

**Submission by**  
**NSW Lotteries**  
**to the Independent Pricing**  
**and Regulatory Tribunal**  
**(IPART)**  
**Gaming Inquiry**

August 1998

## EXECUTIVE SUMMARY

- 1 Lottery games have operated in NSW for 67 years and have made a significant financial and social contribution to the State. This record has been achieved, without giving rise to social problems, by careful adherence to the regulatory environment and a recognition of the special obligations associated with being a responsible provider of gaming products.
- 2 As a publicly owned Corporation, NSW Lotteries is acutely aware of the need to balance commercial interests with a socially responsible approach to its activities. This was recently demonstrated by NSW Lotteries' voluntary participation in an industry-wide Code of Practice aimed at fostering a responsible environment for lottery games.
- 3 In the six year period ended 30 June 1997, total Australian turnover from all forms of gambling increased from \$30 billion to \$80 billion, an increase of 166%. However, Australian lottery growth over this period accounted for only 1% of the total growth turnover (from \$2.5 billion to \$3 billion). Gaming machine turnover over that time increased by \$37 billion and casino turnover by \$12 billion. The significant growth in these areas, and the nature of their products, has heightened awareness of problem gambling as an issue.
- 4 Lottery products possess characteristics which clearly distinguish them from other forms of gambling. Lottery products, because of their inherent design features, are not products which are conducive to compulsive play. Any coordinated approach to problem gaming should take account of this. A failure to recognise the different nature of lottery play could lead to an unnecessary degree of regulation which is inefficient and unproductive and could result in the diversion of resources from more appropriate areas.
- 5 Various independent research studies support the view that problem gambling is not generally associated with lotteries. A study by the University of Western Sydney in 1996 showed that participants in other forms of gambling were seven times more likely than lottery players to be problem gamblers or to be "at risk".
- 6 NSW Lotteries believes that the Terms of Reference of the Inquiry are too narrow and should be extended to include all providers of gaming and wagering, including TABLTD, racing and "pseudo" lotteries such as Trade Competitions.
- 7 The suggestion of a common levy being imposed on all operators, similar to the contribution paid by Star City Casino, does not withstand analysis. The net result of such a policy would be to extract the highest rate of payment from the operators that contribute least to the problem.

## **HISTORY AND ROLE OF NSW LOTTERIES CORPORATION**

NSW Lotteries is a NSW Government owned Corporation which has provided lottery games in NSW since 1931.

The first State Lottery was introduced at the height of the Great Depression to help alleviate the critical funding situation in the State's hospitals. Initial opposition by church groups and the Opposition of the day was withdrawn when the churches were unable to raise money by voluntary fundraising.

Over the years, lotteries have helped to pay for landmark projects such as the Sydney Opera House, and raised millions of dollars for schools, hospitals and other important community infrastructure. As gaming technology has developed, the lottery barrel has been replaced by a computerised random number generator, and new games such as Instant Scratchies, Lotto and Powerball have been introduced into the marketplace.

New lottery games tend to "cannibalise" existing games. However, they help keep the portfolio fresh and interesting for players and allow moderate net growth.

In 67 years of existence, NSW Lotteries has paid out more than \$7 billion to hundreds of thousands of winners and nearly \$3.5 billion has been contributed to the Consolidated Fund for the benefit of the NSW community.

From the start, probity issues were extremely important, as the new lottery had to compete with interstate lotteries, Art Unions, and widespread illegal betting.

All NSW Lotteries' games are conducted under statutory licences in accordance with specific Rules and Regulations approved by the Minister for Gaming and Racing, who administers the Public Lotteries Act which governs the operations of all games.

Public confidence in its operations is crucial for NSW Lotteries to continue to perform its role. The Corporation aims for the highest standards of integrity, responsibility and ethical business practices.

### **ECONOMIC CONTRIBUTION OF NSW LOTTERIES**

As a publicly owned Corporation, NSW Lotteries is acutely aware of the need to balance commercial interests with a socially responsible approach to its activities.

NSW Lotteries makes a significant contribution to the economy, which benefits the citizens of NSW regardless of whether or not they play the games.

