19 Implementation issues and transitions

Key points

- Some of the Commission's recommended harm minimisation measures can be implemented quickly and at relatively low cost, with few transitional issues:
  - others, while straightforward, will require cooperation and coordination among jurisdictions.
- There are significant practical and cost obstacles to early implementation of some important modifications to features of EGMs and the monitoring systems in each jurisdiction:
  - these include their current technological capabilities, and the need to avoid perverse incentives for venues and players.
- The Commission has proposed an implementation path that allows sufficient time for adjustment and for these obstacles to be overcome at reasonable cost:
  - but its detailed implementation will be affected by how regulators and industry respond to some technical constraints, and how technological developments within the industry play out.
- At the end of the ten-year period, governments should assess the effectiveness of all harm minimisation measures to see if any should be modified or revoked at that stage:
  - evaluations would inform decisions about the need to adapt measures as circumstances change and as governments learn more about the factors that make them effective.

A number of the measures recommended in this report could be implemented readily and at relatively low cost. In the case of modifications to EGMs, however, transitional arrangements will be critical to implementation costs and to the effectiveness of eventual outcomes. Consequently, most of this chapter addresses these issues.

The next section identifies which recommendations can be implemented quickly and at low cost, and notes some areas where coordination between governments will be particularly important. Section 19.2 discusses the major considerations that underlie the Commission's proposed implementation path for a pre-commitment regime and for other changes that affect EGMs, while section 19.3 explains the

implementation path in more detail. The final section notes where the Australian Government can play a key role in facilitating reform.

19.1 Implementation issues vary across measures

As noted, while many of the Commission's recommendations are straightforward, implementation by some jurisdictions will be more complex, and will require:

- *consultation* among governments, gambling venues, gaming machine manufacturers and other vendors, as well as with community organisations
- *preparatory work* by governments (such as in standards development and trials)
- a reasonable *transition* period to reduce costs for affected parties (for example, to allow venues to plan for the changes, to avoid the premature retirement of a large share of the stock of their EGMs, or to give gaming machine manufacturers and other vendors the time to implement recommended changes and to adopt new technologies)
- the *packaging* of measures, where possible, in order to reduce adjustment costs to venues and gaming machine manufacturers.

Implementation plans also need to take account of:

- the imperative to *monitor and evaluate* outcomes to ensure that the measures are working effectively, and to assess whether any measures should be modified
- the associated need to determine evaluation methodologies and collect relevant evidence *prior* to the evaluation.

Recommendations that can be readily implemented at low cost

Among those proposals that governments can implement relatively quickly are:

- enhancements to public awareness campaigns relating to problem gambling and diffusion of a simple screening tool as part of other health diagnostics (recommendation 7.1), and changes to the funding and coordination of help services (recommendation 7.3)
- more effective warnings for gaming machines (recommendation 8.1), appropriate price disclosure on machines (recommendation 8.3) and prohibiting information that reinforces faulty cognitions (recommendation 8.5)
- further limits on inducements to gamble in certain circumstances (recommendation 12.3)

- modifications to existing self-exclusion arrangements, including the establishment of a database (recommendations 10.1 to 10.3)
- enhancements to gambling regulators' compliance, complaints-handling and enforcement mechanisms (recommendation 12.1)
- warning and help messages for ATMs/EFTPOS facilities and a daily $250 cash withdrawal limit (recommendation 13.2), and other changes that provide barriers to impulsive spending by problem gamblers (recommendations 13.4 and 13.4)
- extended and earlier mandatory shutdowns of gaming machines (recommendation 14.1)
- a review by the Australian Competition and Consumer Commission of ownership arrangements for Sky Channel (recommendation 16.2)
- improvements to the governance arrangements for gambling policy (recommendations 17.1 to 17.4), including the nature of the regulator, better consultation practices, and appropriate processes for assessing new regulations
- public and timely provision of data (recommendations 18.1 and 18.2).

Areas where governments will need to coordinate actions

Some measures will require agreement amongst governments, including:

- the establishment of a national minimum standard of training for problem gambling counsellors (recommendation 7.2)
- the development of a nationally-consistent and publicly-available data set on gambling help services (recommendation 7.4)
- the liberalisation of the domestic supply of online poker card games, accompanied by appropriate harm minimisation measures, and the subsequent evaluation of whether managed liberalisation should extend to other online gaming forms (recommendations 15.1 and 15.2)
- the development of a national funding model for the racing industry if the race fields legislation cannot facilitate a legally viable or competitive wagering market (recommendation 16.1)
- enhancement of existing arrangements for coordinating gambling policy research and evaluation through the creation of a new national research centre (recommendations 18.3).

Governments should seek to implement these actions within the next few years.

Reforms to the gaming machine national standards (recommendation 17.5) will also require cooperation between jurisdictions. But, as discussed in the next section, policies for EGMs have to be carefully sequenced — and must be coordinated with the development of pre-commitment systems and machine-based warnings (recommendations 10.4, 8.2 and 8.3).

19.2 Changes to EGMs: influences on implementation

Ideally, it might be expected that many of the changes to gaming machines recommended in this report would be introduced quickly, given their potential for reduction in harm to players. However, there are inescapable practical and cost constraints on the capacity for early change. It should be emphasised that while there are large gains for consumers from implementing the Commission's recommendations, premature adoption would entail costs for gaming machine manufacturers and venues, many of which would be borne ultimately by consumers themselves.

