



## Australian Casino Association

12 November 1999

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Dear Dr Lattimore

### **Re: Request for Additional Information**

I write in response (a) to your letter to Greg Farrell and myself of 6 October 1999 seeking the Australian Casino Association's comments on your characterisation of the Black Rhino game; and (b) to the question about compliance costs you posed in the fax sheet of the same date covering the above letter.

#### **(a) Black Rhino**

We are doing our best to understand the issue you are seeking to address in your letter of 6 October and on pages 15.12 to 15.20 of the Productivity Commission's Draft Report. No doubt with good intentions, the Commission is looking at ways governments might 'correct' what it perceives to be a lack of information about the nature of EGM games. Our impression is that you are labouring under a number of misunderstandings about how our industry operates, about how poker machines work and about what poker machine players want. Above all, the Association is not persuaded that poker machine consumers are inadequately informed. Certainly, we do not believe regulations requiring the display of more odds information on EGMs are needed. We are still of the view that the suggestions made by the Commission in its Draft Report particularly in relation to revealing odds are uninformed and would result in information overload for our customers. Our reasons are several.

First and foremost, for good commercial reasons casinos in Australia are already devoting considerable resources to providing players with relevant information. Within the limits of existing advertising regulations, each of our Members goes to considerable trouble both to provide consumers with information about the games on offer *and* to promote the 'responsible gaming' message. Our Members are committed to participate in achieving a balance between economic and social aspects of gambling. They continue to invest significantly in both developing the areas of research and application of socially responsible business practices.

Against this background, the relevance of requiring more product price or odds information to be provided to consumers than our industry is already supplying is not clear to us. For one thing, for many customers (and we suspect, most especially for the 'problem gamblers' the Commission says it is most worried about) precise odds information is of little interest. Most players are looking for entertainment and are likely to have the same attitude to poker

machine odds as the rest of us do to the inner workings of our TV sets or VCRs, or to prior information about the plots of movies before we see them. The fun is in the unexpected. The Commission itself hints in its Draft Overview that it understands the conundrum posed by this:

“An important question is whether changes could be made to the machines which would temper the hazards without significantly diminishing recreational gamblers’ entertainment.” (p XLIV)

Doubts about whether consumers care much about the odds in high odds games were expressed recently in a commentary on the Commission’s Draft by Macquarie University’s Professor of Statistics, John Croucher in a radio interview on 23 July, also cited by *The Canberra Times* on 24 July. He observed:

“People don’t care that their chance of winning Powerball is only 55 million to one; they look at the prize and all they know is that if you don’t have a ticket, you’ve got no chance at all.”(p.C4)

Along with this, the first hand evidence available to us indicates that as a whole, players of poker machines are very knowledgeable and are very sensitive to any changes in the odds on offer. In your own Draft Report you have cited AGGMA’s report on the ACT experiment which showed that additional signage made no difference (pp 15.12-15.13). That experience accords with the observation by Professor Jan McMillen of the University of Western Sydney, reported in *The Canberra Times* article I cited earlier, that:

“...there is actually a danger of overloading people with too much information about the innumerable computations involved in calculating the odds on poker machines. They’ll just turn off.” (p.C4)

So we question the relevance of the Commission’s perception of an information need.

The second problem we have with your approach is that no brief statements of the mathematics of complex games such as Black Rhino can do justice to them. We consider the Commission’s approach of picking one payout possibility (five rhinos) and reporting on some arbitrary (50%) chance of it arising in a sequence of one line plays on a 10 cent machine to be so incomplete a description of the Black Rhino (or any modern EGM game for that matter) as to be misleading. The game is designed so that a number of small payouts are achieved as opposed to one large payout/jackpot, as I will elaborate below.

The potential for even such limited information as you have provided in the Draft Report to be misunderstood or misrepresented is well illustrated by some of the commentary on the Black Rhino which appeared in the Melbourne press after the Draft was released. On 20 July, for example, *The Age* newspaper said the following:

“Mr Fitzgerald said there was a lack of basic information about true gambling prices and the odds of winning.

“In the case of the gaming machine Black Rhino, a person would have to hit the button 6.7 million times just to have a 50% chance of winning. It estimated that it would take 188 years to do this and cost \$330,000 to chase a \$2000 prize” (p. A1)

That is, of course, quite untrue, even for one line plays with a 10-cent machine. Leaving aside the question of whether Mr Fitzgerald was accurately reported, the Commission’s

unqualified use of the popular term “chance” on p 15.15 of its Draft is one thing that is likely to have contributed to that particular misunderstanding.