Around a third of every dollar received is returned to the community in the form of a contribution to the Consolidated Fund. Last financial year more than \$300 million was raised, which pays for many essential services that otherwise would have to be funded through some other source or not at all.

NSW Lotteries also makes a significant indirect contribution to the NSW community. A staff of around 200 is directly employed by the Corporation, with hundreds of other jobs indirectly dependent on its business. Agents, printers, advertising and media personnel, transport and distribution workers, and manufacturers all benefit from NSW Lotteries and pass the money back into the economy.

Prizemoney can be expected to come back into the economy in the form of increased expenditure and investment. Based on feedback from the winners themselves, lottery winnings are likely to be spent on helping family members purchase their own homes, invested in job-creating family businesses or added to the nation's pool of savings.

The lottery industry is estimated to make a direct contribution to the Australian economy of over \$1,000 million or around 0.3 per cent of total GDP. Total direct employment generated in NSW is estimated at over 2,000 jobs. As many as 5,000 jobs in NSW result from the indirect benefits of the activities of NSW Lotteries.

## **TERMS OF REFERENCE**

In conducting this review the Tribunal will investigate the:

- ☞ need for and form of a Gaming Commission or similar authority to oversight gaming in NSW;
- ☞ relationship that should exist between the Casino Control Authority (and other existing licensing or regulatory bodies) and any such gaming commission or similar authority;
- ☞ measures (both existing and potential) to foster a responsible gaming environment;
- ☞ coordination of the problem gaming policies of hotels, registered clubs and the casino and other providers of gaming; and
- ☞ coordination of problem gaming support services and research centres to address problem gaming.

The forms of gaming that are to be covered by the Inquiry are:

- ☞ casino gaming
- ☞ machine gaming in registered clubs and hotels
- ☞ Club Keno
- ☞ operations of NSW Lotteries Corporation.

## **COMMENTS ON TERMS OF REFERENCE**

There is clearly a significant discrepancy between the Terms Of Reference outlined in the Community Partnership legislation, which did not include lotteries, and the published Terms Of Reference of the Inquiry.

NSW Lotteries is a member of the lottery industry which is a form of gaming - although most people regard buying a lottery ticket as a harmless flutter and fun rather than "hard" gambling. As such, the Corporation seeks to actively participate in any measures which may help to foster a responsible gaming environment.

NSW Lotteries believes that the Terms of Reference of the Inquiry are too narrow and should be extended to include all forms of gaming and wagering. If the overall objective of the Inquiry is to develop, as far as is reasonable, a coordinated approach to the issue of problem gambling then all relevant providers of gaming and wagering, including TABLTD and racing, should be included.

A less significant omission is that of "pseudo" lotteries, such as Trade Competitions, which are predicted to grow at an annual rate of 20% to 30%. In the twelve months to 30 June 1997, there were some 8,000 trade promotions in NSW offering prizes to the value of \$171 million. This included 76 promotions offering prizes of \$250,000 or more.

While such promotions may represent a relatively small proportion of turnover, the operation of this growing segment of activity should be included in the scope of the Inquiry.

## **RESPONSE TO TERMS OF REFERENCE**

### **1 NEED FOR AND FORM OF A GAMING COMMISSION OR SIMILAR AUTHORITY TO OVERSIGHT GAMING IN NSW**

From NSW Lotteries' perspective, the current regulatory environment is working adequately. However, if the same regulatory and public interest functions and responsibilities were to be performed by a new authority, such as a Gaming Commission, we would work within the relevant legislative framework governing our operations.

NSW Lotteries already complies with a very strict licensing framework established under the Public Lotteries Act.

Any changes to the rules for our various products are required to be approved by the Minister for Gaming and Racing and published in the Government Gazette. Control by the Minister extends to such matters as approval of changes to entry forms and equipment used for the conduct of draws.

The Department of Gaming and Racing monitors both the televised Lotto draw and the computerised allocation of prizes, while the Auditor-General monitors daily lottery draws, which are also open to the public.

In the case of lotteries, such as OZ Lotto, which are conducted on a national basis, games, subscriptions, prizes and dividends are audited by the Auditor-General in each participating State.

