gamblers might be hard to find in the adult population, but the opposite is true in gaming venues.

Figure 4 Just a few gamblers can represent a large share of total spending: the case of one large Australian club



^a Class 1 and 2 members are the top 2 tiers of loyalty card members of a large club in Australia.

Looking beyond the 'problem' gambler

From a public health perspective, it is increasingly acknowledged that the term 'problem' gambler is problematic in several ways, and needs to be interpreted with care.

One major drawback is that it can lead to an excessive focus on the individual traits — such as prior mental health conditions — that may precipitate gambling problems. It is important also to consider how gambling technologies, venue behaviours and other aspects of the gambling environment can lead to harmful outcomes for gamblers.

A further limitation is that it implies that problems are exclusive to those categorised that way using the current diagnostic instrument (box 2). In other public health concerns — such as alcohol consumption — policy appropriately extends beyond a focus on the extreme problems affecting a few (alcoholism) to some of the broader problems people can experience.

The evidence bears this out. While the prevalence *rate* of harm is much lower among non-problem gamblers, the *absolute number* of such people experiencing some form of harm is high. Multiplying a small rate times a very large population can equate to tens of thousands of people. Indeed, ostensibly ‘non-problem’ gamblers sometimes account for more than half of those affected by some specific harms. For instance, around 60 per cent of those who admit they are experiencing health problems arising from their gambling are *not* categorised as problem gamblers (figure 5).

Given the extent of harms posed by gambling, there is a sound rationale for government policies to mitigate those harms. That raises the question: how well have governments discharged their responsibility?

A decade of policy action — with mixed outcomes

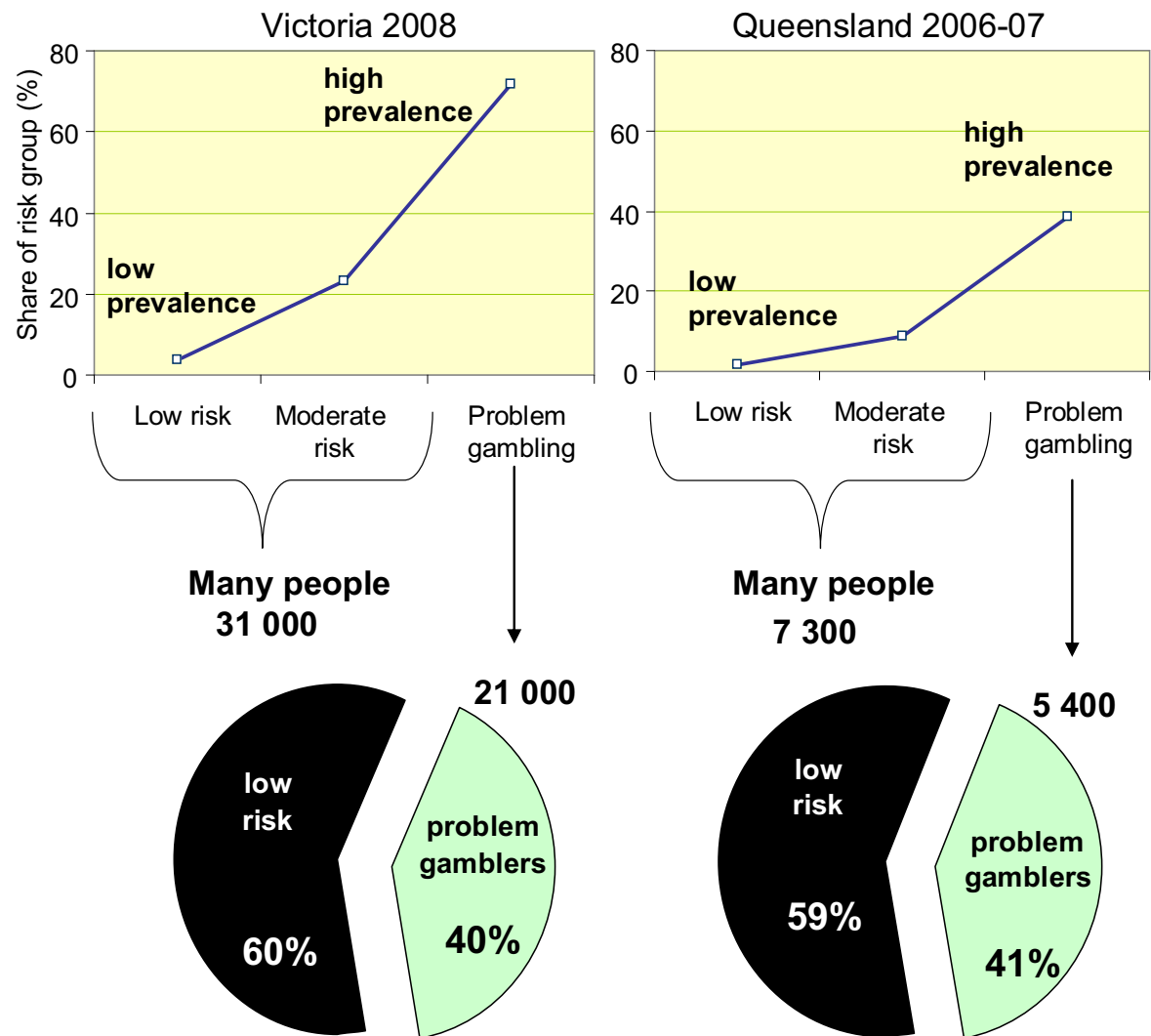
Gambling has always been one of the most regulated industries in Australia. Governments act as suppliers and tax collectors. They fund and organise help services for gamblers experiencing problems. Above all, they are active as regulators, and have put in place a vast array of laws and rules about when and where people can gamble, the nature of gambling forms and their modes of delivery, which businesses can supply gambling, and the behaviour and integrity of these suppliers.

In the decade following the Commission’s last inquiry into gambling, state and territory governments introduced additional layers of regulations and policies. These have principally been aimed at reducing the harms from gambling that emerged following a rapid increase in the accessibility of gambling in the 1990s.

Some of the initiatives have been effective. Help services for problem gamblers are well funded and often successful in resolving people’s difficulties (though there is

still room for improvement — see later). Some jurisdictions have developed effective warnings and there are other promising prospective policies, such as pre-commitment in Victoria.

Figure 5 Most people experiencing harms are not problem gamblers, but problem gamblers are much more likely to experience harms



Nevertheless, the current regulatory environment:

- has questionable effectiveness in reducing harm (box 4)
- involves a multiplicity of variations across jurisdictions, many of which do not appear justified
- has imposed unnecessary burdens on venues and gaming machine manufacturers

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- involves arrangements that stifle competition and innovation in some parts of the industry, to the cost of consumers.