A key obstacle is the technological capabilities of the current stock of EGMs and the central monitoring systems to which they are connected. Venues typically have a mix of machines of different ages, manufacturers, game parameters and upgrade capabilities. The gaming machine manufacturing industry advised that, because of the multitude and variety of stock in the market (many of which are no longer supported), many required changes to the parameters and operations of all EGMs would be expensive and time-consuming to implement. The many (and significant) differences between jurisdictions would also need to be taken into account. As the GTA observed:

> The differences between the gaming machines in Australia's states and territories are so fundamental that they might well be in different countries. (sub. DR344, p. 7)

Many of this report's recommendations would require changes to be implemented via incorporation into new software. For many EGMs, this could be accomplished by a software upgrade. For others, hardware would also need to be altered. In both cases, it would require a licensed technician to open each machine to alter its software (and perhaps also its hardware). This would generally be a costly and slow process.

For some older machines, this approach would not be technically feasible, and the recommended changes would necessitate their early retirement. That would entail outlays on new machines of between $15 000 and $25 000 or more. While at face value these costs are significant, several factors would mitigate them:

- In some jurisdictions, notably New South Wales, average machine utilisation and revenues are much lower than others, such as Victoria, where more stringent state-wide caps apply. Some of the older machines in such circumstances have very low asset values and venues would be unlikely to replace them.
- New EGMs have the advantage of newer games and more attractive machines for players, providing something of additional value to the venue.
- The correct annual cost of an EGM is not the one-off purchase value, but should take account of the fact that EGMs last for many years. (Many venues turn their machines over every five years.)

That said, even though some claims about the large costs of replacing machines exaggerate the true picture, significant costs would still be entailed.

Other influences on the costs of the measures proposed by the Commission are:

- Differences between jurisdictions in how EGMs are configured, linked and monitored and, in particular, in the capacities of central monitoring networks to support a jurisdiction-wide pre-commitment system. For example, the change to note acceptors in Queensland was achieved at minimal cost, as it was implemented remotely via the monitoring system. But for most of the recommendations in this report, early changes would require implementation machine by machine.
- The requirement for all relevant jurisdictions to decide upon regulatory standards and protocols (a slow and difficult process, as discussed in chapter 17).
- The resources and time required for the gaming machine industry to design and test the required changes for a large number of games, and have them authorised by the regulator.

For these reasons, the changes proposed by the Commission cannot be achieved quickly or simultaneously. In some cases, a staggered introduction would cause no difficulties. But for changes that are likely to have significant revenue impacts, there would be a reduced incentive during the transition for venues to buy and patrons to play those machines. Implementation of the Commission's recommendations needs to be staged in a way that takes account of this.

The costs of implementing changes to machines will depend largely on how and when those changes are made. EGM software encompasses not only the game, but also the efficient and secure processing of information — ensuring integrity and fulfilling audit requirements. Many harm minimisation policies that appear straightforward to implement, could require complex changes to software or hardware in various layers. In the main, only a few measures related to EGMs could

be implemented quickly, due to the cost of changing existing machines (and the adverse incentives caused by having old and new EGMs side-by-side), but many could be implemented in new EGMs at low incremental cost over the next few years.

The above constraints mean that the order and timing of the introduction of the Commission's proposals are crucial.

With that in mind, the Commission sets out briefly below the main considerations that underlie its recommended implementation path. Section 19.3 then outlines the steps needed to implement the recommendations. Beyond this, discussions will obviously be required between regulators and industry to determine in detail what will be needed for implementation, the associated cost and its feasible timing. The transitions outlined in this chapter are based on consultations with parties expert in the relevant technologies.

Avoid unintended consequences for players and for investment

There is scope for adverse and even perverse consequences for players, venues and manufacturers if measures are implemented unevenly or too quickly. For example, where governments require a new feature to be incorporated only into new or upgraded machines, venues may delay their investments, staying with older, higher intensity machines.

Similarly, player behaviour can be affected. Were a lower bet or cash input limit to be introduced on only a proportion of EGMs in a venue, some heavy-spending players could be expected to avoid the new, lower-intensity EGMs in favour of the older, higher-intensity machines. Consequently, the harm minimisation benefits of the change would not be forthcoming. And as measures that are successful in reducing the harms from EGM play will also reduce gaming revenues, venues would have a reduced incentive to buy them.

This in turn would have flow-on implications for the EGM manufacturing industry if, for example, they are required to produce EGMs incorporating certain features, but venues delay buying them before the required implementation date. Equally, however, if many changes are mandated, and too early a timeline set, the costs to venues would be much higher, and EGM manufacturers may well not be able to meet investment demand.

Develop networks to:

- **support pre-commitment**
- **allow regulators to adjust game parameters remotely**

As noted in chapters 10 and 11, the Commission sees considerable long-run benefits in future networking arrangements for EGMs that can:

- support full pre-commitment (recommendation 10.4)
- allow regulators to change remotely and quickly a wide range of game and machine parameters (recommendation 19.1)

The significant costs and delays involved in physically altering every EGM to implement a game or parameter change mean that harm minimisation benefits are delayed, and significant costs are imposed on venues and manufacturers each time a policy change requires implementation. But where changes can be made remotely, the costs are minimal, and the change can be implemented by the regulator virtually overnight. For example, Queensland can already remotely change such features as the cash input limit — which it did in 2001 — and generic warning messages.