In order to justify a change to the existing arrangements, some fundamental questions must be satisfactorily addressed:

- ☞ What benefits will arise from the formation of a Gaming Commission compared to the current regime where the Minister for Gaming and Racing is the regulator for all forms of gaming and wagering?
- ☞ What are the shortcomings of the current regulatory regime and how will these be addressed by a Gaming Commission?
- ☞ If the objective of a Gaming Commission is a more coordinated approach to the total “gambling” market, then will it be effective if it excludes the operations of TABLTD and racing?

## **2 RELATIONSHIP THAT SHOULD EXIST BETWEEN THE CASINO CONTROL AUTHORITY (AND OTHER EXISTING LICENSING OR REGULATORY BODIES) AND ANY SUCH GAMING COMMISSION OR SIMILAR AUTHORITY**

NSW Lotteries has no day-to-day dealings with the Casino Control Authority and is not in a position to comment on the efficacy or otherwise of the current regulatory arrangements.

If a single regulatory entity (eg Gaming Commission) is created it would clearly need to continue to recognise the special nature of a casino’s operations and ensure that the high degree of regulatory oversight evident in the current arrangements is maintained. The high level of supervision by the Casino Control Authority is not unique to the NSW environment. Close supervision of casinos exists throughout the world because of the particular nature of their operations and problems previously encountered in a number of overseas jurisdictions.

Any attempt to regulate gaming in a coordinated fashion needs to apply similar legislative frameworks to forms of gambling that operate similar types of products.

## **3 MEASURES (BOTH EXISTING AND POTENTIAL) TO FOSTER A RESPONSIBLE GAMING ENVIRONMENT**

In addressing the measures required to foster a responsible gaming environment, it is important to consider:

- research indicating the individual characteristics of the various forms of gaming and wagering and their differing propensities to cause social problems;

- the recent growth dynamics of the gambling industry which have led to an increased awareness of problem gambling; and
- the efficacy of existing measures which aim to ensure current operators act in a socially responsible way and in line with prevailing community standards.

### 3.1 RESEARCH

Research shows that the various forms of gaming and wagering can be placed on a continuum running from “hard” gambling at one extremity to “soft” gaming at the other. While there are no hard and fast rules for defining the various terms used in the industry, there are some very basic and commonsense differences between the games in the NSW Lotteries’ portfolio and “hard gambling”.

#### 3.1.1 “Continuous” and “Non-Continuous” Gambling

A recent study argued against classifying all gambling forms as similar and suggested they should be classified as “continuous” and “non-continuous”. Continuous gambling is characterised by gaming machines and casino games that permit a repeated cycle of stake, play, determination; and non-continuous is characterised by products such as lotteries, where there may be a period of hours or days between stake and determination (*Dickerson, 1996*).

Hard gambling is recognised as having inherent risks for the small segment of the total population who may be susceptible to problem gambling.

Lottery play, in contrast, is less attractive to problem gamblers due to the inherent characteristics of lottery games, ie:

- Chances are essentially random.
- Very little player skill is involved.
- There is limited opportunity for repeat betting, either in terms of the nature of the sales outlet, or in the format of the game.
- The size of the prospective prizes is not directly proportionate to the amount invested (ie in race betting the dividend is entirely dependant on the amount wagered).
- The activity often forms an incidental part of many players normal life routine.



- The activity takes place in an atmosphere, circumstances or a location which is familiar and acceptable to virtually the entire community.

### 3.1.2 Incidence Of ‘Problem Gambling’

South Oaks Gambling Screen (SOGS) Scores are an internationally validated measure of diagnosis of ‘pathological gambling’.

The measure consists of a series of questions which are predictors of pathological gambling behaviour. Scores on this scale above 10 indicate that a person is a problem gambler, and scores above 5 indicate that the person is at risk of becoming a problem gambler.

A report prepared by University of Western Sydney for the Casino Community Benefit Fund Trustees (January 1996) showed that amongst the Lotteries only group (N=140), only 0.7% of the sample (1 person) was indicated as being a problem gambler, and 1.4% (2 people) were in the ‘at risk’ category.

This was quite different from the OTHER (N=159) group, whose favourite gambling forms were gaming machines, followed by racing. In the OTHER group 3.8% (6 people) were identified as problem gamblers and 13.8% (22 people) were ‘at risk’.

