

**Productivity Commission Inquiry
Into Gambling**

Regis Controls Pty Ltd

Version 1.0 30/03/09

30 March 2009

This report contains 42 Pages + attached patent

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1 Executive Summary

This submission is provided by Regis Controls Pty Ltd and addresses some key issues for gambling which have occurred during the past ten years since the previous Productivity Commission inquiry. It also reviews some of the emerging trends in the industry and overseas developments.

The submission describes a potential technical solution for problem gambling in Australia which covers EGM gambling and the rapidly expanding newer technologies which facilitate gambling including internet, pay TV and mobile phones. This solution is patented in Australia, New Zealand and UK (a copy of one of several patents is attached).

The Development of Gambling in Australia 1999-2009

The Productivity Commission produced a comprehensive and well researched report on gambling in Australia in 1999 which made a large number of key findings. Ten years later the main question is what has really changed.

In 1997-98 Australians lost \$11 billion on commercial gambling and losses appear to have exceeded \$17.5 billion by 2005-06 (*based on Queensland Government Treasury data*).

Australians reportedly have the highest level of per capita expenditure (loss) on legal gambling in the world (over \$1,122 per adult in 2005-06).

The fact that there is no accurate data since 2005-06 highlights one major shortcoming by not having a national database other than very broad ABS data. In 1999 the Productivity Commission estimated that the social cost of problem gambling was between \$1.8 and \$5.6 billion, which is an extraordinarily wide range given that the social cost of smoking, alcohol abuse and illicit drugs have all been estimated far more precisely.

In 1999 it was estimated that there were 290,000 problem gamblers who lost \$3.5 billion (*quite possibly \$5-6 billion today*) which directly affected some 1.5 million Australians or an average of \$12000 per annum lost by each problem gambler. The gambling industry

suggests that the level of problem gambling has reduced and the church and social welfare groups suggest that the problem is as bad as ever.

NSW Health estimated in 2008 that there were some 400,000 problem gamblers and a further 800,000 were at risk. The somewhat scant evidence when combined with regular media reports, suggest that problem gambling is still a serious social problem which is costing the community billions each year.

The rate of growth of the gambling industry has slowed since 1999 but it is still a growth industry at least until the impact of the global financial crisis is better understood. The number of EGMs (the main source of problem gambling) has increased from 185,000 machines to 205,000 today.

State and Territory Governments collected \$4.8 billion in revenue (9.8% of total revenue) in 2006-07 compared with \$4.2 billion in 1997-08 and in spite of the introduction of the GST in 2000. It is clear that State and Territory Governments are now under severe fiscal and budgetary pressures due to the decline in other revenue sources and are likely to resist or try and defer any proposals which reduce their net revenue from gambling during the next five years.

Some limited and disparate harm minimisation measures have been introduced by State and Territory Governments over the past ten years, although little evidence of their effectiveness has been forthcoming. Ironically the smoking ban introduced for venues in most states probably had the greatest impact on problem gambling although this was adopted for health reasons. Most states have had inquiries into various aspects of problem gambling and several trials of harm minimisation measures have been conducted or are currently underway.

The impact of new technology on gambling is not well understood or researched. Internet gambling services by Australian based organisations was essentially banned in 2000 as a result of the Netbets report but the impact on Australians of several thousand overseas casino type internet gambling sites is still not well understood or acted upon. One US research study (eCOGRA 2007) suggests that Australians have the sixth highest per capita expenditure on internet gambling out of 96 countries. Norway, New Zealand, Netherlands, Sweden and US spent more per capita. This data is prior to the GFC and the consequent changes in exchange rates. Internet gambling is legal in many European countries and is even **provided** directly by government owned and controlled agencies in Scandinavia (*this is discussed in more detail subsequently*).

The lack of data on internet gambling by Australians is of serious concern given:

- Australians propensity to gamble and to become problem gamblers
- the large number of unregulated sites
- the world wide growth rate of internet gambling (estimated at 25% p.a. pre GFC. *comScore estimated that the number of visitors to online gambling sites increased from 67m in December 2007 to 86m in December 2008 or 27%*)

- the impact on the Australian balance of payments and
- the lack of any taxation revenue for Australian Government.

Perhaps significantly the US House of Representatives Financial Services Committee Chairman (a Democrat) is currently planning to introduce legislation to overturn the three year old *Unlawful Internet Gambling Act* on the grounds that '*Internet gambling websites take billions of dollars out of the US economy, damage families and serve as vehicles for money laundering*'. In the past five years several European governments have regulated onshore internet gambling and have become gambling service providers in their own right i.e. not outsourced.

The European Commission is currently investigating the US internet ban and there are indications that it may well take the complaint to the World Trade Organisation this year.

There are other forms of new technology which are not generally regarded as part of the gambling industry but in our view should be treated as such and should be appropriately regulated and taxed. There are several hundred SMS competition sites often linked to television advertisements offering prizes (often fairly minimal in relation to the total cost of entry) for quizzes, footy tipping, pick the best catch etc. Many of these providers target minors who only need a mobile phone to enter and pay. A typical entry cost is \$2.20

One recent example, where the ACCC has taken legal action, illustrates the ethics of some of these 'competition' suppliers. It appears that quiz entrants were charged a \$5 entry fee and an ongoing subscription of six \$5 SMS messages each month. The ACCC alleges that entrants were charged a total \$85 in the first month and that no resident of Queensland, Victoria and the ACT was eligible to win (*one laptop*). These SMS 'competitions' caused 6000 complaints in three months of 2008 to the Telecommunications Ombudsman more than any other type of mobile phone complaint.

The process of:

- a) requiring each state and territory to issue a separate permit (which does not generally address '*the win/loss issue*')
- b) requiring the ACCC to take action in the event of misleading advertising against individual organisations after the event is clearly both ineffective and unproductive.

Gambling via Pay TV in Australia using the remote control for sports betting may well be introduced in Australia in the next year or two. Some will argue that it is a logical extension of telephone betting but the technology convergence allows the scope for many other forms of gambling particularly in conjunction with new and overseas channels.

Money laundering through the gambling industry is a well known occurrence to Australian authorities but comparatively little data particularly on enforcement appears to be available. The AML/CTF Act 2006 focuses on the obligations of parts of the gambling industry, inter alia, covering customer due diligence, reporting and record keeping. Clearly the use of new technology solutions would materially assist in the enforcement of the Act

and the inquiry should incorporate any proposed extension of the use of technology in the gambling industry with anti money laundering mechanisms.

Gambling by minors in Australia is yet another area where little recent data is available. Several US research studies suggest that over 75% of 12-18 year olds have undertaken some form of gambling in the last twelve months and that teenagers are three times more likely to become problem gamblers than adults. (CT Dept of Mental Health and Addiction Services, Oregon Dept of Human Services, ComScore et al)

Australians can obtain a bank issued debit card (Visa/MasterCard) at aged sixteen and a pre-commitment debit card at a younger age both of which can be used for internet gambling. Most teenagers have a mobile phone often with a pre-paid phone card which can be used for SMS/internet gambling. If the data on gambling by teenagers in the US (where internet gambling is illegal but still widespread) provides any indication for Australia there may be a larger problem than is generally understood and a significant source of future problem gamblers.

National legislation was proposed in the Senate in 2008 either limiting ATM withdrawals in gambling venues or a total ban on ATMs and further harm minimisation measures in relation to EGMs. The Productivity Commission inquiry is now the main forum where these and many other policy, control and enforcement issues are being addressed.