The experience with ATMs provides another illustration of the enormous disparity between remote and physical approaches to gaming regulations. ATM providers (or deployers) can remotely change the daily limits on all ATMs in thousands of gaming venues at a cost roughly equivalent to the costs of re-locating just four or five machines outside a venue. (A remote capability also permits low cost, more comprehensive and easily reversible policy 'experiments', as the cost of parameter adjustments can be very small.)

Provide an extended implementation period

Because of the practical difficulties of making changes to EGMs and networks, a phased approach has been recommended. This facilitates adjustment, by giving industry (venues and manufacturers) advance notice, allowing them to plan and adapt to the new environment. This in turn would minimise their costs, and address the adverse consequences feared by the venues (chapter 11). It will also reduce the impacts on the gaming machine manufacturing industry by spreading the demands on it over time.

Monitor and evaluate programs as implementation progresses

Good evaluations are needed to provide the information that would allow policy measures to be refined and developed, and their effectiveness assessed (chapter 17). In addition, such evaluations can provide information about whether regulatory changes that are still in the pipeline would, in fact, need to be made or would need modification. For example:

- a successful pre-commitment system may obviate the need for some other restrictions
- some measures would be more effective in the event that new technologies for gaming were widely introduced during the proposed implementation period.

19.3 Changes to EGMs: an implementation path

Broadly, in light of the issues raised in the previous section:

- work should commence as soon as possible on planning for longer term changes, including to monitoring systems and communications protocols
- the timing of certain features should be staggered to minimise the scope for unintended consequences.

Plan for pre-commitment

Governments should assign high priority to the early implementation of a full pre-commitment system (which allows patrons to set binding limits), given that it is likely to reduce significantly gambling harms (chapter 10). Accordingly, planning for this should commence without delay, with implementation staged as follows:

- partial pre-commitment (which allows patrons to set limits that they can ignore) to be introduced between now and 2013 in jurisdictions that have compatible monitoring systems (recommendation 10.5)
  - ensuring that the systems used are themselves compatible with the later adoption of full pre-commitment
- a trial of a full pre-commitment system to be conducted in 2013
- full pre-commitment to become operational in all jurisdictions by 2016, subject to the outcomes of the trial (and with exemptions in exceptional circumstances).

Careful design is needed

A successful pre-commitment scheme must have particular features and the details of its design are crucial to its effectiveness. Development should be undertaken by all governments on a cooperative basis, given the desirability of common standards and features. This will involve significant consultation, research and development. It will take time.

State and territory governments will have to undertake preparatory work in many areas. As noted by McDonnell-Phillips, 'the introduction of pre-commitment options needs to be viewed in a way which is identical to the marketing of a new product' (2006, p. 46). Some of the prerequisites will be:

- testing and approval of technologies and standards (including for player identification), with national agreement and coordination. It would be important to get early regulatory agreement for EGM manufacturers to sell machines that were network compliant, even if that functionality could not be immediately exploited. This would enable the gradual diffusion of network–ready machines throughout venues, reducing costs to venues when the system does become operational (appendix C)
- testing of the pre-commitment system. The trials already conducted have provided useful information about some aspects of a future system, and in particular, the imperative to have an easy method for providing cards or other forms of player identification to gamblers
- the exact parameters of the default case (for example, a weekly limit of $100 and a maximum session duration of three hours), with the goal of ensuring genuine harm minimisation
- trials of the system in naturalistic settings, preferably in locations where the capacity for gamblers to move to other venues not participating in the trial is limited (recommendation 19.2 below)
- systems for ensuring the privacy of the system — both in terms of the legal responsibilities of those managing the central system and the security of the card/device itself
- systems for ensuring probity in the system and avoidance of tampering with the method for identifying players (for example, by people swapping cards)
- marketing of the system and information provision to consumers. The idea of pre-commitment is not to deter gambling, but to facilitate its enjoyable consumption. When mandatory safety belts were first introduced, many people opposed them on the grounds that they were uncomfortable, infringed people's rights, or wouldn't work. Few people would think this way today. It can be

expected that some of these issues (and others, like privacy) will recur with full pre-commitment in gambling, and that governments will need to acknowledge these concerns and explain how they have been dealt with.

EGMs would need to run a sufficiently advanced communications protocol. Monitoring operators would need to be able to run the pre-commitment system and each EGM would require compatible player identification hardware. Queensland appears to meet these requirements already, although compatible player identification hardware is not installed at all venues.

Phased implementation would involve the development of standards and the earlier adoption of partial pre-commitment as the precursor to rolling out full pre-commitment in all jurisdictions by 2016.

Develop upgraded monitoring systems

Some jurisdictions already have the basic technological infrastructure to deliver the Commission's preferred pre-commitment model more quickly than has been recommended, through their existing central monitoring systems and loyalty schemes. The Qcom system in Queensland already provides venue-based pre-commitment and could easily be switched to multiple venues over a wide area (statewide). Systems in Tasmania and the Northern Territory could be developed to provide pre-commitment across most venues and EGMs. Victoria has announced a monitoring system that would have a similar functionality as part of its legislated intention to implement pre-commitment (chapter 10).

The notable exception is New South Wales, which does not have a two-way monitoring system capable of making changes remotely to EGMs. Similar functionality could be provided in New South Wales (and in the ACT,[1] South Australia and in casinos in several jurisdictions) through a set of staged changes over several years:

- New machines would need to have compatible software and hardware that could support pre-commitment so that, over time, the entire stock of machines would have the desired features.
- The monitoring system (and associated technologies run by the monitoring operator) would need to be upgraded.