The gambling industry has emphasised the role of personal responsibility, rather than further regulation, as a major basis for reducing the harm from gambling. The Commission accepts the important role of self-responsibility. Many of the recommendations for amended regulation aim to provide consumers with a greater capacity for exercising self-responsibility. This applies to pre-commitment, better information and cash-input limits — all of which leave intact consumer sovereignty.

Box 4 Policy measures often lack ‘bite’

Governments have introduced many measures to address the harms associated with gambling machines, but the effectiveness of many of these is questionable. This includes:

- short periods of machine shutdowns. These typically occur in the early hours of the morning. They allow premises to be cleaned and maintained, but produce few obvious harm minimisation benefits.
- lowering the maximum bet limit from \$10 to \$5. If played at the fastest allowed rate, that means that the value of bets laid per hour will have fallen from \$12 000 to \$6000 (and *expected* losses down to \$600 from \$1200 an hour, which remains very high). Some jurisdictions have maintained the limit at \$10.
- reducing the value of notes that gamblers can insert at any one time into a machine from \$100 to \$50 — but retaining the capacity to insert note after note
- reduced cash input levels, such as from \$10 000 to \$1000. In this case, a player could still insert twenty \$50 notes consecutively into the machine. (Again, some jurisdictions have retained the \$10 000 limit.)
- ATM withdrawal limits of \$200 per transaction — but problem gamblers can go back time after time, subject to the normal arrangements they have with their banks
- mandatory clocks on machine displays, so people do not lose track of time. But most people have watches and they typically concentrate on the game.

These kinds of changes, while having little benefit for problem gamblers, can impose large implementation costs on venues, especially when they are introduced in an uncoordinated way and require retrofitting to gaming machines. Machines are secure devices for which changes have to be carefully supervised. In addition, gaming machine manufacturers have to configure machines in different jurisdictions differently.

The need for regulation and other policy measures has not waned, but such measures need to be part of an effective and coherent package — one that recognises that the technologies for the delivery of gambling services are changing rapidly.

Putting aside the likely significant benefits from addressing the problems experienced by consumers of gambling generally, the Commission conservatively estimates that even a 10 per cent reduction in the costs associated with problem gambling, if sustained, would generate benefits to society of just under \$500 million a year, or several billions of dollars over time. Accordingly, even harm minimisation measures with modest efficacy may produce worthwhile net benefits so long as they do not inadvertently generate excessive costs for industry or gamblers generally.

What about the evidence?

Many participants in this inquiry have highlighted the poor state of the evidence used to justify policy decisions. There are continuing uncertainties about which gambling policies can effectively reduce harm. This is, in part, testimony to insufficient policy-focused research over the past decade and, in part, to the inherent difficulties in genuinely testing the effectiveness of social policies.

Evidence is essential to good public policy. However, an excessively high standard of proof about what would reduce consumer detriment from gambling would cause policy paralysis in an area where there are demonstrably large community costs from inaction. Policy needs to take account not only of the costs of mistakenly introducing ineffective policies, but also the costs of failing to act when a policy option may in fact be effective. There are good precedents for precautionary policy action in areas involving people's safety.

A justifiable criticism of gambling policy in the 1990s was that, despite international evidence about the risks of highly accessible gaming, governments did not apply a precautionary, evidence-based approach to justify the extensive liberalisation of gambling that ensued.

What needs to be done?

The problems experienced by gamblers are as much a consequence of the technology of the games, their accessibility and the nature and conduct of venues, as they are a consequence of the traits of the gamblers themselves. This suggests that addressing the difficulties faced by gamblers should draw from the insights of consumer policy and public health policy, not from medical perspectives alone.

Thus, gambling policy needs to act on multiple levels to:

-
- change the particular aspects of the environment (relating to venues, technology and accessibility) that lead to problems for gamblers vulnerable to harm
 - change the broader aspects of that environment that can lead to adverse outcomes for gambling consumers generally, such as ensuring probity, good information about the product being consumed, fair industry practices and removing barriers to competition
 - help gamblers who have problems (and their families) through counselling and professional services.

Progress has already been made in each of these areas. The Commission has sought to build on this. Its recommendations largely involve either the re-calibration of existing government policies or the wider adoption of effective policies that some jurisdictions have already implemented.

Box 5 Key changes since the draft report

In its final report, the Commission has made several significant changes to its policy recommendations, as well as extending the analysis, including:

- more discussion of the benefits of gambling
- more emphasis on gambling issues through a population or public health lens
- further analysis of the costs of implementation and of the technical obstacles to some measures, leading to changes in the proposed timing and sequence of their introduction
- no longer proposing the provision of a statutory duty of care
- staging the introduction of full pre-commitment, with a carefully designed trial to test its optimal design features
- the staged liberalisation of online gaming, commencing with online poker (card) games.

Regulatory changes have to be mindful of some of the differences between gambling forms and venue types, which can affect the tradeoff between the costs and benefits of regulatory action. In some exceptional cases, the Commission considers exemptions should apply, though some of these should only be temporary (box 6).

Box 6 **Some regulatory exemptions are warranted**

Regulations should pass cost-benefit tests and target problems where they are greatest. In some selective cases, this justifies exemptions or delayed implementation for some policy measures.

- Casinos should be exempt from certain access to cash restrictions. A withdrawal limit of \$250 per card on ATMs/EFTPOS facilities is only likely to provide modest benefits for higher risk players of gaming machines. The measure still passes a cost-benefit test if the costs are sufficiently low. However, in casinos these costs are likely to be appreciable. Among other things:
 - casinos are the exclusive provider of table games, where people tend to place larger bets by the nature of the games, but do so only irregularly
 - many casino patrons are from overseas or interstate, with the casino visit part of a tourist experience (true destination gambling), in which normal spending constraints are lower.
- There are also grounds to exempt international patrons in casinos from a regulatory requirement to pay EGM prizes of \$300 or more by cheque, given the considerable inconvenience this payment method would entail for such patrons.
- On similar cost-benefit grounds, there are persuasive arguments to exempt online gambling providers from bans on credit cards. A prohibition on credit card gambling in physical venues has some benefits, and few costs. In the online environment, the costs would loom large:
 - credit card payment is the customary and secure payment form in the online world
 - it would have unintended impacts on financial intermediaries like PayPal
 - it would undermine harm minimisation since the less convenient it is for internet gamblers to use websites without credit card facilities, the more likely they are to gamble with unregulated offshore providers.
- Finally, there are grounds for temporary exemptions for venues with less than ten machines that also face significant implementation costs relative to revenue (such as small country pubs and clubs).

Changing gaming machines

Changes to gaming machines (and the networks linking them) provide the most promising avenue for harm minimisation. Gaming machines should be a safe and enjoyable recreational pursuit and their design, use and regulation should reflect that.

A whole range of factors — the technology, people’s personal vulnerabilities, systemic misunderstandings about how machines work, and the incapacity to

accurately log how much has been spent — collectively reduce the capacity for informed and rational choice when playing gaming machines. The challenge is to address these problems while preserving as much of the pleasurable aspects of playing as possible.