This submission suggests five key desirable outcomes as a result of the Productivity Commission inquiry, namely:

- A continuation of current and new forms of responsible gambling in Australia
- The establishment of a federal body to oversee 'national' gambling issues including harm minimisation measures, new forms of gambling including new technology based such as SMS competitions and maintenance of a central database
- The central database should track key information on gambling including problem gambling expenditure and consequent social cost, gambling by minors, harm minimisation measures and online gambling
- The introduction of further harm minimisation measures for high risk forms of gambling based on a national *Responsible Gaming Card* (pseudonymous smartcard) which incorporates one limit for all venues and types of play, pre-commitment, personalised messages and warnings, cardholder identification, self and other authorised exclusion, banning of minors and use of credit, deferred payment of large winnings, compulsory breaks, links to gambling support services, etc, etc.
- A review of Australia's current policy on onshore internet gambling in the light of developments internationally including potential WTO moves, taxation and balance of payments issues. Australia has highly experienced and internationally well respected gambling regulatory regimes and as such it could

take a leading role in better international regulation of internet, pay TV and mobile phone gambling (*as per the introduction of e-passports and ICANN*).

- Further national legislation is introduced which addresses harm minimisation measures, ATM and cash facilities in licensed venues and other issues addressed in this submission.

2 Key Issues

2.1 Problem Gambling

There appear to be no recent reliable estimates on the extent of losses by problem gamblers but anti-gambling groups may well suggest that there are still some 300,000 individuals in this category who are spending some \$5-6 billion per annum mainly via poker machines (EGMs).

There is some limited recent information from the US that faced with a declining economy problem gamblers actually spend more on gambling as their personal financial circumstances become more acute. This has yet to be confirmed statistically.

There is still no reliable data on the social cost of problem gambling but if the 1999 estimate by the Productivity Commission is extrapolated then it is in the \$2.8-\$8.8 billion range (*which is far too broad a basis for informed policy decisions*).

One must question the industry's role and ability to enforce some of the harm minimisation measures in venues with hundreds of EGMs and multiple entrances to gaming venues.

A Monash University report (April 2007) identified that only 3% of \$376 million that gaming venues in Victoria claimed to have given for philanthropic purposes was actually spent according to the definition. This and other evidence including a range of court cases brought by gamblers brings into question the capabilities of the gambling industry to self regulate.

The State and Territory Governments have introduced a range of harm minimisation measures during the past ten years. Most of these have been introduced at different times and with different conditions increasing the implementation costs for the gambling industry and its suppliers. For example, note acceptors are banned in South Australia but elsewhere \$100 notes are accepted and there are different maximum values in other states. Enforced breaks per 24 hours range from three hours to six hours.

Some of the more effective harm minimisation measures (based on overseas research) have been deferred or subject to trials. Such measures include spin rates, pre-commitment, mandatory limits, reduction in the number of EGMs, maximum bet per spin, access to ATMs and EFTPOS and compulsory intervention.

Based on the rate of introduction over last ten years and given the serious economic challenges facing State and Territory Governments over the next five years one could expect that these governments would seek to defer the introduction of some of these more effective measures until economic conditions improve.

If this assessment is valid, it is even more important that the Australian Government introduces appropriate legislation to protect problem gamblers and to provide the gambling industry with a nationally coordinated implementation plan. The gambling industry and its suppliers need greater certainty in the medium term if they are to invest in providing responsible gambling and recreational services.

The series of different regulatory changes on a state and territory basis often based on trials needs to be replaced with an overarching national approach. States and Territories should still be enabled to set specific limits for EGMs within the confines of system software changes but not wholesale machine design changes. States wanting to change the number and location of EGMs should be allowed to do so e.g. WA continuing to restrict EGMs to casinos.

Again it is difficult to estimate the cost to Australia of problem gambling, money laundering and offshore gambling by Australians but:

- The social cost of problem gambling *could be* in the \$5-6 billion range, much of this paid for through Centrelink
- The cost of money laundering in Australia has been estimated at between \$6.5 and \$11.5 billion (a significant proportion of which occurs through the gambling industry - *AIC+AG estimates*) and
- The amount of offshore gambling by Australians is very difficult to estimate but a US study ranks Australians at number 6 per capita out of 96 countries.

2.2 Harm Minimisation

2.2.1 Effectiveness of Harm Minimisation Measures

The table below summarises the harm minimisation measures which a proposed smartcard system would contribute based on a range of evidence of comparable systems overseas (most notably in Scandinavia).

Policy initiatives which are independent of the use smartcards such as educational initiatives, number of gambling venues and number and distribution of EGMs have not been included.

Table 1: Suggested Effectiveness of Harm Minimisation Measures using Smartcards

Policy Initiative using a Smartcard based system	Effectiveness on Problem Gambling ¹ (est)
Smartcard monitoring of cash and electronic gambling	*****
Overall limit per period	*****
Potential restriction to regulated smartcard enabled internet gambling sites	*****
Time limit imposed	*****
Lower limit set by player	*****
Use of Smart Cashiers and no ATMs in venue	*****
Self exclusion for a period	*****
Third party ordered exclusion	*****
Self assessment test	*****
Regular financial reporting	*****
Barring minors	*****
Venue admittance by card	****
Warning messages	****
Compulsory breaks	****
Automatic intervention after a time or amount spent	****
Decision points during play	****
Deferral of payouts for significant wins	****
Direct payment of significant wins into bank account	***
Biometric smartcard to prevent card swapping	***

¹Estimated effectiveness on problem gambling based on other countries experience with the harm minimisation measures using smartcards.

***** Highly effective

*** Moderate impact

The adoption of a combination of harm minimisation measures is recommended as problem gamblers are singularly adept at getting round single restrictions e.g. using cash gambling if this is not monitored when using the smartcard system.

This submission strongly recommends the introduction of a Responsible Gaming Card (smartcard) which combines a number of harm minimisation measures such as those shown above. This system is described in detail subsequently and should be applicable to other forms of 24/7 electronic gambling.

2.2.2 ATMs and Problem Gambling

There are estimated to be some 3000 ATMs in or close to gambling outlets in Australia, very few of which are directly controlled and operated by banks and other DTIs.

At least five State Governments have established that ATMs in gambling venues are part of the cause of problem gambling, for example:-

- South Australia has limited cash withdrawals to \$200 per transaction (individuals can undertake a number of transactions in a session providing they maintain the \$200 limit).
- Queensland has debit only withdrawals and is now proposing the adoption of a national limit
- Victoria is planning to introduce a limit of \$400 per transaction in 2010 and planning to remove or distance ATMs completely in 2012
- Tasmania does not allow ATMs in pubs and club gambling venues (casinos excepted) and
- NSW allows only debit withdrawals

No state limits the number of transactions per 24 hours or beyond in gambling venues. The lowest limit is in South Australia at \$200 per day which still equates to \$1400 per week and \$73,000 per year, which is still way above the limit proposed in the recent Harm Minimisation Bill 2008. In reality the limit is that actually imposed by the card issuer, because a problem gambler can obtain more than one transaction a day. This actual limit can be up to \$1000 per day for credit cards and \$1600 per day for debit cards. For example, a CBA customer using Keycard together with a MasterCard can obtain \$1600 every 24 hours from an ATM.