*(Note: This study pre-dated the establishment of the permanent Star City Casino).*

The table below shows the comparison between the two groups.

<b>SOGS score</b>	<b>Lotto Only %</b>	<b>OTHER %</b>
0-2	90.0	62.3
3-4	7.9	20.1
5-9	1.4	13.8
10-15	0.7	3.8

### 3.1.3 Attitudes To Gambling

People who play forms of gambling other than NSW Lotteries’ games, are more involved and excited about their gambling than NSW Lotteries’ players.

NSW Lotteries’ games are played for the chance of making a dream come true (however the chance of winning is still seen as

'just a chance' and realistically a bit of a remote one), easy to play, and offering large prizes.

Casino, Keno, poker machines and card machines, however, are classified as games which have a much greater level of involvement; a variety of ways of playing; and are offered in a social setting.

A Newspan survey on community attitude to gambling conducted in 1998, indicates that approximately 90% of people perceive NSW Lotteries' games either as "not really gambling" or as being "soft gambling".

#### 3.1.4 Lottery Play

Lottery games offer very large prizes at long odds, and a range of smaller prizes at much lower odds. Players consider the odds, but feel that the entertainment value and the chance of winning justifies the small outlay.

It is interesting to note that some of our biggest millionaire winners continue to play lottery our games because they simply enjoy the fun of playing.

The realistic attitude of players is reflected in the low average purchase amount for NSW Lotteries' products. NSW Lotteries' customers play an average of less than \$10 per week.

### 3.2 TRENDS IN GAMBLING

The issue of problem gaming has only received wide attention in the past few years. In our view, this has been largely driven by the exponential growth in total gambling turnover primarily due to the expansion of the "hard" gambling options.

For example, according to the official industry statistics compiled by the Tasmanian Gaming Commission, in the six financial years to 30 June 1997, Australian casino turnover increased by \$12 billion (366%), and total electronic gaming machine turnover increased by \$37 billion (148%)

It would seem inevitable, that with such an expansion of gambling opportunities, the likelihood of any problems being encountered would also increase.

By way of comparison, over the same period there has been no such expansion of lottery turnover. Total sales of lottery products has basically kept pace with the prevailing rate of inflation, with an 18% increase over the same period.

The areas of potential impact upon problem gambling can be clearly seen from the table below. In a \$34 billion market dominated by gaming machines, lotteries share of turnover is only 3%.

<b>NSW Gaming and Wagering Turnover Share 1996/97</b>	
Gaming Machines	76%
Casino	6%
Racing	14%
Lotteries	3%
Keno	1%

### 3.3 RESPONSIBLE SALE AND PROMOTION OF NSW LOTTERIES PRODUCTS

All existing research indicates that there is a relatively small percentage of people in the total population who have some form of problem with their participation in gaming and wagering.

While only a very small proportion of players may be susceptible to problems associated with buying lottery products, NSW Lotteries is constantly striving to ensure that the sale and promotion of its games is done in a way which fosters responsible purchase.

#### 3.3.1 Lotteries Industry Code Of Practice

In addition to the tight regulatory frameworks which apply to the lotteries jurisdictions in each State or Territory, the Australian lotteries industry has developed its own standard of self-regulation in the form of the Australian Lotteries Industry Code of Practice.

The Code of Practice provides guidelines for the responsible sale and promotion of lotteries products, including a specific lotteries-related advertising code of ethics, and compliance with the general code of ethics adopted by the Australian Association of National Advertisers (AANA).

The Code of Practice provides for the referral of customers to appropriate community agencies if play should become a problem.

The Code also states that advertising should not give a false impression of the chances of winning a prize, and that odds and other game information should be readily available to players.

It is important to note that NSW Lotteries has yet to receive a single complaint from a player or from any other member of the community regarding problem gambling. While the Code of Practice addresses the issue of problem gaming, other matters vital to the responsible delivery of lottery services and of significance to players are also addressed. These include integrity in the conduct of draws and payment of prizes; and

protection of the privacy of players, particularly major prize winners.