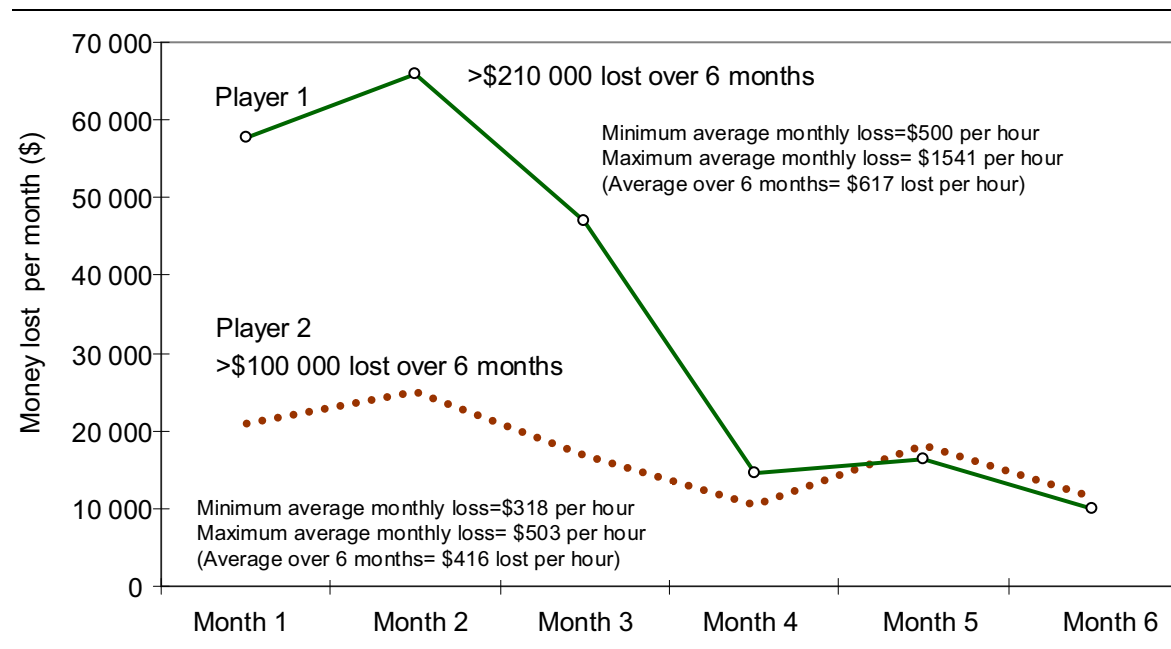
Lower cash input rates and more disclosure

Most people play on gaming machines infrequently, for relatively short periods of time and with low intensity. For them, the average cost — between \$30 and \$40 an hour — is commensurate with many other entertainments.

However, it is possible to play most gaming machines at much greater intensity than this — up to *expected* losses (they could be larger in practice) of around \$1200 per hour if they are played at a very fast rate (box 7). That bears no comparison with any other form of everyday entertainment. The Commission has evidence of gaming machine players losing tens of thousands of dollars over a few months. Figure 6 illustrates the case of one player who spent over \$210 000 in just six months: a loss of around \$620 per hour.

Figure 6 The results for two actual players

Two of the ‘best’ customers of a large club



Box 7 Gaming machines offer many playing styles

Gaming machines offer gamblers many different playing styles by allowing them to choose flexible combinations of lines and credits per line — and this is one aspect of their enjoyment. Customers can choose modest levels of intensity by playing many (a few) lines and only a few (many) credits per line. But, if a gambler chooses many lines *and* many credits per line, this will lead to very high expected loss rates.

A low intensity recreational gambler

On what is known as a ‘one cent machine’ a recreational gambler could play nine lines and five credits per line with every button push (in effect, nine games played at the same time with a bet of five cents per line) — a cost of 45 cents each time she plays. If she plays at a modest pace — 11 button pushes per minute — then on a 90 per cent rate of return machine, she could ‘expect’ to lose about \$30 an hour. (Sometimes she will lose more and sometimes even win overall, but this would be the average over many such sessions of play.)

If she plays for longer periods and many times a week — a common playing profile of a problem gambler — she can still face significant financial losses. Five two-hour sessions a week adds up to expected annual spending of nearly \$16 000 — a lot for most people.

A high intensity player

The flexibility of gaming machines also allows gamblers to ramp up their spending, even on apparently ‘cheap’ one cent pokies. On a game with no free games, by playing many lines and many credits per line, and pressing the button at its maximum speed (around three seconds), a gambler could lay bets of up to \$12 000 in an hour, resulting in *average* losses of \$1200 an hour (and often amounts in excess of \$1500 or more, since game returns are random).

If she was to play at even half this intensity for five sessions of two hours each week — not an unusual amount of time for many hobbies — her expected losses would rise to around \$310 000 annually.

Given the risks posed by high intensity play and the capacity of many (even recreational) gamblers to ‘zone out’ and lose control, the Commission recommends that players should be limited to putting in \$20 until the credits in the machine fall below that amount. (That compares to a limit of \$10 000 in some jurisdictions.) A recreational gambler betting 45 cents per button push — as described in box 7 — could expect around 40 minutes of play before needing to put in another \$20 note. Nothing would stop them from doing so, but they would have to think about whether they really wanted to engage in further play. It would still allow recreational players to have great flexibility in player choices of lines and credits, and to have short periods of higher intensity play.

However, someone playing fast and at a continuously high intensity — say \$10 per button push every 4 seconds — could expect to put in another \$20 every 80 seconds. This would be an irritant to such highly intense play, usefully provide small ‘breaks in play’ and represent a vivid reminder of the costs of high intensity playing.

This measure could be implemented remotely using current monitoring systems for the majority of machines in Queensland, avoiding costly changes to individual machines. (Regulators use central monitoring systems to collect the revenue data necessary for payment of taxes, test machine probity and to communicate generally with EGMs. Some systems have greater capabilities for communicating with EGMs than others.)

However, some jurisdictions do not have compatible monitoring systems — most notably NSW. Over the next six years, such states should introduce new monitoring systems that could remotely ‘switch on’ lower cash input limits and change other ‘parameters’ on the machines, as well as providing the vehicle for introducing other harm minimisation policies, such as pre-commitment (see later).

There is also a strong rationale for giving players more information about the cost of playing, since many do not understand the implications of player rates of return. The Commission has recommended price disclosure based on ‘cost per hour’ and loss rates. This would initially be implemented as static signs attached to the existing machines. But new machines should incorporate the ability to continuously inform players on-screen about their expected hourly losses, based on their playing styles (‘real-time’ price disclosure).

A lower bet limit?

