PRODUCTIVITY COMMISSION SUBMISSION

GAMBLING INQUIRY

NATIONAL GAMBLING LICENSE

CATEGORY:

- **TAXATION AND REGULATORY ARRANGEMENTS**
- **CONSUMER PROTECTION**

INTRODUCTION

The purpose of this submission is to stimulate debate on the concept of a National Gambling License, with objectives being:

- Consumer protection,
- The continuity of a responsible gambling industry in Australia and
- A source of Funding for a National Gambling Research Institute (NGRI), a Federal Regulatory Agency and treatment centers.

I have no illusions that this is an ideal solution, and industry, community or State Gambling regulators might see good cause to dismiss it entirely. I have not consulted any party on the concepts put forward herein. Nevertheless, in the absence of a better model, it may be worthy of debate.

Without going into an epic discourse, I provide an overview of the concept, and highlight the key points in the form of a SWOT analysis. Further debate or research (NGRI) can be conducted at a later time if the concept is accepted.

In recent times, through the advent of developments in technology and the increasing application of technology to gambling, we have seen an unprecedented growth in the gambling industry on a global scale. Traditional forms of gambling are either being assisted or replaced by technology and new forms of gambling are emerging. The range of gambling products is growing and the accessibility of these products increasing. With the exception of table games, the majority of gambling services are networked (lottery, wagering, sports betting, internet, gaming machines).

Technology in the 20th Century has played an integral part in both the commercial expansion and the ability to regulate, tax and audit gambling activities and operations. It can also provide the wherewithal to assist in the enforcement of responsible gambling practices, as discussed herein.

CONCEPT OVERVIEW

On the basis that:

- Information + Education + Support services = "Informed Consent".
- Procedural measures = Intervention and enforcement.
- Technical measures = Prevention, detection and enforcement.

This paper proposes the above measures be combined in the form of a gambling license to essentially enforce "informed consent".

I now briefly explore each of the isolated subjects that can be combined through the implementation of a National licensing system:

- "Informed Consent",
- "Detection",
- "Prevention", and
- "Enforcement".

"Rehabilitation" is not within the scope of this paper, but could be funded from the proceeds of license fees.

Informed Consent (self-control)

Technology assisted gambling provides the ability for a player to obtain a complete audit trail of their gambling activities; wins and losses.

The following measures could be applied:

1. Mandatory audit trails (P&L statements) available to gamblers. Indeed such P&L statements could be filed with tax returns for "professional gamblers" as per Internal Revenue Service guidelines in the United States, should Australia ever recognize such an "occupation".
2. Gamblers have the ability to self-exclude entirely or for a "trial period" (such self-exclusion is broadcast to all gambling sites participating in a regulatory model).
3. Ability for gamblers to limit the amount they wager.

4. Ability for player to self-impose time limits in a 24hr period, after which time they are prevented from further play.

5. Cooling-off periods applied to changing any self imposed parameters.

6. Education in lay-person's terms on the maths behind gambling, managing finances, where to get help if gambling becomes a problem, essentially how to gamble responsibly. Left up to "self-control" it is questionably how many people would voluntarily subject themselves to such education?

Detection

Every transaction can be tracked; money transfers, wagers, games selected, amount bet per game, amount of time spent playing games, etc. Whatever you might want to track, and whatever statistics you might want to generate can be realised given the need for a player to identify themselves, establish an account, and the central monitoring and control associated with networked gambling.

The implications of such detailed audit trails presents both good and bad:

1. Good: Audit trails may be able to be used to assist with detection of problem gamblers, to limit gambling activity, or to detect crime (i.e. a bank knows that Joe earns $25K per year, but is gambling $40K per year - where is Joe obtaining the extra cash from?).

2. Bad: Audit trails may also be used for extortion (if they fell into the wrong hands), may be used by the banks in consideration of credit ratings, or may be used contrary to the provisions of the privacy legislation.

Prevention

Given effective detection techniques being put in place, one might anticipate that many problems could be prevented. However, the detection mechanisms discussed above are all peripheral to the game interface itself. There are technological control measures that may be employed within the games themselves; however game and "game-peripheral" controls are only as effective as the presiding government's willingness to limit its gambling taxation. To explain further…

A reciprocal relationship of mutual causality exists between regulation, commerce, technology and society. This complex relationship leads to the creation of immediate or first order effects, and higher order effects. For example, if the regulations are structured such that the implementation of gaming technology regulates an individual's utility function (that is, the amount of money an individual may risk in a given period of time), the first order effect is that revenue from a gambling device, consequently taxation, is not maximised. However, if revenue from gaming taxation is desired to be maximised, a second order effect may be an escalation in financial difficulties experienced by some gambling members of the community. Which in turn may have a third order effect of a higher crime rate and/or increased costs for community welfare services. The net tangible/intangible benefits may therefore be less than the expectation when

only first order effects are a variable in the equation, and indeed, this is where the expertise of the Productivity Commission comes into play.