[1] The ACT has no central monitoring, but individual venues often have card-based loyalty schemes.

With careful sequencing, the costs would be lower, but the transition to a pre-commitment system would take longer. One regulator in a small jurisdiction suggested that it could upgrade its monitoring system for something like $20 million, a largely one-off cost that would need to be set against the longer term harm minimisation benefits that such a system would provide. However, the costs in New South Wales would be higher. The NSW Government said that, while it would be beneficial for all jurisdictions to use the same monitoring protocol:

> … once a protocol has been established in a jurisdiction, there is a significant cost associated with switching over to a new … protocol. This is because all gaming machine software needs to be upgraded as well as the entire [monitoring] infrastructure. NSW completed this kind of transformation about 6 years ago with the introduction of its [central monitoring system]. (sub. 247, pp. 11–12)

Nevertheless, the licensed monitoring operator in New South Wales is the same company that monitors the majority of hotel and club EGMs in Queensland. To enable all EGMs, including linked progressive jackpot controllers, to be connected to the monitoring system, each EGM has an interface card installed, which is connected to a local area network that is connected to a monitoring system site controller (NSW Government, sub. 247, pp. 11–12). The Commission has been told that the in-venue site controllers in New South Wales could fairly readily be upgraded to be the same as those in Queensland. Nevertheless, the requirement for large-scale EGM upgrade or replacement would remain.

In all such cases, the technical details of implementation and precise scheduling of changes will need to be agreed by regulators and the industry. (Some industry comments on the issues now being faced in Victoria are reported in box 19.1).

Industry participants noted that, where harm minimisation policies require upgrades to gaming machine software, the compliance cost for industry is much reduced (in some cases, almost completely negated) if the upgrades follow the normal replacement cycle for EGMs. This would entail new features or specifications of machines being introduced to the market only as new machines were purchased. While this is certainly the path of least cost for industry, there is a lot of uncertainty regarding how long a natural replacement cycle might be. The Commission has heard the following from industry participants on this issue:

- the depreciable life of a gaming machine for taxation purposes is five years (after which its asset value is simply its scrap value)
- a major hotelier estimated that some high revenue earning hotels would buy new EGMs every four to five years, while others could take twice as long

- some venues are much less inclined to replace their machines at anywhere near the average industry depreciation period, and it could also be expected that recently-purchased EGMs might last even longer into the future
- one gaming manufacturer noted that the replacement cycle of EGMs held by its customers was around 12 years
- regulators in two jurisdictions estimated that they were aware of quite a few machines in operation were 12 to 15 years old.

For such reasons, it is likely that, without a date at which all machines must be compliant, the uneven rate of EGM replacement across venues would overly delay the implementation of harm minimisation measures. (Venues that keep their machines for many years would face a low average depreciation charge associated with a requirement to purchase new machines.)

Another guide to lead times might be the experience in New South Wales when implementing its monitoring system. Aristocrat said that:

> … the transition time allocated … for adoption of the NSW X-Series protocol and NSW [monitoring system] readiness was approximately seven years, during which time gaming machines were permitted to operate while not connected to the … monitoring system. (submission to Victorian monitoring licence review, 2008)

However, the extended period that was allowed reflected not only the adoption of a new protocol, but also the connection of EGMs to a central monitoring infrastructure where there had been none before. (In contrast, all club and hotel venues in New South Wales are now monitored by a single operator.)

Give regulators the capacity to adjust game parameters remotely

The Commission also sees a key role for central monitoring systems in allowing governments to remotely 'switch on' and adjust key parameters in all EGMs in a jurisdiction (recommendations 10.6 and 19.1) as a vehicle for introducing, altering (or even reversing) harm minimisation policies in a quick and low cost way.

This would also provide greater flexibility to individual jurisdictions to experiment with harm minimisation measures as they saw fit. Indeed, the Tasmanian Gaming Commission expressed concern that Tasmania has been limited in its capacity to enact some harm minimisation measures:

> … because no game producer is going to produce 'non standard features' for a jurisdiction with a capped number of 3680 EGMs. This situation is the same for all smaller jurisdictions (except Western Australia), and is exacerbated when some larger jurisdictions have been less than enthusiastic about harm minimisation proposals. (sub. DR311, p. 2)

Box 19.1 **Victoria's new monitoring system for pre-commitment**

Currently, Victoria is tendering for a single central monitoring operator for all Victorian EGMs. The central monitoring system, inclusive of a new communications protocol, is central to Victoria's planned system of *pre-commitment* which is scheduled to begin for some machines in 2013, and for all machines by 2015. The new monitoring operator is expected to implement a single communications protocol, which has yet to be chosen.

Submissions from industry indicate the transitional issues they face — for instance, the lead time that game manufacturers might need to adjust their games:

> … we estimate approximately 100 games will be required to successfully transition the existing Aristocrat gaming machine base to the new structure. A realistic capacity plan … would be approximately three to four years development effort after the approval of the initial game to the new specification. (Aristocrat)

Victoria's changes are likely to affect the various game manufacturers differently. A key issue is how to deal with existing machines that would not be compatible. Incorporating upgraded software and/or retrofitting EGMs with additional hardware can be costly.