In a similar vein, the *Sunday Herald Sun* carried an item on 25 July which said the following:

“The Productivity Commission found the machine known as the Black Rhino was among the worst.

“To win the main prize of \$10, 000 by lining up five black rhinos, a person playing one line push of the button would have to:

- Press the button 6.7 million times.
- Play for 188 years at ordinary rates of play, or 391 days continuously.
- Invest \$330,000.” (p. 19)

Here, in an even shorter account of what the Draft said, the author has seen no need whatsoever to indicate that every button push on a Black Rhino is independent. Inaccurate portrayals of this kind are borne of the inadequate treatment in the Draft itself.

The fundamental concern we have is that the necessarily brief descriptions of the odds that could be mandated will engender false public expectations. These in turn will lead to calls for more unnecessary rules. Further disappointment will follow and suppliers will face the curtailment of any but the most banal EGM games. In that event, from a consumer’s perspective, the quality of the product will fall. All this will occur without any discernible benefit to problem gamblers and the legitimate business of providing interesting games to consumers will be suffocated.

Ours is a competitive and dynamic business. You may not be aware that it is usual for poker machine managers in Australian casinos to replace one or two games every month; the ‘life cycle’ of games is typically 18 months. Moreover, to remain competitive, the casinos owned by our Members find they have to set their return rates on some games several percentage points above the statutory minimum. Regular players are sensitive to these apparently small changes.

Your narrow statement of the mathematics of the Black Rhino game both in your letter and in footnote 6 of the Draft is misleading because it is not a description of the whole game. Your dollar figure does not cover returns from the higher-probability minor prizes that a player could expect to win on the way. Moreover, both your odds figures and your time estimates are irrelevant because virtually no customers play single line bet options. Finally, your implicit message that five rhinos is *the* target that customers head for on the Black Rhino is wrong. When the machine is on its standard setting, the five rhinos contribute just 0.0512% of the 87.836% returned to players. There are many other more important features. For example, there is a ‘double-up’ feature (which by law must be a 50/50 proposition, and not allow for a house take). However, the most important feature of all with the Black Rhino machine (as with several other modern games) is the ‘scatter’ feature (which is five rhinos and/or trees). Game design experts will confirm with you that the Black Rhino was designed around that aspect. This may not be obvious from the official game description sheets submitted to the authorities and available to the Commission. However this is the aspect which keen machine players value most in the Black Rhino. Scatters occur about once every hour of normal play.

**(b) Compliance costs**

I turn now to your requests on compliance costs.

The Association was somewhat surprised to receive your request for data on compliance costs – a significant issue - 14 months into the inquiry. The requirement in clause (e) of the terms of reference for the inquiry is for the Commission to examine and report on regulatory structures led us to think that compliance costs would be an issue addressed by the Commission's own research. Nonetheless, at this late stage, we can offer you some broad indications.

Figures furnished to the Association by some Members indicate that direct costs of compliance in the Australian casino industry are currently running at tens of millions of dollars a year. This is the cost to the casinos themselves and does not count the administrative burden on governments or the losses of consumer surplus that are associated with the impact of the regulations on product volume and quality.

Operating a business of a high integrity, when there are highly prescriptive and inflexible regulatory regimes results in significant additional costs. Below is an indication of types of costs that are additional due to the regulatory environment of the casino business:

- Management and liaison with government agencies
- Licence fees
- Game application fees
- Game testing fees
- Surveillance costs
- Security personnel
- Equipment security and control
- Proscriptive training (inter jurisdiction differences)


We believe that the Draft Report's idea of replacing the current entry restrictions with a suite of additional consumer protection measures would make matters worse. For example with the compulsory information approach you have suggested, compliance costs could be very large indeed - for venues, regulators and consumers alike.

Should this lead to the disappearance of the relatively more interesting games from legal venues, one could expect the incentives for criminal elements to provide illegal opportunities to gamble will rise. Viewed narrowly, illegal supply might soften the blow for some consumers, but the threat to the rule of law would be a negative for society and presumably more resources would be demanded by the police and gaming authorities to keep illegal providers in check. This would be a further cost.

The bottom line is that while the Commission's suggestions offer no clear benefits, their cost could be very high indeed for operators, customers and the community at large. We consider their implementation would be a policy disaster.

Please treat this letter as a public document.

Yours sincerely

A handwritten signature in black ink, appearing to read "R. Pahl", with a long horizontal flourish extending to the right.

Rodd Pahl  
Secretary