Problem gamblers often have multiple credit/debit cards from different banks (for obvious reasons) thereby obtaining far more cash than one ATM transaction allows. A number of other countries have in effect restricted ATM withdrawals by adopting cashless gaming with a daily, weekly or other periodic limit and banning the use of cash (notes/coins) in EGM machines.

New Zealand banned ATMs in gambling venues in 2003 including in dedicated TAB outlets. The gambling industry in Australia is very resistant to the prospect of withdrawal of ATMs, citing customers' preference for cash expenditure on food and bar services. The gambling industry in over 20 countries has chosen to adopt cashless gaming in a significant number of venues or has supported government legislation to introduce cashless gaming.

The 1999 research by the Productivity Commission indicates that 90% of non problem gamblers (recreational gamblers) did not use or rarely used ATMs in gambling venues. In contrast 59% of problem gamblers (then defined as SOGS 10+) always or often used ATMs in gambling venues. This data confirms that it is the problem gamblers who rely on on-site ATMs to support their gambling habit. Removing or distancing ATMs may of itself have a limited impact on problem gamblers. Removing 3000 out of 27000 ATMs may inconvenience problem gamblers but combining this with other harm minimisation measures will have a significant impact on problem gambling.

2.2 Internet Gambling

There are only five countries with the estimated higher per capita expenditure than Australia in 2007 on internet gambling (Norway, New Zealand, Netherlands, Sweden and US {based on an eCOGRA research study in the US}). All five either have or are actively planning to adopt some form of smartcard based harm minimisation for poker machines and in some cases combining this with a single limit for internet gambling.

Australia was rated as number 6 out of 96 countries on per capita internet gambling expenditure in 2007 *prior to the impact of the GFC*. Some European countries have or are establishing government owned and operated internet gambling sites as a result of the very high level of unregulated internet gambling and the impact on the balance of payments.

Other countries with lower levels of problem gambling compared to Australia have already adopting harm minimisation measures for poker machines using smartcards e.g. Austria, Denmark, Slovenia and South Africa. We are not aware of any countries which have implemented USB based harm minimisation measures at this time.

Countries which have adopted national harm minimisation measures appear to be much more effective in addressing problem gambling than countries which have adopted state

or provincial legislation.

2.2.1 The Potential Increase in Internet Gambling

ABS statistics indicate that 11.3 million Australians accessed the internet regularly in 2006/7 and the use of the internet is higher among the younger age groups. Australian children aged between 8 and 11 spend 30 minutes a day on average accessing the internet (ACMA study 2007).

There are some 3000 poker playing type gambling sites on the internet (there are many more if all types of gambling are included). Relatively few casino type sites appear to be barred to Australians.

All forms of internet gambling appear to generate some AUD\$35-60 billion in revenue and the annual growth rate was 25-30% pre GFC.

Betfair in UK averaged 20 million transactions per day via the internet in 2007, four times the total of all European stock markets. PKR, a UK based online poker gaming company, generated over 2 million members in less than two years from start up in 2006.

comScore Inc, a US based internet research company, issued a report in 2007 which indicated 217 million people worldwide accessed online gambling sites regularly and made an average of 9 visits to gambling sites in one month. The research does not indicate the country of residence.

Several hundred of these online gambling sites are either bogus or unethical and/or have totally inadequate regulation.

Watchdog groups monitoring such sites report many instances of:

- No payouts
- No response to claims
- Defective software
- Frequent name changes
- Bogus claims of belong to monitoring or regulatory associations
- Sites with locations and/or country of origin denominated as:
 - *Planet Earth*

- *Who knows/who cares*
- *Cowboy Town*
- *Moonbase Alpha and*
- *Magic Fairy Land*

Crime prevention organisations are aware that hackers deliberately target many of these sites which have inadequate security measures and obtain credit/debit card numbers/user names and password details of individuals and steal money first and thereafter often on-sell the cardholders' details to third parties.

An increasing number of western countries have or are proposing legislation to allow onshore internet gambling for balance of trade, taxation and regulation reasons having banned onshore provision previously. These countries include Sweden, Denmark, Finland, Sweden, Netherlands, Belgium, US, South Africa, France, Hungary, Bulgaria and Poland.

2.3 Underage Gambling

The online gambling industry basically admits that it is targeting the 20-40 year old market which has a very high internet use. Many observers believe online providers are targeting under age gamblers. In some Scandinavian countries the legal age for internet gambling is 15, although there are current moves in Finland to raise this to 18.

Various research studies in the US in 2006/07 indicate that:

- At least 75% of 12-18 year olds have undertaken some form of gambling in the last year
- 70% of online gamblers register with four or more sites
- Teenagers are three times more likely to become problem gamblers than adults (New York OASIS study). Studies into smoking indicate similar findings and the tobacco industry has long targeted teenagers.
- Depending on the US state between 3 and 5% of all calls to gambling helplines were from minors
- 172 online gambling sites offshore which were tested still accepted registration and play from US citizens after the *Unlawful Internet Gambling Act* was introduced

- 30 out of 37 online gambling sites which were tested registered under age college students in the US and allowed them to gamble via the internet (also after the Act prohibiting internet gambling was introduced)

Australians can obtain a bank issued Debit card aged 16 (Visa/MasterCard) which enables them to gamble on the internet. A pre-commitment debit card can be legally purchased below the age of 16, which also allows minors to gamble on the internet without their parents' knowledge. The pre-commitment debit card is similar in concept to pre-paid phone cards (no age limit) which are widely used by teenagers in Australia.

Online gambling via 3G mobile phones is now a major growth area for the gambling industry and teenagers in Australia can gamble 24/7 again without their parents' knowledge using a pre-paid phone card.

In summary the continued growth of the gambling industry is reliant on attracting new problem gamblers. The younger the gambler the more likely they are to become a problem gambler.

The mobile phone 'competition' market also targets younger SMS users and has the potential to increase the number of young problem gamblers.

The other major implication of introducing more effective harm minimisation for EGMs is that problem gamblers are more likely to turn to online providers to gamble once their limit is reached or when they are excluded from gambling venues. Currently there are virtually no restrictions on many internet gambling sites such as limits, speed of play, use of credit cards, warnings, use of 3G phones etc.

All 24/7 internet gambling sites (casino type) are offshore and are likely to have an increasing negative effect on Australia's trade balance. Some Scandinavian countries are now actively encouraging internet gambling organisations to establish themselves in their country for this reason alone. Internet gambling is a large and growing problem for Australia and it would be prudent to formulate future harm minimisation measures within the context of this current inquiry.

Teenagers can be barred from land based gambling venues by adopting smartcards which are issued based on 100/150 point ID verification. The same technology can be used to control internet gambling. A plug in smartcard reader can be purchased for between AUD \$5-10 and the reader can be readily plugged into virtually any computer. Many current pcs have built in smartcard readers.

This submission strongly recommends that Australia develops harm minimisation measures for internet, pay TV and mobile phones based on smart technology which are compatible with the measures for EGMs. The priority for harm minimisation is EGMs but the same solution should be designed for the other forms of 24/7 gambling and introduced as required.

It is further recommended that Australia after the introduction of a new technology solution for Australia that the Federal Government should propose an international

working group and play a lead role in developing and introducing effective measures for controlling all forms of 24/7 gambling and particularly internet (*Australia played a similar major role in ICANN and e-passports*).