> Reconfiguration of existing gaming machines is a massively complex and costly exercise. For example the design, development, testing, submission and approval process can require up to 3 years of intense effort and manufacturers' resources for each game — and longer for new gaming machine platforms (GTA).

Another concern was that the exact content of information to be provided to the monitoring system be specified before the mechanisms are designed to provide it. Yet another was that any new protocol be able to accommodate multiple communications protocols to minimise the costs of transitioning. While EGMs have been upgraded in the past to use new protocols, this has often relied on kits provided by manufacturers, which may in itself create problems. Monitoring operator Maxgaming said:

> In the absence of price controls, a forced fast requirement for venue operators to convert from existing protocols might lead to profiteering, price exploitation and limitations on game supply … A reasonable time frame based on normal replacement life to have all machines on a single protocol is suggested, recognising that existing protocols may limit the rollout of certain new services (Maxgaming).

It also suggested that older machines not be required to conform immediately.

> Burdening venue operators with forced replacement or conversion of all gaming machines to a single protocol at the time of cutover to the new monitoring system, at the same time as they are required to pay for entitlements and upgrade underperforming EGM's, would impose an extremely large impost on venues … (Maxgaming)

Its preferred approach was to require the monitoring operator to develop multi-protocol support for 'legacy' machines and to allow these to be converted to the new protocol within some limited time frame.

Source: Submissions to the Victorian monitoring licence review, 2008, Department of Justice, Victoria (www.gamblinglicences.vic.gov.au).

Box 19.2 **Communications protocols and policy flexibility**

EGMs communicate with external devices (usually on-site controllers) for monitoring purposes. The main purpose of such communication is to relay audit information from the gaming machine to the monitoring device, and for central monitors to detect faults in software. The language code that the machine uses to communicate is referred to as a *communications protocol*.

As EGM manufacturers pointed out, almost all gaming machines in the world run on a communications protocol called SAS, but in Australia, there are six different protocols, which differ in age and complexity.

However, the ability to remotely install or change any aspect of a gaming machine (that is, without having to physically open the machine case itself) is dependent on the machine using a *two-way communications protocol*. This allows the machine to both receive and send messages. It is this aspect that is most relevant to harm minimisation policy implementation because, with well-developed two-way communication:

- a number of EGM parameters can be set up as remotely adjustable. This allows some changes to be made without subsequently requiring new gaming software or physical changes. Such changes could then be easily altered or even reversed
- some aspects of the machine can be controlled remotely, to provide for a centralised system of pre-commitment.

In terms of two-way communication, the different protocols used across Australia have very different levels of functionality. For instance, the X-series (mainly New South Wales) is almost completely one-way in communication, with the exception of allowing the remote disabling of a machine. VLC (which is the main protocol used in Victoria[2] and South Australia) allows some EGM parameters to be changed remotely, but is very limited in functionality. Qcom, arguably the most advanced Australian protocol, is used in Queensland, Tasmania and the Northern Territory. It allows various remote control functions such as disabling a machine, sending on-screen messages, changing cash input limits etc. In future, newer, more advanced protocols (such as Qcom3 or the GSA standards) would provide even greater potential for remote functionality (as well as compatibility with networked gaming).

Source: Discussions with EGM manufacturers and government regulators.

More advanced communications protocols would allow such changes at a jurisdiction's discretion. But at the moment, all jurisdictions are limited in the changes that they can make remotely.

Over the next six years, each jurisdiction should upgrade its monitoring systems to implement this capacity and move towards appropriate communications protocols.

2 Victoria is tendering for a new monitoring system.

This will lower compliance costs of regulating EGMs in the long run and lead to more focused regulation that can be implemented without delay.

The Commission has recommended that such investments be completed by 2016 (recommendation 10.6). This should allow the above features to be implemented at a lower incremental cost than would be the case with a more compressed timeline. It will also reduce the impact of the required EGM machine replacement and modification, which can be spread over a longer time period.

To achieve these changes, governments should commence planning without delay to obtain agreement on the design features and common standards and protocols required for the development of these capacities.

Introduce certain game and machine features sequentially

Some measures are likely to be more effective than others, some could be introduced more quickly and at relatively low cost, while others would take time to implement, and at higher cost. Accordingly, the sequencing of the recommended changes is important. To limit the capacity for adverse consequences, the Commission has recommended staggering the introduction of some changes, by requiring that certain features be incorporated into new EGMs (or major upgrades) from an early date, with:

- some of these being made active as soon as they become incorporated into software
- others being 'switched on' at later dates, to allow time for them to be incorporated into a critical mass of EGMs and to operate together.

As discussed earlier, this is because the expected effects of some measures — on players, venues and manufacturers — will be much larger than others, and uneven introduction would affect incentives to play, to buy or to manufacture new EGMs, to the detriment of all parties. (Where the expected effect is smaller, earlier introduction should have a much smaller effect on player and venue decisions.)

Implement reduced cash input limit

This measure (recommendation 11.2) — designed to have some impact on intensity of play by reinforcing 'informed consent' — can be done remotely, immediately and at low cost in Queensland, using the monitoring system. (Indeed, the Queensland Government made such a change remotely a decade ago, as well as altering it a short time later.)

But for other jurisdictions that allow the use of notes, the functionality would be built into new machines, so that the bulk of them would have this feature by 2016 (recommendation 11.2). Any residual machines would have to be modified by a technician by then.