### 3.3.2 Advertising

NSW Lotteries prides itself on its record of producing advertising which is sensitive to community standards and values. NSW Lotteries and its contracted advertising agencies strictly observe the AANA Code which is incorporated into the Australian Lotteries Industry Code of Practice.

As a corporatised Government organisation, NSW Lotteries is even more cautious than private sector advertisers in assessing the likely impact of its commercials, bearing in mind contemporary community standards. All advertisements are evaluated by senior internal Marketing staff to assess any legal and self-regulatory implications of the concept as well as ensuring that appropriate recognition is given to broader community standards and values.

The advertising of lottery products is a very disciplined process. All major campaigns are market researched, evaluated through focus groups and extensively pre-tested with consumers prior to launch. This is done to ensure that advertisements meet community standards and expectations and have the broadest possible appeal.

In the event of any public concerns regarding advertising, our grievance procedures provide for review by the Chief Executive Officer and the NSW Lotteries Board.

### 3.3.3 Retail Network

The nature of the retail outlets making up the network of 1600 agents selling NSW Lotteries products mitigates against the compulsive purchase of our products:

- ☞ players are generally buying tickets in their neighbourhood, where they are subject to the scrutiny of their local community;
- transactions are processed quickly because of the high volume/low investment nature of lottery sales;
- ☞ players are not exposed to alcohol; or a retail environment where they are encouraged to spend considerable leisure time;
- ☞ full information on odds and game rules are available; and

- sale on credit or to minors is prohibited by statute with appropriate penalty.

#### **4 COORDINATION OF THE PROBLEM GAMING POLICIES OF HOTELS, REGISTERED CLUBS AND THE CASINO AND OTHER PROVIDERS OF GAMING**

The Inquiry's Terms of Reference seem primarily designed to address the coordination of the policies of registered clubs, hotels and casinos. As clearly demonstrated, the "soft" characteristics of NSW Lotteries' products makes them less attractive to persons susceptible to developing problem gambling than the "harder" forms of gambling.

The diversity of the gaming industry calls for a strategy of coordination rather than uniformity of approach to regulation. Failing to distinguish between lottery products and other forms of gaming could lead to an unnecessary and inappropriate degree of regulation which is not likely to be effective or efficient.

For example, the in-house gaming support services like those provided by Star City Casino could be extended to clubs and hotels which have a high concentration of electronic gaming machines, but are inappropriate for a lottery agency. Similarly, the application of a uniform levy on gaming revenue may result in the providers with the lowest propensity for problems to make a disproportionately high contribution and effectively subsidise other providers with high problem propensity games.

#### **5 CO-ORDINATION OF PROBLEM GAMING SUPPORT SERVICES AND RESEARCH CENTRES TO ADDRESS PROBLEM GAMING**

The role of gaming operators is to develop and market their products in a socially responsible manner within the prevailing regulatory framework. The role of the regulator is to ensure that operators comply with these requirements. Both parties need to ensure that all reasonable steps are taken to minimise any adverse social effects from gaming activity.

There is a view, expressed by Prof Mark Dickerson, of the University of Western Sydney, and others, that problem gambling is a public health issue which should be addressed by health professionals and funded from the State Budget.

NSW Lotteries is not qualified to comment on the coordination of the management of problem gambling or research into the issue, but believes that an appropriate level of funding and strategic management are necessary.

There have been calls to extend the current 2% levy, imposed on the revenues of Star City Casino, to all the other forms of gambling in order to provide more funding for problem gambling. This proposal is somewhat

simplistic and fails to recognise the widely different tax rates which currently apply to the various forms of gambling.

The net revenue (after payment of prizes) as a percentage of turnover for the various forms of gaming and wagering are as follows:

<b>Product</b>	<b>Gaming Revenue as % of Turnover</b>
Gaming Machines	9.6%
TAB	15.9%
Casino	16.9%
Lotteries	38.7%
Keno	25.0%

*Figures Supplied by Tasmanian Gaming Commission*

You will see that the percentage take ranges from 9.6% for gaming machines to 38.7% for lotteries. As you will appreciate, the imposition of a standard percentage would result in NSW Lotteries paying approximately four times the percentage of turnover that, for example, gaming machines would contribute. This would not be a sensible outcome given that all objective research shows lottery products have the lowest problem gaming impact.