The future impact of internet gambling on Australia's economy and balance of trade also needs to be reviewed as more developed countries regulate onshore internet gambling.

3. A Solution for Problem Gambling

In 1998 the members of Regis Controls Pty Ltd recognised the social problems caused by problem gambling in Australia and developed a patented system based on a *Responsible Gaming Card* (using smartcard technology) to provide a series of harm minimisation measures.

Patents were granted in 1999/2000 for a regulatory smartcard poker machine system for Australia, New Zealand and UK (see attachment). This section of the submission outlines how the system would operate and some of the implementation issues.

3.1 Regis Controls Pty Ltd

Regis is a private 100% owned Australian company with NO funding by the gambling industry and has no plans to change this. It does not provide gambling equipment, services or systems.

Work commenced in 1998 on a potential solution to minimize the incidence of problem gambling on poker machines and via internet. The company was formed in 2000 and brings together skills in:

- Smartcard technology (including 12 years experience consulting to Commonwealth and State Governments and the UK Government)
- Security systems
- Electronic payment systems and
- A/V equipment, systems design and graphic design

The patented system provides socially responsible gaming in the Australian physical and electronic space, to regulate EGM and interactive gambling.

In 2000 a pilot system was developed and built together with one of the world's largest IT companies for the potential introduction of internet gambling in Australia. Extensive discussions took place with the gaming industry in the period 1998 to 2003 but the concept did not generate much enthusiasm within the industry. Discussions with the anti-gambling lobby were also held over ten years and achieved a high level of support by organisations and individuals.

- o Submissions have been made to a number of State Government inquiries and discussions have been held with:
 - Commonwealth, State and Territory politicians, officials and regulators with direct involvement in gambling
 - Overseas Governments
 - Gambling service providers in many other countries
 - IT service providers and smartcard technology suppliers
 - International Gaming Testing Houses and Testing Authorities
 - Anti gambling and privacy lobby groups.
 - Australian law enforcement agencies such as Austrac and others

The REGIS system has been demonstrated to various interest groups including:-

- The InterChurch Council on Gambling;
- State Gaming Regulators;
- Major IT&T companies;
- Internationally approved Testing Organisations for the Gambling Industry; and
- International banks.
- Australian Casino Association.

The overwhelming response of these organisations to the REGIS system is that it is technologically and commercially feasible and has a number of unique features compared with other regulatory systems most of which rely on self regulation and only operate for one type of gambling e.g. EGMs.

Regis has also provided legal notification of its patents (*see attachment*) to relevant Federal and State/Territory Government bodies, gambling service providers and other gambling industry participants. There has been no challenge to any part of the Regis patents during the past ten years in Australia, New Zealand or UK.

In any future regulatory system Regis does not seek to become a systems operator or a provider of operational resources. It proposes to allow government to tender a regulatory system based on existing patents (which precede all others) and to licence scheme providers in accordance with the government's proposed system.

Finally Regis as an organisation which has spent over ten years researching electronic systems which provide practical harm minimisation measures for EGMs and internet gambling and holds regulatory system patents in Australia and elsewhere would like to offer further input to the Productivity Commission during the next few months in order to achieve a viable solution to protect problem gamblers in Australia.

3.2 Proposed Responsible Card Operation

The proposed operation of a smartcard based harm minimisation system is outlined in a series of diagrams shown in Appendix 1 of this submission.

The harm minimisation tools which the system provides are summarised below:-

- The card has one legislated maximum limit for the specified period (day, week, fortnight, month or year or a combination of all of these)
- The maximum limit cannot be changed until the end of the period specified in the legislation
- Card holders can set their own lower limit for or during the specified period
- There is one limit applicable in all States and Territories and in through out all venues
- The one limit can be extended to internet gambling subsequently, as policy determines
- The one limit or a new limit can be extended to other forms of gambling if this is causing more problem gambling e.g. casino games such as roulette and table card games, pay TV etc,
- The limit can not be exceeded and when reached closes down the card for a pre set time period
- Depending on the policy settings, amounts below the limit not spent in the period either can be carried forward to the next period or not (preferably)

- The smartcard can only have electronic value added by a Smart Cashier machine in a gambling venue. This machine will only accept notes and/or bank and debit cards and not credit cards or line of credit accounts.
- The smartcard is programmed not to accept any transfer beyond the limit specified (either the maximum or player specified lower limit).
- The smartcard can be either pin and/or biometrically operated. Cards can have an inbuilt thumbprint 'reader' which compares the image with that stored in the chip when the card is inserted. This prevents lost and stolen cards being used and card borrowing/sharing. The biometric data is only held on the card and not in any form of central database. This fully complies with *The Privacy Act 1988*.
- Winnings can be paid onto the card for ongoing play or paid out in cash/print out.
- The smartcard can be programmed to defer or hold **large** winnings for payment by cheque or directly into a nominated bank account.
- The card can be programmed to give advisory or warning messages e.g. "you have now been playing for 3 hours and have lost \$xxx do you wish to continue".
- The card *can be* programmed to allow counseling/explanation by trained venue staff. Staff cannot change the limit or cooling off period.
- It is proposed that the card is issued on a 100+ point check basis by an independent organisation and comparison of databases ensures that only one card is issued to an individual.
- Cards reported lost, stolen or damaged are barred from use anywhere and any residual value and the limit are re-issued on a new card subject to positive proof of identity (*this is done on a pseudonymous basis by accessing the independent scheme operator database on a once off event authorised by the cardholder*).
- The card is capable of tracking the amount of cash put into any machine whether notes or coin and one limit can be used for electronic and/or physical cash gambling.
- It is suggested that overseas visitors can obtain a smartcard with no limit for the period in Australia subject to passport verification and proof of overseas residence (up to 25% of Australians have or are entitled to a second passport). A refundable deposit may be appropriate.
- The smartcard would be encrypted to 3DES or higher standard (RSA) to prevent fraud and hacking, which is a similar level to bank issued smartcards.

- The smartcard system could be extended subsequently to track money laundering. The ACC/AIC estimate that \$6-12billion of money is laundered in/out of Australia per annum usually through gambling.
- The card would be used pseudonymously i.e. the cardholder remains anonymous unless the card is reported lost or stolen or a warrant or court order is issued
- The card allows for self exclusion or authorised third party exclusion e.g. court order. The card cannot operate in any machine for the period of exclusion
- The card excludes minors due to the 100 point check
- The card could be used to track admittance to gambling venues (or the gaming venue part) and some form of intervention *could be* adopted following:
 - frequent visits
 - undesirable or banned patrons
 - self or third party excluded patrons
- It is suggested that a small balance reader (costing \$5) could be issued with the card on request so that the card holder can check the residual limit and read a summary gambling results for a period and can maintain a playing/accounting record
- It is proposed that there be several smartcard issuers providing personalisation of cards and verifying 100 point checks. This could be provided on a state basis and subject to contestable government tender
- The card provides a more secure audit trail for tax collection reconciliation and ensures that far less physical cash is held on premises
- The smartcard obviates the need for conventional ATMs in gambling venues. The Smart Cashier machine and the card are programmed to comply with all the limits established in any future Act the capital cost and operational cost substantially less than existing ATMs. These machines are widely used in overseas gambling venues and are operated by venue staff eliminating the need for expensive bank style ATMs. All machines would be subject to routine inspection and testing. Any remaining ATMs in casino style venues would not be able to load smartcards with value or download value from player cards.
- It is possible to use the Responsible Gaming Card for loyalty schemes for the venue. This eliminates the need to carry and insert two cards into each machine used but this is clearly a policy decision for government.