The Commission also considers that there are strong grounds to reduce the maximum intensity of play per button push well below the current \$5 and \$10 regulated limits. A limit of \$1 would strongly target problem gamblers, with little disturbance for others, and its widespread adoption would be feasible by 2016. Delayed implementation reflects some practical realities:

- there is only a limited capacity for gaming machine manufacturers to re-design the large number of existing games to be compatible with such a bet limit
- regulatory approval for new games takes some time
- given current technologies, immediate implementation would require the replacement of many existing gaming machines and others would need to be retro-fitted with new software — a costly exercise. There is a much less costly alternative, which would:

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- allow new machines to have bet limits up to the regulated ceiling of \$5 per button push common in many jurisdictions, but include a latent capacity for a \$1 dollar bet limit
 - activate this latent capacity in 2016 when most machines would include this feature. While it would be possible to restrict all new machines to the \$1 limit, problem gamblers could still select older, high-intensity machines in the venue, undermining the gains over the interim. Moreover, operators would have weak commercial incentives to invest in new machines.

To ‘future proof’ EGMs, machines should ultimately include a software capability that allows central monitoring systems to vary bet limits (and other key machine parameters) remotely, avoiding ongoing costly changes to machines.

Some alternative machine design changes proposed by participants to address harm — such as very slow spin rates or muted sounds — would probably reduce people’s risks, but would also reduce the prospect of enjoyable gaming.

Pre-commitment allows player control and (realistic) self-responsibility

The most targeted and potentially effective measure is to give people the capacity to control the behaviour of their future selves — to pre-commit — since lack of control, impulsiveness and periodic regret are commonplace among regular gaming machine gamblers (and other players too).

Pre-commitment takes many forms. Existing trials have focused on arrangements in which players can play machines without any player identification or, if they wish, use their loyalty cards to set spending and time limits. These have the advantage that player resistance to adoption is low and security of the cards can be limited. However, the Achilles heel of these systems is that gamblers who have exceeded self-imposed limits can remove their card, still play and break their commitment. In effect, such a partial pre-commitment scheme helps people make ‘resolutions’ rather than binding pre-commitments. That said, the evidence from the trials is that they can still be helpful for people in controlling their spending. Repeated circumvention of their own commitments may also help people to realise that they have genuine control difficulties.

Prima facie, a ‘full’ pre-commitment system that was binding would be more effective. The essential element of such a system would be the capacity for gamblers to set a spending limit that, when exceeded, no longer enabled them to play (or only to play at a significantly reduced level). This is consistent with consumer sovereignty, since each gambler has a choice about their own appropriate limits. Gamblers’ privacy would be ensured with no one permitted to ‘track’ their

play without their consent. In other words, the Commission’s model of pre-commitment ensures that the gambler is in charge, not some ‘big brother’.

The Commission has developed a set of standards for such a system of pre-commitment, including that it would:

- allow gamblers to set binding limits that would apply to all gaming machines and venues. Otherwise, they would be able to subvert their own intentions
- involve a ‘safe’ default limit, with the scope for people to set alternative limits (including no limit)
- still give occasional players the opportunity to spend small amounts without being part of the pre-commitment system.

Pre-commitment systems can also provide other options for harm minimisation at low incremental cost, including records of spending, set breaks in play, more tailored warnings, and less easily circumvented ‘self-exclusion’ (the capacity to bar oneself from gambling altogether).

A major advantage of full pre-commitment is that, properly designed, it has the potential to make redundant some other significant regulatory provisions. As one leading gambling researcher put it, the old regulations could be removed, and gamblers could ‘play and “lose control” within the previously set safety constraints.’ This would benefit recreational gamblers and lower some compliance burdens for gaming venues and vendors. Governments should assess the capacity to eliminate any redundant regulatory measures after full pre-commitment has been in place for several years.

Realistically, most state and territory governments could not quickly implement a genuinely binding pre-commitment system (though there would be greater scope to do this in states with more advanced monitoring systems). Full-scale implementation and advanced interfaces with the gambler would also require all machines to have card readers (or other player identification devices) and software upgrades — a costly measure if required to be done quickly.

Accordingly, the Commission recommends a staged approach:

- in the next three years, *partial* pre-commitment should be introduced in jurisdictions with *compatible* monitoring systems, while ensuring that the systems underlying this are *compatible* with the later adoption of full pre-commitment
- a trial of a *full* pre-commitment system with the design features described above should be conducted. The Australian Government should sponsor a state or territory government to conduct a trial (or trials) in all the venues of a regional

town, selecting the location to minimise the risks that people evade their pre-commitments by travelling to another location.

All new gaming machines should be designed so they are compatible with advanced pre-commitment options. Jurisdictions with incompatible monitoring systems, like NSW, would implement pre-commitment after they had updated these systems. (Notably, there is a technological shift towards networked gaming for its commercial advantages to the industry itself, and those networks will also make it easier for regulators to introduce and reverse regulatory measures at low incremental cost.)

Effects on venues

The staged implementation of most changes to EGMs gives machine manufacturers and venues time to plan, set standards, and to retire older machines. According to the gaming machine industry, the costs of new measures are low if they are planned and introduced as features of new machines and systems, rather than retrofitted.

It is likely that the biggest immediate impact on gaming venues would be revenue losses. If the Commission's recommended policy measures were highly effective, these impacts, while occurring progressively over time, could ultimately be large, especially when it is noted that it is not just problem gamblers who might respond to an environment with a greater capacity for genuinely consensual play. Lower revenues will inevitably lead to the gradual rationalisation of community gaming, reduced community contributions from clubs and hotels, and lower tax revenues for state and territory governments. (Changes to the current distortionary concessional tax treatment of clubs would partly offset the revenue losses to state and territory governments.)

However, it would be hard to justify allowing the large social costs from current arrangements to continue just because some people benefit from them. History is replete with instances in which industry interests have suffered from regulated increases in safety standards — tobacco, coal mining and asbestos, to name a few.

While the technical and other obstacles to immediate changes to gaming machines already mean the reform process must be gradual, the Commission proposes an even slower pace of change for small venues (mostly small regional clubs and pubs). Temporary exemptions for some measures are appropriate as their machines are often played at lower intensity and the lifecycle of their machines is longer than larger 'cashed-up' venues. Given these characteristics, the benefits from early reform in these small venues are lower, and the costs of achieving it higher, justifying their (temporary) special treatment. However, when such venues purchase

or upgrade machines, these machines should incorporate all the features recommended by the Commission, which should be activated at the same time as all other venues.

In the longer run, adoption of new technologies may expand the appeal of gaming machines and their use by recreational gamblers, partly offsetting the revenue losses associated with more stringent harm minimisation. Indeed, under new regulatory arrangements, innovation would be strongly targeted at achieving that end.