Internal bank for wins over $300 ('quarantined prizes')

Work should commence without delay to prepare for this feature (recommendation 13.3), to be provided on all new EGMs from 2011. In all EGMs that have this feature, it should be activated no later than 2014, and be mandatory for all machines by 2016.

Dynamic notice of actual cost of play

In future, EGMs should electronically inform consumers about their expected hourly losses based on their actual playing styles ('real-time' price disclosure). Work should commence now to enable this feature (recommendation 8.3) to be provided on all new machines from 2011. This feature should be activated as available, and made mandatory for all EGMs by 2016.

Dynamic warnings of potentially harmful play

In jurisdictions where the technology permits, simple generic warnings should be provided remotely to all their EGMs via monitoring systems. This should occur by 2011.

By 2012, new EGMs should have the capability for dynamic warnings. This need not be activated immediately, but in all machines that have this feature, it should be activated no later than 2014, and be mandatory for all EGMs by 2016.

Lower (and adjustable) bet limits

While it would be feasible for *new* machines to be limited to a $1 bet limit, such a limit would be difficult to implement quickly across all EGMs (chapter 11). Consequently, problem gamblers could still select older, high-intensity machines in a venue, undermining any potential gains over the interim. Moreover, operators would have weak commercial incentives to invest in new machines.

From 2012, new EGMs should be required to have a $1 maximum bet capability (recommendation 11.1). The $1 bet limit feature need not be activated at that time, so those EGMs could be configured to operate at higher maximum bets in the

interim. But by 2016, when all machines are required to be limited to a $1 maximum bet, they would need to be 'switched' to operate at that level.

The destination

By 2016, other than in small venues that are subject to (temporary) exemptions, all EGMs should be required to have certain capabilities, including:

- dynamic player-specific warnings of risky playing (such as sudden ramping up of play)
- pre-commitment
- dynamic pricing notification (expected losses per hour at actual rate of play)
- a quarantined 'bank' facility to store for prizes exceeding $300 (for withdrawal at end of play)
- a capability for playing a game at differing bet limits, including $1.

Each of these features should be designed to be *adjustable remotely* to allow regulators to make quick, low cost changes to parameters (for example, as experience reveals the more effective harm minimisation settings). This will also require upgrades to each jurisdiction's monitoring systems to have been completed.

Some recommendations should be able to be adopted earlier in those states where technology allows relatively low cost solutions. These jurisdictions should implement such policies without waiting for other jurisdictions to follow suit.

Over the longer run (perhaps around a decade), new monitoring systems, intelligent hardware (such as touch screens) and other technological developments would make it easier and quicker to implement and change many of these parameters, avoiding many of the current constraints.

The Commission's proposals for scheduling of implementation are shown in summary form in table 19.1. Some indications of the expected effect on players and venues are provided in boxes 19.4 and 19.5 (in question and answer form).

The extended timetable would limit adjustment costs

The Commission has sought to recommend an implementation timeline that takes account of the realities of the EGM market (and regulatory environment) and allows a sufficiently extended adjustment period for venues. This means that the benefits of effective harm minimisation policies will be realised more slowly than under a quicker implementation plan. But it gives machine manufacturers and venues time

to plan, set standards, and to retire older machines. It makes the inevitable costs more manageable for industry and venues (and provides them with time to adjust their business models to reflect the expected longer term revenue implications). And importantly, it sets in place a high degree of flexibility for regulators to, in future, quickly change EGM features with minimal cost to anyone.

A major consequence is that the costs of implementation will be lower. For example, the costs estimated by the EGM manufacturing industry at the time of the draft report (box 19.3) would be much reduced, as the implementation timeline envisages a staged introduction (table 19.1) and many changes more than encompasses the average replacement lifecycle of an EGM (for many venues, five years).

- Over half of the total cost (estimated by the Gaming Technologies Association, sub. DR344, p. 3) is for EGMs that would have to be replaced (now) were immediate implementation to be required. The Commission's extended timeline to implement the recommended changes avoids this and allows such changes to be incorporated via normal upgrades and EGM replacement, at a much lower cost (and with the added benefit to venues and their customers of having a new or upgraded EGM).
- 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 (and incorporated into the normal upgrade/replacement cycle), rather than retrofitted.

In this way, the approach taken in this final report will reduce the potential costs to the industry (and venues) by hundreds of millions of dollars, while allowing the effectiveness of measures to be tested progressively. And it will be particularly important for jurisdictions such as New South Wales where more changes (including to the physical aspects of the central monitoring system) will be required to introduce the recommended measures.

The recommended implementation pathway also has the advantage of consistency with the expected shift towards networked gaming and downloadable games. The industry has said it expects that technological developments will offer the prospect of better gambling experiences for consumers and new ways of providing effective harm minimisation as gaming technologies follow the same trajectory as the personal computer and the internet, with linked EGMs on sophisticated networks (GTA, sub. DR344, p. 7)

Commercial parties can develop many of these systems and conduct trials under the supervision of government, rather than government itself undertaking these tasks. A commercial focus may also have other incidental effects, as gaming machine

manufacturers and software and systems providers are likely to identify commercial opportunities in other products and markets from the development of pre-commitment. For instance, there is a strong potential to market safer and more flexible gaming products globally, especially given the emerging regulatory and commercial pressures for these types of products. A number of industry participants have said that there is a technological shift towards networked gaming for its commercial advantages alone.