- There are major problems using a loyalty (smartcard) to manage harm minimisation measures including:
 - Multiple loyalty cards (*Victoria is auctioning EGM gambling licenses and could end up with fifty or so different loyalty cards*)
 - The loyalty card is usually issued on behalf of the gambling venue(s) to encourage maximum EGM use so there is a clear conflict of interest.
 - Many smaller venues will not have a loyalty card or will refuse to accept one issued on behalf of a larger competitor
 - Loyalty cards do not have the same level of security or privacy as a Responsible Gaming Card requires particularly with cashless gaming
 - Providing information on a cardholder's spending (machine/game/amount of time and money spent) to the gambling venue provider (the rationale for a loyalty card) is totally incompatible with harm minimisation measures and privacy legislation.
- It is clear that a number of western governments have or will adopt smartcards to protect citizens from the risks of unregulated and insecure internet gambling sites and to protect the balance of payments. Australia would be well positioned to extend the proposed smartcard system to secure internet gambling in common with many western countries.
- It is possible to have two or more purses (and a loyalty application) held on the card. One would be only used for EGM or other electronic gambling including internet with all the harm minimisation provisions incorporated (limits, no credit account usage, etc). The other one (purse) could be used for venue purchases e.g. meals, beverages etc and a loyalty application covering one or both purses is feasible. This should be attached to regulatory card and not other way around.
- It is proposed that the purse is compatible with the standard adopted by banks worldwide, Visa and MasterCard etc which is EMV which minimises interoperability issues and could potentially allows card holders to transfer winnings directly into a bank account
- It is possible to programme into the card compulsory breaks in play and potentially links to problem gambling support services
- It is also possible to include decision points (leading up to /prior to pre commitment limit being reached an card shutting down) requiring a response into the smartcard system (you have lost \$500 in 2 hours are you sure you wish to continue? etc)
- Both self and third party exclusion can be incorporated at the venue entrance or at each machine.

- The proposed smartcard system meets all the requirements of the Privacy Act 1988 and the recent amendments.

2.2.1 Privacy Issues

Problem gamblers are very concerned about privacy often carefully hiding their losses from family and friends. The Regis patented system ensures that:

- Only the independent scheme operator maintains the database linking the smartcard number with the details of the cardholder. The gambling service provider cannot access the cardholder's details for marketing and loyalty purposes unless the cardholder specifically wishes to link the Responsible Gaming Card with a venue loyalty system.
- If the cardholder specifically wishes to add one or more loyalty systems (venue specific) to the Responsible Gaming Card then each loyalty application can be added to the card at a venue.
- The cardholder has the option of just having the card number linked to each loyalty system without the venue/provider having access to personal details e.g. name and address or the cardholder can opt to provide the venue with name and address details so that newsletters, special offers etc can be provided to the cardholder. Cardholders can add or remove personal details from a loyalty system at any future stage and the loyalty scheme operator is obliged to comply with the database provisions.
- Cardholders wishing to gamble anonymously at a venue with or without membership of a loyalty system can do so and all the venue can access is the results generated by card number x.
- If a card is reported lost, damaged or stolen the independent scheme operator is contacted by the cardholder and on positive proof of identity the existing card is barred i.e. it cannot be used by anyone and a replacement card issued on a secure basis.
- It is proposed that a minimum security level set by Visa/MasterCard of 3DES (or higher e.g. RSA) is adopted to prevent card skimming/cloning/hacking.
- All participants in the proposed regulatory system would be required to comply with mandatory privacy requirements which at a minimum would comply with all current privacy and security legislation, national privacy principles and data protection which would be subject to audit.

3.3 Countries Using Smartcards for Harm Minimisation

There are an increasing number of countries which have or are planning to adopt harm minimisation measures using smartcards for poker machines (also called VLTs in US and Canada and slot machines and EGMs elsewhere) and more recently internet gambling.

US

Beginning in 1988 the US Government and various States negotiated with the Indian tribes to allow casinos with poker machines into Indian reservations. The agreement ensured that no cash can be inserted into poker machines. There are 367 casinos with annual revenue of AUD\$ 25 billion currently covered by the Indian Gaming Regulatory Act. A smartcard is used in all these establishments.

The Act also has a series of harm minimisation measures (time limits, minimum percentage payout, maximum wager per spin, etc, etc)

Various surveys and tests conducted in the US during the last 5 years indicate that using a smartcard rather than cash does not increase the average spend per session or the frequency of gambling.

South Africa

Smartcards are used for gambling on poker machines in casinos in South Africa e.g. Sun City and are used 100%. Independent surveys across South Africa indicate that there is 96% acceptance of smartcards by patrons. There are no ATMs allowed in any gambling venue under South African law.

Austria

In Austria poker machines are only permitted in casinos by government legislation. All casinos in Austria used smartcard operated poker machines and there are a series of harm minimisation measures including player tracking.

Norway

The Norwegian government **owns the major operator of poker machines** (some describe it as a monopoly) which were re-introduced a few years ago, having been banned.

Smartcards are used exclusively for the national lottery, for gambling venues and for Internet gambling via the government owned site Norsk Tipping. Players are issued with a smartcard and a reader, which plugs into any computer and can only use the smartcard at gambling venues.

There are a series harm minimisation measures built into the system e.g. \$180 maximum bet per 24 hours on the Norsk Tipping internet site.

The Norwegian government became so concerned at the amount of money that Norwegians were spending on overseas internet gambling sites that it introduced and now runs its own internet gambling. The **government issued 1.75 million smartcards** in less than 2 years. The total population of Norway is 4.6 million so more than 50% of the adult population now has a smartcard and a reader for gambling.

The Government run gambling web site attracts 16-24 year olds who have double the rate of problem gambling compared with older groups.

Many local authorities in Norway are so concerned about gambling venues (controlled by the central government) and the effects of problem gambling that they are threatening liquor licensing bans.

Denmark

The Danish government is **the major provider of gambling services** through Danske Spil which issues smartcards to customers. Denmark may well have the most comprehensive harm minimisation measures including:

- Restrictions on the type of games (based on actual results red danger games can be banned i.e. those games most used by problem gamblers)
- Limit on units per day
- ALL gaming limits
- Players can set lower limits
- Self exclusion etc

Netherlands

The Dutch government requires all Dutch customers of casinos (the only legal venue for poker machines) to use their national ID smartcard to gain entry to a casino. All Dutch citizens are required to carry an ID card under separate legislation.

If a customer visits casinos more than 20 times a month they are automatically approached by trained casino staff and asked to sign a self exclusion contract. The procedure is monitored by government inspectors to ensure that casinos are properly the facilitating harm minimisation measures for problem gamblers.

Canada

Saskatchewan Gaming Corporation has introduced a Player Club card (smartcard) which is used to monitor at risk gambling behaviour during poker machine play and trained staff are required to intervene.

Nova Scotia

The Nova Scotia government conducted a 6 month harm minimisation trial using smartcards (not USB) which was monitored by Focal Research. 71% of regular players adopted one or more of the harm minimisation measures (spending limit, play limit, 2 day exclusion etc) and 65% of these players continued to use one or more harm minimisation measure beyond the trial.