Dealing with accessibility

In the 1990s, most Australian jurisdictions liberalised gambling. High-intensity gaming machines were rapidly introduced throughout the community. In retrospect, given the harmful effects that ensued, a different model of liberalisation centred on destination rather than ‘community’ gambling may well have been more appropriate. However, it would be difficult and impractical now for any Australian government to suddenly reverse long-standing arrangements. (Some overseas jurisdictions have done so — Russia and Poland to name two — but they reflect different cultural contexts.) Only Western Australia adopted a model of destination gaming through a single casino — and the evidence supports it maintaining that model.

There have been some (modest) reductions in state-wide caps on gaming machines — generally with strong community support. However, there is little likelihood that the ‘tinkering’ with caps has materially reduced accessibility or the harms from gambling. Unsurprisingly, the evidence suggests that the tougher caps instituted so far have mainly led to higher utilisation of the remaining stock of gaming machines, without affecting overall spending. Nevertheless, on precautionary grounds, this does not mean that caps should be relaxed or removed.

Australian governments have also limited accessibility through mandated shutdowns of gaming machines in clubs and hotels — sometimes for specific times of day and sometimes for specified durations, with the venue often given discretion to decide when that might be. With the exception of Queensland, the current restrictions would appear to have negligible benefits, since they occur during very low-demand periods and facilitate cleaning and maintenance more than harm minimisation.

There is evidence that higher risk gamblers represent a much greater share of those people playing late at night. Moreover, at that time, gamblers are more likely to be playing under the influence of alcohol, reducing the capacity for informed consent

on a potentially very costly activity where impulsivity and faulty cognitions are already widespread. There would be significant benefits from requiring hotels and clubs to shut down their gaming rooms no later than 2am. This measure could be re-considered, however, with the implementation of full pre-commitment.

Changes to gambling venues

While venues will typically wish to act ethically, they have muted incentives to address the problems faced by their customers, as this could mean significantly lower profits. Accordingly, a key policy goal is to provide better incentives for venues to deal with the risks posed by the venue environment and the behaviours of staff.

Complaint mechanisms and consumer redress as incentive mechanisms

Consumers (and venue staff) have limited and poorly marketed access to procedures for making complaints about alleged adverse behaviours and breaches of codes of practice by venue management. Existing complaint processes through peak industry bodies raise perceived conflicts of interest, and may deter complaints by some.

For these reasons, the Commission recommends an easier and more visible mechanism by which consumers and venue staff could make complaints related to gambling to the regulator in each state and territory, with the potential for regulatory action (and penalties) if breaches have occurred.

The Commission also considers that Australian governments should prohibit inappropriate inducements for all gambling forms. (Some jurisdictions already have measures in place.)

The jurisprudence suggests a limited capacity for successful litigation when venues breach appropriate standards of behaviour. In the draft report, the Commission floated a statutory duty of care as a possible way of providing better redress for gamblers. While conceptually attractive, there are several obstacles to its practical implementation:

- actions would be likely to be slow and costly
- there would be difficulties in defining ‘egregious behaviours’ and distinguishing them from unconscionable conduct (which is subject to legal action under the Trade Practices Act and the common law).

Given such difficulties, the Commission has recommended enhanced compliance and complaints-handling arrangements — in particular, strengthening penalties and disciplines for serious breaches — to strongly discourage any inappropriate venue conduct. If governments did not implement these measures or they failed to deter egregious venue behaviour, a statutory cause of action could be given further consideration in the future.

Limited and contingent regulation of automatic teller machines (ATMs)

People experiencing problems with their gambling tend to make repeat visits to ATMs and make large withdrawals, whereas recreational gamblers tend to withdraw smaller amounts less frequently. Strong regulatory responses are afoot, including a forthcoming ban on ATMs inside gaming venues in Victoria.

It is uncertain how effective such a ban will be. On the one hand, problem gamblers may adapt by bringing more cash to venues, making cash withdrawals at ATMs outside the venue or using EFTPOS facilities inside. A ban might even have perverse effects if it allows people to use credit (as they can at ATMs outside venues) or makes the process of cash removal more anonymous. On the other hand, restricting ATM access will create a longer break in play that may discourage some problem gamblers from continuing (relieving some financial stresses) — and it might assist people at lower risk from progression to higher risk levels. Problem gamblers themselves often say that it would help them.

A ban would also involve significant upfront costs of relocating ATMs, as well as inconveniencing those venue patrons without any problems who want secure access to cash for other purposes.

The Victorian initiative should help resolve the uncertainties over the costs and benefits of removing ATMs. Given concerns about the costs of a ban, the risks of unintended impacts and the fact that gamblers may be able to circumvent it, the Commission considers other jurisdictions should wait for the results of an evaluation of the policy in Victoria. Nevertheless, the Commission proposes that cash withdrawals from ATMs/EFTPOS facilities in gaming venues should be limited to \$250 a day, except for casinos. This should act as a targeted measure against impulsive, excessive spending, be less costly to implement and entail little inconvenience for most patrons of clubs and hotels.

An effective pre-commitment system (described above) would, again, probably make bans on ATMs or cash withdrawal limits redundant.

Prizes

Notwithstanding the long-run inevitability of losses for regular gaming machine gamblers, some gamblers will occasionally win big prizes and these people will disproportionately be problem gamblers, given their spending rates. If paid out in cash, those gamblers run the risk of losing the lot by playing on under the faulty belief that they are on a winning streak.

The Commission proposes that prizes over \$300 be quarantined in a ‘bank’ in gaming machines, and be paid by cheque or direct credit transfer at the completion of the gambling session. This would overcome some of the perverse impacts of existing cheque payment requirements based on so-called ‘winnings’. Few recreational players would be inconvenienced by this as they rarely win amounts of \$300 or more.

However, it is not possible at present to implement this measure cost-effectively for most existing machines. Accordingly, the Commission recommends that governments require manufacturers to program this feature into new machines as a ‘dormant’ (and adjustable) capability to be switched on remotely by 2014. (It would need to be dormant in the shorter run, so venues still have incentives to buy new machines.)

Information and education

There are good grounds for more effective, visible and better located warnings about the risks of gambling in venues. Given the very low cost of in-venue warnings and notices, these tools do not have to be very effective (indeed, their effects should not be exaggerated) to pass cost-benefit criteria. The Victorian and Queensland approaches — which have been subject to market testing — provide a useful template for other jurisdictions. Over the longer run, as recommended by the Gaming Technologies Association, ‘intelligent’ dynamic messages should be incorporated into gaming machines, geared to the style of play in that session. (This would not require player identification, and so would preserve players’ privacy.)

The Commission has reservations about the benefits of school-based gambling education, which has been strongly advocated by the gambling industry and has been finding a place in state and territory curriculums. Educational programs have good ‘face validity’ as ways of overcoming some of the systemic misconceptions people have about gambling and making them aware of the risks. However, similar education programs in alcohol, tobacco and responsible motor vehicle use, have revealed a genuine risk of perverse outcomes, with programs sometimes

encouraging the very behaviours they were intended to avert. Given those risks, governments should not extend school-based programs without further careful assessment of those in place.