While the key technological requirement for delivering full pre-commitment is a compatible central monitoring system, the `commercial networks supporting EGM gaming could be used as a vehicle for delivering pre-commitment, while simultaneously presenting some attractive commercial opportunities to the gaming industry. This would include among other things:

- the capacity to change games quickly and to deploy a greater variety of games (giving venues and customers more choice)
- altering EGM rates of return or denominations easily
- allowing more experimentation in game types to suit the venue's specific customers
- the potential for greater entry in games design
- more sophisticated analysis of player behaviour to determine future game design.

The transition period to the system will help venues by giving them advance notice of the future changes. That notice would mean that they could make sensible investments — such as buying machines that would be compliant with any future system and not expanding excessively if that expansion could not ultimately be serviced by revenue in the future. It also means that there are few grounds for transitional assistance to venues to help them meet the additional capital costs of the new system. In any case, governments do not usually provide subsidies for businesses to modify products that have adverse safety implications for consumers, if for no other reason that this would weaken the incentives for businesses to ensure the safety of their products.

Notwithstanding the Commission's proposed implementation schedule, if perverse investment behaviour eventuates, there could be a case for a compulsory, orderly program of replacement or upgrading of EGMs, in order to moderate the impact that adverse incentives could have on gaming machine manufacturers.

Box 19.3 **EGM costs: the gaming machine industry's view**

The gaming machine manufacturing industry expressed concern about the costs of the measures proposed by the Commission in its draft report. The GTA said that 'measures involving major redevelopment of multiple systems and updates to every gaming machine are prohibitively costly' (sub. DR344, p. 21). It advised that to implement the measures proposed in the draft report, over 20 000 game software sets would require to be redeveloped, and:

- about half or more of all EGMs (100 000 or so) could probably be made to comply with the new environment by way of software upgrades costing about $2000 each
- another 50 000 EGMs would require major hardware and software retrofits, at a cost of about $9000 each
- about one-quarter of the total stock of EGMs would need to be replaced due to obsolescence (about 50 000 EGMs at a cost of about $18 000 each).

Together, the GTA said that these costs would amount to about $1.55 billion, with additional costs for in-venue and monitoring systems to implement a full pre-commitment system (a total cost of over $2 billion) (GTA, sub. DR344, p. 3). But it also said that:

> During the next 10 years, such measures will be overtaken by technology which is highly likely to 'tailor' activities according to the player's wishes and control within accepted parameters. Any future roadmap needs to recognise these limitations, and the finite resources of the gaming machine industry. (sub. DR344, p. 21)

Allow temporary exemptions for some measures

While the Commission proposes that change be implemented gradually, some venues will face greater difficulties than others in meeting the proposed timetable. Accordingly, the Commission has recommended an even slower pace for change for those small venues (mostly small regional clubs and pubs) where the costs are high relative to the revenues they generate. In addition, a small pub or club with a few underutilised machines and strong familiarity between patrons and staff is likely to entail lower risks for customers. In such cases, the benefits from early implementation of the proposed EGM changes would be lower in these small venues, and the costs to the venue higher.

Any such exemptions would only apply for a few years. However, if such venues upgrade their EGMs or purchase new ones, these should incorporate all the features recommended by the Commission, to be activated at the same time as all other venues.

RECOMMENDATION 19.1

All governments should commence work as soon as possible to specify the design features, common standards and protocols for gaming machines and central monitoring systems that would:

(a) support a future full pre-commitment system (recommendation 10.4), including the exact design of a prototype to be trialled (recommendation 19.2)

(b) allow governments to quickly and remotely set and change bet limits, cash inputs, player information displays, dynamic warnings, pre-commitment options and other key machine parameters for all EGMs in a jurisdiction

(c) permit machine manufacturers to sell machines during the transition period that would be compliant with (a) and (b) when these features were 'switched on'

(d) not hinder competition between rival providers of games, loyalty schemes and monitoring services.

A trial of full pre-commitment

A trial of a binding 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, whose location is selected to minimise the risks that people evade their pre-commitments by travelling to another location.

RECOMMENDATION 19.2

The Australian Government should enter into negotiations with a state or territory government to sponsor a full-scale regional trial or trials of a full pre-commitment regime (recommendation 10.4), with trialling to commence by 2013.

Trialling should:

- ***test the design features of full pre-commitment for possible modification***
- ***substantiate that full pre-commitment has sufficient advantages over partial pre-commitment to justify proceeding with its implementation in all jurisdictions.***

Table 19.1 **The timing of changes to gaming machines**

Date	*Measure*
2010	• implement cash/credit input limits in Queensland – build this feature into new machines in other jurisdictions for activation by 2016 • commence broad development of standards and design features – 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	• new EGMs to have: – 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	• new EGMs to have: – 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	• implement partial pre-commitment in jurisdictions with compatible monitoring systems, with limited exemptions • trial of full pre-commitment system
2014	• activate: – internal bank for wins over $300 for all machines supporting this feature – dynamic warnings of potentially harmful play for EGMs supporting this feature
2016	• 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: – 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	• all exemptions for small venues end
2020	• assess effectiveness of all harm minimisation measures to see if they should be modified or removed

Regulatory processes must facilitate implementation

Changes to standards, communications protocols and design features for gaming machines and monitoring networks require regulatory processes to be followed within and across jurisdictions (chapter 17), and time needs to be allowed for this. The regulatory arrangements for some measures will need to be fast-tracked to meet the timeline for their introduction (table 19.1). This work should commence without delay.