The average expenditure per player reduced by 15% during the trial but Focal Research reported that there appeared to be little impact on high risk gamblers and the amount of they money spent (it was a voluntary trial) .

The government recently signed a contract (estimated by the contractor as AUD\$ 7-9.3 million or the equivalent of \$2500-3320 per machine) with Techlink Entertainment, a major supplier of poker machines, poker machine type games and internet games to fit 2800 poker machines which allows players to set their own limits.

The President and CEO of Techlink Entertainment when announcing the contract was quoted in the local media as saying:

- The system developed by Techlink targets players who are at risk of developing a gambling addiction. Mr Xidos defines those gamblers as the type to occasionally overspend.
- *While none of the cards will identify the players, Techlink can track which types of games people like to play and how they choose to spend their money. That's extremely valuable information for game creators, Mr Xidos said. Techlink might sell that information or use it for its own software Mr Xidos said.*

Other Canadian Provinces

A separate and much larger **government owned organisation** Atlantic Lottery operates a series of gambling products and is owned by four provincial governments New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland/Labrador. It announced recently that it was considering issuing responsible player cards for all VLT (poker machine) users. The card would be a smartcard and “can be programmed by the player to limit how much they’re spending and how long they are playing”.... “They can even cut themselves off and keep a record of VLT use”

Sweden

The largest gaming company in Sweden, Svenska Spel, is **owned** by the Swedish government and has an annual turnover of AUD\$ 3.7 billion (comparable to Tabcorp). The population of Sweden is only 9 million or 43% of the population of Australia.

Svenska Spel issues a smartcard to customers and over one million use one each week. The card provides a series of harm minimisation measures for both poker machines and internet including limits per session, per day, per week or month and maximum play time per day/week/month and self exclusion.

Svenska Spel launched internet poker in 2006 and achieved 100,000 registered players in the first 4 weeks, which ‘*exceeded all expectations*’.

The Swedish government ‘*wanted to transfer existing internet gamblers from the unregulated market to the regulated market*’. Players can also use mobile phones to gamble on the internet with Svenska Spel and it is not clear how minors are excluded.

4. Implementation of a Regulatory System

In 2008 there were two Bills introduced in the Senate on restricting ATMs and proposing further harm minimisation measures and these have basically been deferred as a result of the Productivity Commission inquiry. These measures are likely to be back on the political agenda following the Productivity Commission report.

Many of these harm minimisation proposals contained in one Bill involve machine redesign and reconfiguration (*e.g. spin rates, number of lines played, etc*). Even if the current inquiry does not result in requirements for EGM redesign and software changes there are other changes planned by the State Governments which will have the same effect.

Most states are planning further harm minimisation measures which include the removal of ATMs in gambling venues, pre-commitment including the potential introduction of smartcard based systems (*based on current trials*).

It would be far simpler and quicker for one comprehensive harm minimisation system to be introduced nationally. There would be significantly lower implementation costs for the gambling industry and its suppliers in one changeover rather than a variety of solutions at different times in each state/territory.

The procurement costs for states/territories would be less through one contestable tender (which could be arranged on a national and/or state/territory basis and this process could be coordinated through The Ministerial Council on Gambling (MCG)).

A national approach would have a more beneficial effect on problem gamblers when State and Territory Governments financial positions, associated budgets and some forthcoming elections could delay much needed legislation.

The Commonwealth Government would appear to have the necessary legislative powers to introduce these proposed harm minimisation measures.

4.1 Implementation of a Responsible Gaming Card

Whether change to existing EGMs comes nationally on a state by state basis it would be preferable if the gambling industry was advised as early as possible that a specified regulatory system will be introduced over the next few years.

In the event that change is left to each state/territory, each jurisdiction has the option to adopt harm minimisation measures or defer/ignore such changes. Planned changes by three states will require the modification or replacement of the around half the 205,000 existing EGMs.

It is therefore important to specify those harm minimisation which require EGM redesign and/or rebuild as far in advance as possible e.g. incorporation of ISO 7816 standard smartcards. The average life of a poker machine is 5-7 years and virtually all new machines are smartcard enabled today.

The Australian and New Zealand Gaming Machine National Standard Rev 9.0 established by Australian and New Zealand gaming regulators makes provision for smartcard use.

There are over 50 suppliers of smartcard operated EGMs and several hundred thousand machines in operation around the world. So virtually every EGM manufacturer has smartcard enabled play as part of standard EGM production models. Many casinos and gambling venues around the world e.g. Las Vegas have introduced cashless (smartcard) gambling because of the significant cost savings without any requirement from government. Potential savings include reduced machine down time, lower security costs, lower staff costs and less 'shrinkage'.

In Australia many EGMs today are smartcard 'enabled' as a result of loyalty systems and the cost of converting the remaining EGMs is significantly less than converting to USB usage.

The key features of a smartcard based regulatory system include:

- The smartcard solution can combine a series of harm minimisation measures (monetary limits, time limits per session, day, week, fortnight, identification of problem gamblers during the session, warning messages, self and third party exclusion, banning direct use of credit cards, gaming access by minors, record of sessions, deferred payouts, monthly or annual statements of expenditure, single limit for poker machine/internet gambling and other forms of gambling etc.
- There is ONE limit on the smartcard which applies no matter how many machines are played in any venue which cannot be increased (it can be reduced by the player). Whether a player uses one machine or several hundred in each state and territory to reach their limit the maximum limit does not change for the period set.
- The same limit can be applied to regulated internet gambling at some future date.
- The combination of harm minimisation measures should be endorsed by politicians and agreed by the MCG.
- Smartcards can either use a pin for authenticating the player or a biometric version is available where the thumbprint is read when the player is holding the card and compared with the image stored in the chip (a similar chip is already used in millions

of passports using digital facial recognition). If government wants the player identity can be positively identified as the player inserts the card by comparing the thumbprint with that stored in the chip, without the need for a central database of fingerprints. It is suggested that older seniors over 75 should be exempt from the biometric option as the whorl (ridges on the thumb) usually disappear after the age of 75! The biometric option is likely to have a number of disadvantages including questions on public acceptance, level of operational reliability and cost of operating the system. The only major advantage is that it prevents card sharing but as each card has a defined limit this may be of limited value.

- It is feasible to set different limits and harm minimisation requirements for each state and territory and different classifications e.g. interstate or overseas visitors. The card issued to residents in each state territory could have state determined measures, although this may vary the impact on the level of problem gambling.

4.2 Possible Options for a Regulatory System

If Australia does adopt a national regulatory system of harm minimisation for problem gamblers, initially covering EGMs and capable of extension to other forms of 24/7 electronic gambling such as internet, then a new regulatory authority will be required.

The Regulatory Authority should be a Commonwealth body and have responsibility for:

- Maintaining a national database on all forms of gambling and its effects
- Monitoring new forms of gambling and the impact on the economy, taxation and problem gamblers
- Policy advice on gambling legislation and trends
- Development and maintenance of a regulatory system incorporating harm minimisation measures
- Procurement of a regulatory system in conjunction with state and territory authorities
- Enforcement of regulatory legislation
- Liaison with overseas governments on internationally available gambling services such as internet based and the development of appropriate policy frameworks and
- Reporting to the MCG on trends and policy advice.