Help services

Help services relate to people who have already developed major problems and, as such, are not a substitute for the preventative measures described above. Nevertheless, they play an important role in the package of measures for problem gambling.

While there are large gaps in information about the impacts and value of help services, we do know some things from assessments of outcomes from a sample of services and from clinical trials of various approaches. Those studies and other evidence show that:

- the majority of problem gamblers satisfactorily manage their gambling following counselling/treatment. For example, among one group, average weekly gambling losses fell from \$1677 to \$262. In another, 90 per cent of those initially in treatment had maintained control over their gambling over the following six months. (However, self-recovery may be a significant part of the story.)
- ‘cognitive behavioural therapy’ is regarded as the most effective treatment among the plethora of approaches being used in Australia, but barring ‘gold-standard’ research, that conclusion is preliminary (and it would be premature to recommend one style of intervention)
- problem gamblers often have co-morbidities that also need addressing (such as depression, other affective disorders and substance abuse) and may need to acquire practical skills in handling their finances
- mostly, problem gamblers do not need prolonged treatment
- it is hard to recruit problem gamblers for treatment, partly because of the stigma of the condition. Only around 15 per cent of problem gamblers seek help.

The overall picture is one of a system muddling through to reasonable success. However, some changes would improve services, including:

- better evaluation, supported by improved datasets
- promotion of self-help and brief treatment options
- enhanced training of gambling counsellors

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- better integration of help services with the rest of the health system, given the need for referrals for co-morbidities and the probable economies of addressing gambling harms with any associated mental health problems.

Online gaming

Online wagering and sportsbetting is now more common, providing punters with better prices and greater convenience than physical venues. While it has raised some contentious policy issues (see later), this form of online gambling has now become a part of Australia's gambling landscape.

Not so online *gaming*. Online commercial gaming includes casino and poker machine games delivered through the internet. Unlike most forms of gambling, online gaming is the regulatory responsibility of the Australian Government, which passed the *Interactive Gambling Act 2001*, outlawing its provision to Australians. This was despite opposition from most jurisdictions (which already had regulated online gaming) and the Commission's 1999 proposal for managed liberalisation.

Online gaming involves a difficult cost-benefit trade-off

Online gaming offers recreational gamblers better prices and more variety. However, it also poses risks. Online gaming is available 24 hours a day, has no restrictions on bet sizes, has no capacity for venue staff to observe and assist people in trouble, reaches new groups of people who may be vulnerable to the medium, and poses new challenges for achieving effective probity. That suggests some caution in unconstrained liberalisation. (It also has some features that promote safety, such as the capacity for age verification through the payments system.)

However, while the Australian ban on online gaming has probably reduced its growth, it has also had the effect of driving consumers to international sites, some with poor harm minimisation features and unscrupulous business practices. The ban will have decreasing traction over time, as people become accustomed to this new medium for gambling and as corporate overseas sites develop reputations for probity (if not safety) .

In that context, regulated access to domestic or licensed overseas online providers, rather than prohibition, has potential benefits. It could achieve many of the benefits of online gambling to consumers, while diverting consumers away from unsafe sites to ones that met stringent probity and consumer safety standards — thus reducing the risks of harms to online gamblers.

It would also increase competition in gambling with better outcomes for consumers, and provide Australian businesses with greater commercial opportunities. (But given the globally footloose nature of this kind of business, it would probably yield governments limited additional tax revenue.)

Even ‘managed’ liberalisation would pose some risks. Given the legitimacy domestic supply would provide, it would also probably see a much larger group of people participating. If those players developed difficulties controlling their gambling in the domestic market, there is a risk that they would continue to play abroad on unsafe sites, notwithstanding strong harm minimisation regulations applied to Australian-licensed operators.

The experiences of rapid liberalisation of gaming machines in the 1990s provides a lesson about too rapid a change in the gambling environment. Consequently, a gradual or staged approach to managed liberalisation that commenced with the safest form of online gambling — poker card games — would be appropriate. (Poker tournaments are social games of skill and usually involve a low number of bets in any given period. Indeed, in many cases, gamblers make a single modest contribution to a common ‘pot’ at the commencement of play.)

In that light, the Commission recommends that the Australian Government amend the Interactive Gambling Act to allow online poker games, subject to a strict regime of consumer protection. This should include pre-commitment and other harm minimisation interventions (such as player information statements). State and territory governments and licensed online gaming suppliers had already developed such a regime for online gambling more broadly prior to the ban. The government could enhance this consumer protection regime by implementing pre-commitment and self-exclusion across all Australian regulated online gambling sites (which appears to be technically feasible). It could also influence — through existing self-regulatory codes — the design of global consumer protection standards while online gaming is still in its infancy.

The Australian Government should then evaluate the effects of this partial liberalisation, including the effectiveness of the harm minimisation measures in place and the performance of the regulator overseeing the national regime, before considering any further liberalisation.

The racing and wagering industry

New technologies have undermined the ability of states to use any form of discriminatory legislation or practice in order to maintain protected wagering

markets. In 2008, the High Court determined that, on constitutional grounds, Western Australia could not prevent Betfair, a Tasmanian betting exchange, from supplying online wagering to people in that state. The entry of corporate bookmakers and betting exchanges has stimulated competition in the wagering industry, giving consumers lower prices and new products. In contrast, state level monopolies led to poor market outcomes and low growth in demand. A return to those days through new legislation would not serve punters well.

Nevertheless, some kind of policy is needed to ensure adequate funding of the racing industry; not for its own sake, but because its existence underpins the wagering market. The risk would otherwise be that a wagering supplier could ‘free-ride’ by taking bets, but provide no compensation to the industry that actually supplies the events on which people lay bets.

Some states have enacted legislation that achieves a reasonable balance between the benefits of competitive entry to wagering and the desire to have a viable racing industry on which punters can bet. However, other states — notably NSW and Queensland — have policies that effectively lock in anti-competitive arrangements (potentially to the detriment of their own racing industries in the long run). These states should emulate more appropriate arrangements, such as those applying in Western Australia.

Even at the national level, some risks persist. Depending on how legal cases unfold, there remains the danger that either:

- price-setting powers conferred on racing authorities by ‘race fields’ legislation could lead to broader anticompetitive outcomes in the wagering sector
- there might be a renewed risk that wagering providers could ‘free ride’ on the racing industry.

Were either to occur, the Australian Government should work with state and territory governments to develop an alternative national funding model for the racing industry.

In this instance, the Commission recommends a national response, based on a product fee levied on gross revenue from wagering. (Some alternative basis— such as turnover — would frustrate the development of competition.) A national, independent authority should determine the size of that product fee, leaving existing state-based racing authorities to distribute it among the clubs.