Regulators in each state, and the gaming machine industry, are experienced in the procedures required to make the recommended changes, which will help speed up the process. But as noted in chapter 17, the need for cross-jurisdictional agreement can constrain the capacity of governments to develop regulatory arrangements in a timely manner. Without concerted efforts to expedite regulatory processes, both within jurisdictions and in areas where cross-jurisdictional agreement is needed, implementation will be unnecessarily delayed.

Within all jurisdictions, this needs to be given high priority and expedited. The benefits from early action are large, whereas delays would impose large social costs by frustrating the capacity to introduce effective harm minimisation measures. As a key public health issue, all governments should regard the implementation of the Commission's proposed time-line as a matter requiring a high level of regulatory facilitation and support. Each government will need to implement administrative processes to ensure this.

Governments should evaluate all measures for effectiveness

Governments should assess the effectiveness of regulatory measures, including gaming machine features, venue measures and governance arrangements, to assess the scope for improving them. Evaluations would inform decisions about the need to adapt some measures and, depending on their effectiveness relative to other measures, to remove some regulations. A key advantage of the Commission's proposals for changes to EGMs and monitoring systems would be that governments would be able to amend particular regulatory measures with greater ease and at lower cost than is presently the case. Thus, if an evaluation of a particular measure found that it needed to be amended, then governments would have the scope to make quick, low cost changes. Currently, changes to gaming machines involve considerable costs for the industry, which is a contributory factor in the Commission's proposals for phased implementation. In the future, the proposals in this report would create a flexible system that would allow government to adapt

harm minimisation regulations, while relieving the long-term burden on venues and vendors.

RECOMMENDATION 19.3

The level of all monetary amounts specified in the Commission's recommendations should be assessed periodically, with the potential to raise these with inflation.

RECOMMENDATION 19.4

By 2020, governments should evaluate the key harm minimisation measures to assess their effectiveness, and whether any need to be modified or removed.

Box 19.4 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.

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Box 19.4 **(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 19.5 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.

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Box 19.5 **(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.

19.4 A leadership role for the Australian Government

It is important that the Australian Government takes a leading role in promoting and sustaining reform. As discussed above, the Commission is proposing that it have a key role in creating a more policy-oriented and strategic approach to gambling research, sponsoring a pre-commitment trial, and in determining a national product fee in wagering where systemic flaws become apparent in state and territory arrangements.

In addition, the Australian Government should actively engage with state and territory governments in the development of new machine and central monitoring system design features, standards and protocols. Among participants advocating this view was the Tasmanian Gaming Commission, which said:

> Any reforms that require major changes to the production of gaming machines … or EGM games need to be mandated at the national level rather than left to each jurisdiction to implement. (sub. DR311, p. 1)

Box 19.6 **Does the Commonwealth have powers to legislate?**

Although the Commonwealth does not have specific constitutional power to regulate gambling activities, the Commission understands that sufficient powers are available for it to implement certain recommendations made in this report.

- Under s.51(ii), the Commonwealth can use its *taxation power* to impose obligations on legal entities when it otherwise lacks the power to directly regulate. A taxation-based scheme has the advantage that it can apply to all legal entities. It has the disadvantage that, apart from the tax, there is no authority to impose additional sanctions (such as civil or criminal penalties) if an entity chooses to pay the tax but not undertake the specific actions or meet requirements.
- Under s.51(xx) the Commonwealth can use its *corporations power* to directly impose a wide range of obligations on constitutional corporations. This power has the advantage that the Commonwealth can impose a wide range of obligations and can penalise non-compliance. However, the corporations power only applies to constitutional corporations — club and casino operators or hotel licensees that are not incorporated would not be subject to the obligations.

These powers could be used, for example, to implement recommendations relating to gaming machine national standards and changes to gaming machine features and design (including implementation of a pre-commitment system).

Gaming machine standards, features and design changes

Implementing recommendations on these matters could impose specific obligations on gambling venues, EGM manufacturers and importers. If the obligations associated with the recommendations are primarily imposed on *gaming machine manufacturers and importers*, the corporations power is capable of levering effective implementation, as most, if not all, of the relevant entities are incorporated. To the extent that implementing recommendations would impose legislation on *gaming venues*, and depending on the number of gaming venues that are non-incorporated, then taxation power may be a more reliable tool.

National funding model for the racing industry

To implement the national funding model — a conditional proposal in chapter 16 — the Commonwealth could use its taxation power. The main requirements for the use of this power are that the product fee on wagering operators would have to operate as a tax and would need to involve the 'compulsory exaction of money for public purposes'. It can be argued that a national product fee would have these attributes. To comply with ss. 81 and 83 of the Constitution, it would be necessary for the funds raised to form part of the Consolidated Revenue Fund and be the subject of an appropriation.

Some jurisdictions have already explored the introduction of the range of harm minimisation measures recommended by the Commission. But expedited agreement on key national standards is crucial. If despite their best endeavours, the states and territories are unable to agree on consistent national standards by the timeframe

outlined in table 19.1, the Australian Government could assist the process by establishing such standards using its corporations power under the Constitution.

RECOMMENDATION 19.5

If there is little progress in achieving the design changes to gaming machines and networks necessary for effective harm minimisation, then the Australian Government should consider exercising its option under the corporations power of the Constitution to develop and implement these changes Australia-wide.