4.2.1 Procurement Options for a Regulatory System

A potential regulatory system to reduce the social and human cost of problem gambling requires one or more scheme operators who should be selected on a competitive tender basis. No organisation currently providing gambling services or owned by gambling organisations or in operating in conjunction with a gambling provider such as a loyalty card scheme provider should be eligible to bid (*current examples of gambling organisations involved in managing harm minimisation schemes around the world clearly illustrate the potential for conflict*).

A number of major IT companies have expressed interest in competing to provide such a service.

It is suggested that the tender process allows 'disaggregated' procurement or 'best of breed' selection of the component suppliers. In this way the best registration body (which requires a national or statewide retail network) can be selected independently of the preferred scheme operator.

Similarly the best card suppliers can be selected and cards can be re-tendered more frequently than the scheme operation. It may be advantageous to allow tenderers to bid on a state/territory basis if state content is important or an existing retail network is only state based.

As smartcards have internationally interoperable standards (ISO 7816) it is suggested that there should be more than one scheme operator (data collection, card management, help desk, provision of backup, software support etc) for reasons of contestability with provision to prevent multiple cards being issued to an individual.

4.3 Potential Costs of a Regulatory System

The cost of setting up and operating a national regulatory system would be borne by the gambling industry and would be a small proportion of the current revenue from EGMs.

Depending on the level of increase in cashless gambling and any incentives to achieve this then industry could recoup the costs of a regulatory system in 3-5 years and thereafter obtain ongoing cost reduction (*as overseas casinos and gambling venues have done and have clearly demonstrated*).

Regis has estimated these costs in total based in part on similar schemes overseas. If adopted then procurement of such a system would be subject to competitive tender.

Although Regis will not be a tenderer for supplying such a system or part thereof it considers that tenderers should determine these costs on a commercial and confidential basis.

Regis is prepared to share its estimates of cost data with the Productivity Commission on a confidential basis.

5. Conclusion

The current Productivity Commission inquiry now has the opportunity to recommend national action to tackle problem gambling. This may be the last opportunity for some years to reduce the billions of dollars spent annually on the social cost caused by problem gambling and the direct damage to 1.5 million or more Australians.

The inquiry also provides the opportunity to address the largely hidden growth in offshore internet gambling by Australians and from other new forms of technology. The effect of this type of offshore gambling is to transfer Australian money, jobs and taxes mainly to western countries with well regulated gambling regimes.

There are benefits to Australia through increasing the skilled job numbers in the IT, telecommunication and customer service industries

Finally Regis is an organisation which has spent over ten years researching electronic systems for regulatory systems which provide proven and practical harm minimisation measures for EGMs and internet gambling. If requested we would be happy to provide further input to the inquiry.

Submitted by Regis Controls Pty Ltd

Elik Szewach
CEO and Director

Lisa Horten
Director

Ian Donald
Technical Director

APPENDIX 1

A DESCRIPTION OF THE RESPONSIBLE GAMING CARD PATENTED BY REGIS CONTROLS PTY LTD

**The Responsible
Gaming Card**

A player must first register (100 point identity check) to receive their own personal responsible gaming card. At an approved venue such as at an Australia Post outlet who can then email or post the completed form to the scheme operator. The player's card can be sent to the player's address, followed by a separate letter with the PIN.

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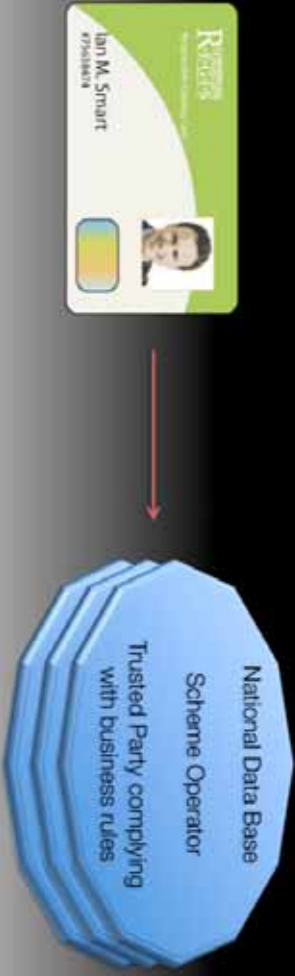
To register for a personalised responsible player card you need –
100 - 150 points ID check

- Photo ID – Drivers license/passport/birth certificate etc. - proof of age and person
- Bank statement or rates/telephone bill to confirm address



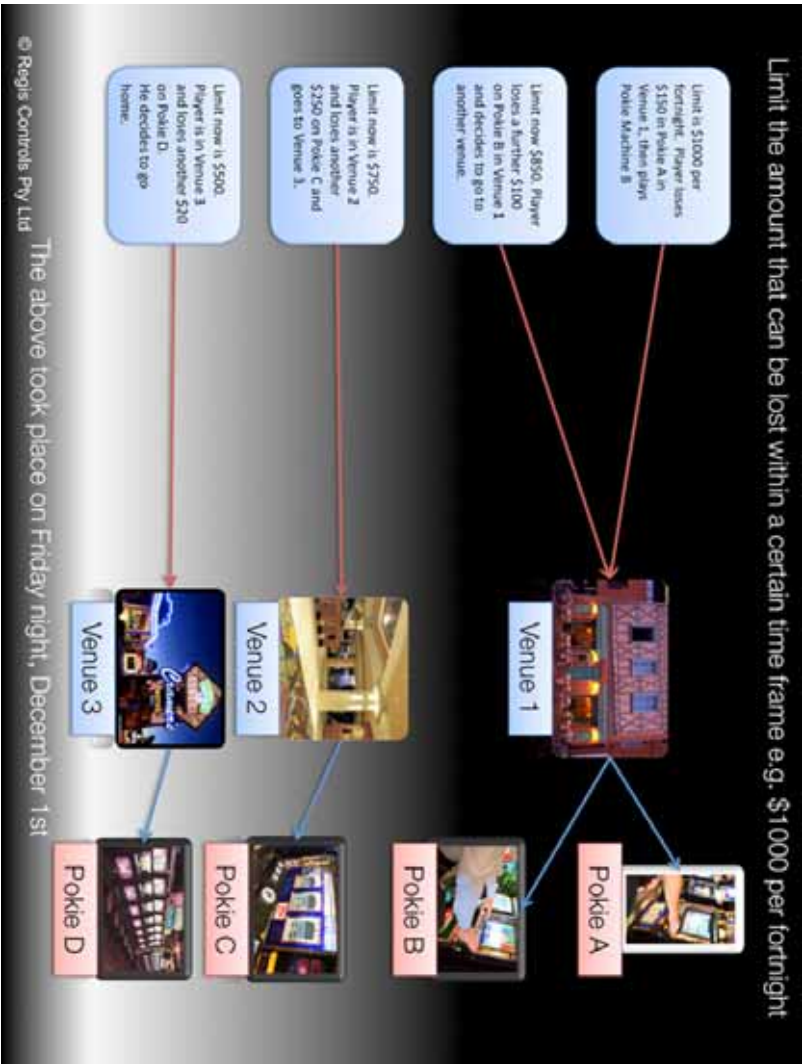
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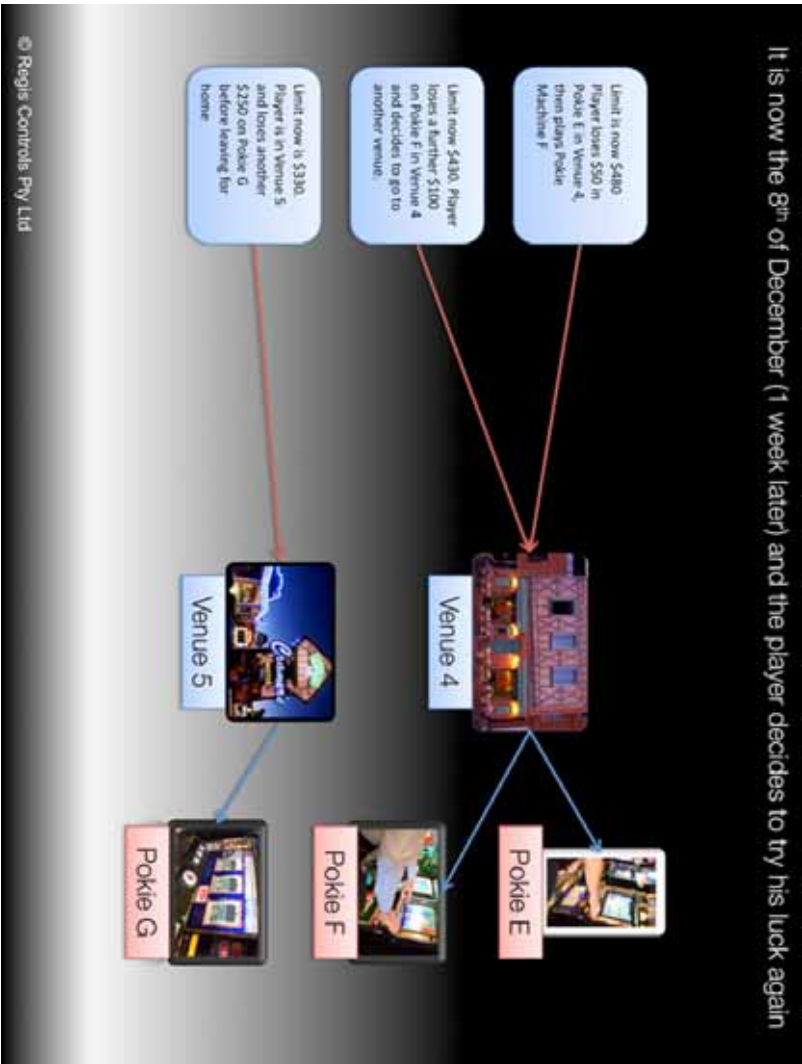
The player's details are registered with a national database governed (NON GAMBLING INDUSTRY) by a trusted party e.g., Government, semi government or an authorized third party which guarantees compliance with the business rules ensuring confidentiality of all information.