Whether the racing industries’ funding model is ultimately based on the existing racing fields legislation, or a national scheme, it is clear that addressing the free-rider problem is no longer dependent on the historical approach of granting TAB

retail exclusivity. Indeed, the extension of TAB's retail exclusivity does not appear to be associated with any significant, demonstrable benefit to consumers, or to the Australian economy. A more diverse retail wagering sector would increase the benefits that consumers receive from greater competition and greater choice. This need not increase overall community access to gambling, and new entrants would, at a minimum, be subject to the existing industry harm minimisation requirements.

Competition issues arising from the broadcast of racing may also warrant a national response. Tabcorp, through its ownership of Sky Channel, is the sole television broadcaster of harness and greyhound racing, and is the dominant provider of thoroughbred racing broadcasts in pubs and clubs. As noted by the ACCC, the vertical integration of Tabcorp's wagering and broadcast businesses has potentially serious implications for competition in the wagering market.

As the capacity for punters to view racing events is a key factor of production for wagering operators that compete with Tabcorp, this arrangement may frustrate competitive access to racing broadcasts. Were governments to allow bookmakers to establish a retail presence, Tabcorp's ownership of Sky Channel would become even more problematic. The Commission recommends that the Australian Government refer the matter to the ACCC.

Can gambling policymaking be better structured?

Governments have struggled with the challenges and contradictions posed by gambling, reflecting the multiple goals of gambling policy, the ambivalence of the public to gambling and the legacy of the past illegality of some gambling forms.

Governance arrangements for gambling have improved since the Commission's review in 1999. There is better transparency, greater independence of regulators from policy, and a range of direct government interventions. There is also a greater inclination to use evidence for policy, and greater coherence in governance (with different forms of gambling more often covered by just one regulator). There is also better dialogue between jurisdictions, with the formation of the Ministerial Council on Gambling.

However, some systemic problems remain. For one thing, governance arrangements still have deficiencies in some jurisdictions when assessed against a best-practice model. There are good grounds for ensuring independent regulators and in locating gambling policy in departments responsible for consumer, justice or health matters, rather than for industry development or revenue.

Too weak a focus on consumer outcomes has led to the introduction of harm minimisation measures with little bite. Moreover, while one of the benefits of federalism is its capacity for generating useful policy experiments (as with more effective warnings in Queensland and Victoria), some of the variations in jurisdictional regulations are hard to justify from a national, or even state, perspective. This is especially so in the fractured arrangements for gaming machine standards.

A more general concern is the lack of transparency of decision-making, inadequate consultation, and the tardy (or non) dissemination of information and research findings. And some of the evidence that *is* available is of questionable value. For example, some data on the use of, and outcomes from, help services are of poor quality.

While a lot of research has been done, too little of it has been directed at priority policy areas or proper evaluations of measures in place. Research has also not been adequately coordinated across jurisdictions. For instance, prevalence studies have used different methodologies and sampling strategies, and have been conducted at different times, thus precluding a coherent national perspective on gambling patterns.

The Commission sees major advantages in a new institutional arrangement for nationally coordinated, policy-focused research, with open access to data and research findings. The new body would undertake research activities at the request of the Australian Government, but would consult with all jurisdictions and other stakeholders through an advisory panel. It would bring a multidisciplinary approach to gambling, forging links with, and using the skills of, associated expertise in other areas of public health (such as alcohol). It would have its own research capability and could have a role in coordinating and strengthening policy evaluations by states and territories.

More generally, there is a need for the Australian Government to take a greater leadership role in pushing for, or sustaining, reforms. As discussed above, the Commission sees it having a key role in creating a more policy-oriented and strategic approach to gambling research, sponsoring a pre-commitment trial and, potentially, in determining a national product fee for wagering. In addition, it is important that the Australian Government actively engage with state and territory governments in the development of new machine design features, standards and protocols.

As a last resort, where actions at the state and territory level do not take place, are too slow or too fragmented, the Australian Government should consider using its

corporations power under the Constitution to achieve the design changes to gaming machines and networks that are necessary for effective harm minimisation.

A cohesive, forward-looking approach

In summary, the Commission is proposing a comprehensive, coordinated and carefully sequenced package of reforms to gambling regulation. Boxes 8 and 9 below describe in simple terms the implications of the reforms for gamblers and for the industry, respectively, while table 1 gives a timeline for the recommended changes.

The objectives of the Commission's proposals are to increase competition in some segments, expand consumer choice in others, but above all, to reduce the harms from gambling while preserving its entertainment value as much as possible.

A package of measures is more likely to be effective than any single measure alone. The proposals also look to the future, given that governments cannot implement many measures immediately, there are transition costs for the industry, and gambling technologies are developing rapidly. Policies for effective consumer protection must plan now to address the risks and take advantage of the opportunities those technologies provide. While the emphasis is on gaming machines, there is also scope for reforms across the whole industry in some areas of harm minimisation, and for reforms in other segments that would serve to liberalise gambling, while being in the interests of the wider community.

Table 1 The timing of changes to gaming machines

<i>Date</i>	<i>Measure</i>
2010	<ul style="list-style-type: none"> • implement cash/credit input limits in Queensland <ul style="list-style-type: none"> – build this feature into new machines in other jurisdictions for activation by 2016 • commence broad development of standards and design features <ul style="list-style-type: none"> – fast-track standards needed for dynamic notice of actual cost of play, internal bank for wins over \$300, dynamic warnings of potentially harmful play, capability to operate at \$1 bet limit and partial pre-commitment – each jurisdiction to decide which communications protocols they will use for pre-commitment and remotely changing EGM parameters • commence design of prototype full pre-commitment system for future trial
2011	<ul style="list-style-type: none"> • new EGMs to have: <ul style="list-style-type: none"> – dynamic notice of actual cost of play (activated immediately) – capability for internal bank for wins over \$300 (not activated) • implement simple warnings on EGMs using compatible monitoring systems
2012	<ul style="list-style-type: none"> • new EGMs to have: <ul style="list-style-type: none"> – capability for dynamic warnings of potentially harmful play (not activated) – capability to operate at \$1 bet limit (not activated) – consistency with agreed central monitoring protocols
2013	<ul style="list-style-type: none"> • implement partial pre-commitment in jurisdictions with compatible monitoring systems, with limited exemptions • trial of full pre-commitment system
2014	<ul style="list-style-type: none"> • activate: <ul style="list-style-type: none"> – internal bank for wins over \$300 for all machines supporting this feature – dynamic warnings of potentially harmful play for EGMs supporting this feature
2016	<ul style="list-style-type: none"> • upgraded monitoring systems to be operational in all jurisdictions • full pre-commitment to be operational in all jurisdictions, subject to trial outcomes, and with limited exemptions • all EGMs to be capable of facilitating pre-commitment and remote adjustment, excepting exemptions for small venues • excepting exemptions for small venues, all EGMs to: <ul style="list-style-type: none"> – provide dynamic notice of actual cost of play – provide dynamic warnings of potentially harmful play – have an internal bank for wins over \$300 – operate at a \$1 bet limit • all jurisdictions to impose cash/credit input limits
2018	<ul style="list-style-type: none"> • all exemptions for small venues end
2020	<ul style="list-style-type: none"> • assess effectiveness of all harm minimisation measures to see if they should be modified or removed

Box 8 From a player's perspective: questions and answers

The Commission's recommendations would have direct impacts on gaming machine players. But for many players, the effects would not be large, and it is important that this is understood.

'Will changes to gaming machines make them much different to play?'

The new cash input limit means you would only be able to put in \$20 at a time. If you play the pokies at low intensity, as most players do, you would notice very little difference. The games would still play the same way.

A key recommendation is to make \$1 the most you could bet on a single button push. People who only play pokies once in a while usually bet less than this anyway. The \$1 bet limit reflects that gaming machines are really entertainment devices only — the cost of play should reflect this.

The problem with high bets is that it is very easy for some people to lose a lot of money fast, sometimes without realising how much, and many players do not realise that the chances of winning over many sessions are low.

'Will on-screen warnings interrupt my game?'

They may sometimes, depending on how you play. From 2014, if you start playing a lot faster and betting more, a warning might pop up to alert you. Most people will want to read and think about it, but you would only have to press a button to close it, or wait for it to go away.

An on-screen change that won't interrupt your play would be a notice of the *cost of play per hour* as a dollar amount. The idea is similar to a fuel-use gauge in some new cars that can show how much fuel you use as you accelerate. In this case, the more lines and credits you bet, the more it costs, and the screen would give you an idea about how much. You'd still have the usual wins and losses, but if you were going to play for a while, it would give you a good guide as to the long-term overall cost of play.

'What about my winnings?'

From 2014, new machines would have a 'bank' meter beside your normal 'credits' meter. Any big one-off wins (over \$300) would be put in the 'bank' instead of being added to your credits. You could keep playing, but you would not be able to gamble what is in your bank — you could only cash it out when you finish playing. It is intended to help those who overstretch themselves, but also to make it easier for all players to keep their winnings.

continued

Box 8 **continued**

'What is 'pre-commitment'? Is the government going to limit how much I can gamble?'

Some people want to cut down on their gambling, but once they're at the machine, it becomes difficult to stick to their plan. With pre-commitment, you could set your own limits on how much you could lose in a session, and how long that session would last.

You would be able to set limits for a week or month, or even just for that day. Once you entered that into the system, it would stop you from going over that limit. But you would not have to use it if you didn't want to, and no-one else (including government) would be putting limits on how much you could spend on gaming machines.

'Who is going to know how much I spend on gambling?'

The 'pre-commitment' system is intended to keep track of how much each player gambles, but this information will not be used, collected or even seen by any government office. None of your information will be given to other businesses. The data are only collected to let you keep track of your own spending, and manage it as you see fit.

'Do I have to sign up for a card just to gamble?'

Special provisions will be made for low level betting by occasional users. But if you play more regularly, and pre-commitment is implemented fully across your state or territory, then you will have to sign up to play the pokies. You will be required to use a card, a PIN or other identification device. But it will be just as quick and easy as signing up for a membership at a video shop or a club. To make things even easier, you will just have to sign up once, and you can use that identification all over the state.

'When would pre-commitment start?'

Pre-commitment has already been trialled in a few venues across Queensland and South Australia. Some form of pre-commitment is operational in many Queensland venues already. An interim system would begin in 2013 for some jurisdictions, and a full version in 2016 for all jurisdictions. Some smaller venues might not be able to offer it until 2018.

'Will pubs and clubs be closing earlier?'

Clubs and hotels would be able to open as late or early as they always have, but their gaming machines would be shut down for a few more hours — commencing no later than 2:00am for six hours.

'Can I make a complaint about a venue?'

Yes. If you had a complaint about the behaviour of a venue that may contribute to problem gambling, you would be able to go directly to the gambling regulator in your jurisdiction. Venue staff would also be able to do this.

Box 9 From a venue's perspective: questions and answers

The changes to EGMs recommended by the Commission would affect various aspects of gaming venues' operations. However, it is important that any concerns of venue operators are not heightened by any misunderstandings about what is proposed.

'Would I have to change my machines immediately?'

No. Some new harm minimisation features would be built into *new* machines from 2011, while any new machines sold from 2012 onwards would need to have the complete set of features. Most of these harm minimisation features would not be activated immediately, but would be built in the machine as an available setting. You would not have to start buying new machines at this time.

'Could I just run my old machines?'

Yes, for some time. There would be a deadline after which all machines in operation would need to be compliant with harm minimisation measures and conform to the communications protocol decided by your jurisdiction. After this deadline, older machines would have to be upgraded or replaced. For larger venues, the recommended deadline is 2016, whereas smaller venues would have until 2018.

'Would I eventually have to replace my machines all at once?'

The timetable for machine replacement gives venues six years to plan their capital turnover. New machines bought from 2012 onwards would be compliant beyond 2016.

'Would I have to replace my machines every six years from now on?'

No. These changes are designed to make compliance with any changed rules quick and inexpensive in the future. New machines available from 2012 would be compliant for a longer time period than previous ones. Prior to the development of that generation of machines, state and territory governments would have decided on various common standards, including harm minimisation capabilities, and the protocol to be used going forward. Once the machines are using advanced protocols, any changes to compliance could be as simple as your regulator transmitting a new parameter to machines remotely. But if you buy new machines prior to 2012, you will need to check with your manufacturer as to whether they complied with standards valid beyond 2016.

'According to this timetable, when would my patrons actually see these harm minimisation measures?'

In 2010, Queensland would remotely implement a new cash-credit input limit of \$20. In 2012, new EGMs would have dynamic notice of actual cost of play. In 2013, some jurisdictions (with compatible machines and monitoring systems) would implement partial pre-commitment. In 2014, machines with the built-in option of *internal banks* and *dynamic warnings* would have them activated. In 2016, larger venues in all jurisdictions would operate full pre-commitment (subject to trial outcomes), and in 2018 small venues would follow suit.

continued

Box 9 **continued**

'Some of my customers will not like the idea of the government watching how much they gamble'

Privacy would be protected. The pre-commitment system would keep track of how much each player gambles, but this information would not be used, collected or even seen by any government department (including the tax office). Neither could monitoring operators use this data in any way. The data would be collected solely for the players themselves — so they could keep track of and manage their own spending. Venues could still continue to run loyalty schemes if the player consented. And no-one would be telling players how much to gamble – any limits would be decided by the player.

'What would be the impact on my bottom line?'

Harm minimisation is designed to allow people to control their spending better. This means that people whose lives are harmed by excessive gambling will be encouraged to gamble within their limits. Since gamblers with problems tend to spend much more than others, helping them control their gambling will inevitably reduce a venue's turnover relative to what it would otherwise have been. However, this will not happen overnight, and other market developments, such as from more innovative technologies, could be expected to have some offsetting effects.