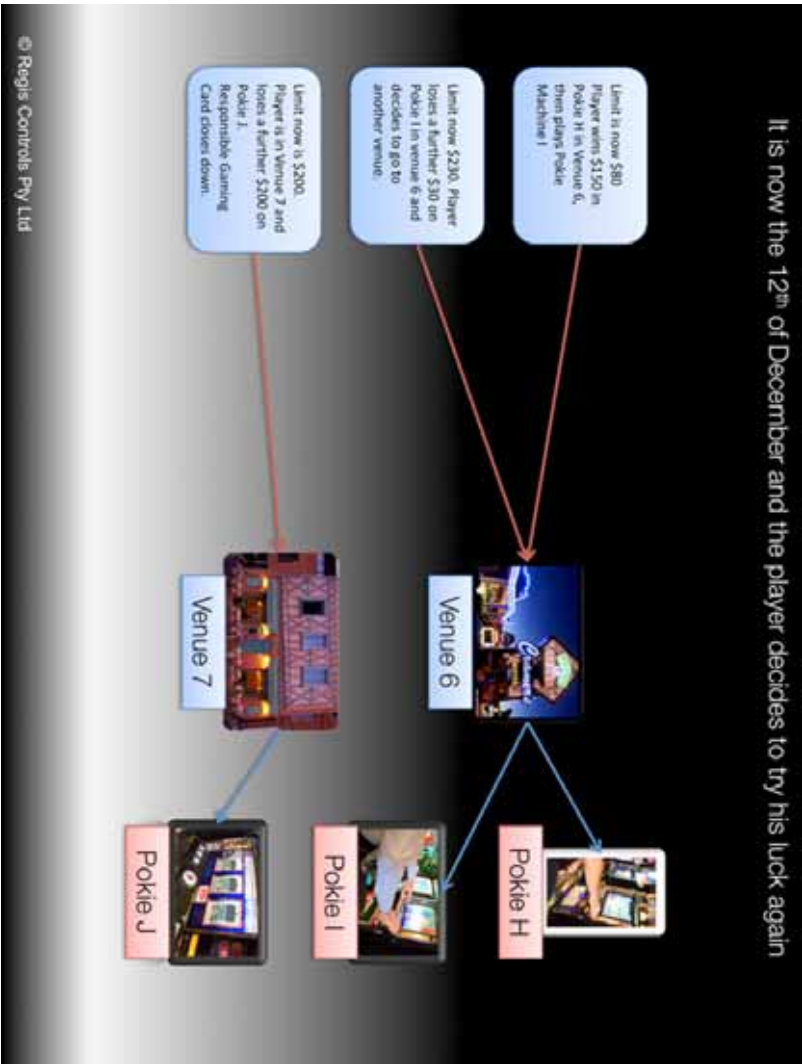


Some of the features that can be built into the responsible gaming card:

- Limit the amount that can be lost within a certain time frame e.g. \$1000 per fortnight (card shuts down thereafter)
- Responsible up to date messages displayed on Poker machine e.g. you have lost \$500 do you wish to continue?
- Ability to enforce a break by the player e.g. a few minutes, a day a week a month
- Ability to self exclude immediately e.g. a day a week a month or a year
- Ability to keep track of the limit and close down the card e.g. \$1000 per fortnight regardless if digital and/or real cash is used to play with
- Ability to operate on Pokies, internet, pay TV, and ban credit card betting and use by minors
- Can be PIN or biometrically operated
- Operates across all venues and all machines, internet and pay TV maintaining **one limit**







Self Exclusion (self imposed ban)

Call the National Call Centre number (24/7) 1300 smrt card (1300 7678 2273). The number is printed on the card. Call center then verifies the person as being the card holder and immediately puts a flag on the card for the period nominated. There are other methods such as venue exclusion terminals, consoles that can be fitted to the poker machines, internet access etc.



Ian M. Smart



National Call Centre

How to change the limit

Call the National Call Centre number that verifies the person as being the card holder, confirms the new lower limit and immediately updates the new lower limit, which is updated on the card when next inserted into a poker machine. To raise limit governing rules must apply example cooling of period, justification to increase limit etc.



Ian M. Smart




National Call Centre

How to use the card with a PIN

The Player inserts their personalized responsible gaming card into card reader situated on the front of the poker machine. The player enters the PIN into the code pad, which is then accepted/ rejected, allowing the player to commence play. Note: Government may wish to provide a warning to very frequent players - This is your fifth visit this week and you have lost \$xxx already.



How to use the card with Thumb Print

A hand is shown holding a white card over a thumbprint scanner. The scanner is emitting a green light, and the thumbprint is being scanned. The card has a purple and white design.

The Player holds the card with their thumb when inserted which is then matched with a biometric image of the thumb print stored in the chip on the card.

P.N The player is registered to the central data base but **there is no central data base recording of anyone's thumb print.**

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