To 'control' an individual's utility function (risk aversion), one must ultimately restrict the quantity of money that may be wagered on a given device in a given period of time. This is mostly achieved by controlling the technological aspects of the player interface with a game.

So if we do decide to regulate gambling to offer credibility in return for control and revenue, what should we look at?

The objectives of gaming being “fair”, “profitable” and “publicly acceptable” are achieved via Government regulation of game functional specifications. Key game interface aspects that deserve consideration are:

1. Size and corresponding probability of prizes - frequency and amount of prize pays (hit rate).

2. Maximum amount able to be wagered in a single play.

3. Duration of a game.

4. Accuracy and clarity of game play instructions.

5. Prohibition of credit betting.

The compliance with specific Government requirements in these areas results in games that provide a balance between maximum profit and social considerations by regulating an individual's utility function.

Enforcement (Gambling License).

Freedom, privacy, "paternal" responsibility of government and the duty of care must be considerations for what follows.

The following measures could be considered:

1. A mandatory requirement to undergo a training course, sit an exam and obtain a "gambling license" test on-line or offline prior to being able to gamble in any capacity. The approach would be very similar to the obtaining of a driver’s license. It may also require information to be provided (such as the annual income of the individual, confirmed with the bank or accountant or ATO).

2. The site could monitor gambling spend as a percentage of annual income and alert the player or exclude them from the site.

3. A player on government welfare could be excluded from playing.

4. The measures in “informed consent” could be enforced.

5. After every 100hrs of play, say, the player could be required to complete a problem-gambling self assessment form, or at renewal of the license every 2 years.

STRENGTH

- Education and empowerment of the individual to understand the risks of gambling, how to control and enjoy gambling and where to go for help if there is a problem.
- Cannot gamble without a license.
- Eliminate venue liability for duty of care as responsibility rests with the holder of the license. This may have further implication for workers compensation.
- Ensure continuity of Australia's gambling industries.
- Method to fund: (a) a Federal Agency, (b) NGRI, (c) treatment centers, with recurring revenue from the training and issue of a gambling license which at $100.00 per person for training and sitting the license test, could reasonably be expected to return at least $100,000,000 per annum. However, I'll leave that analysis for the economists.

OPPORTUNITY

- Possibility to leverage existing infrastructure and resources. E.g. Make this a public health issue and "tag" the Gambling License onto Medicare Card or perhaps to a Drivers License, or Bank or Credit Card or TFN.
- Ability to limit gambling expenditure if say, on government welfare or court order.
- Ability to enforce exclusion orders and self-limiting behavior.
- Learn from the experiences of the National Firearms Registry (firearms License) or the issue of Drivers Licenses from various State Agencies.
- Reduction in insurance premiums for venues given mitigation of risk in terms of duty of care, and emerging occupational health issues.
- There would be unprecedented data available for the conduct of research (NGRI).
- Gaming operators would be better able to manage their customer experiences and content through loyalty marketing programs given the networked infrastructure.

POTENTIAL WEAKNESS

- Eliminate "impulse" spending by gamblers. However, in the domestic case that would only be a one-off situation as presumably the gambler would then proceed to obtain a license.

- The issue of what to do with international gamblers (holiday makers) would need to be resolved (perhaps a temporary card issued at the airport, tied to a passport number?)

- The implementation of this concept would require card or account based gambling, which would dictate the need for networked gambling and open system architectures. This would introduce both a technology upgrade in various forms (longer-term it would probably free cash-flow and reduce operating costs for service providers, but short-term there could be an unacceptable level of capital investment required), and dictate the need for open communication protocols (this could permit existing network infrastructure and cost-effective technologies to be used, but may also allow new entrants into the market, which some may not consider to be beneficial).

- The need for the "license" database to be centrally networked for information exchange purposes across the States and potential privacy implications.

- Given audit trails and lack of anonymity, it is unlikely that taxation benefits would be obtained from any movement of "black money". However, same may currently be insignificant…again, another matter for the economists.

POTENTIAL THREAT

- The need for more open protocols could remove proprietary technology and hence barriers to entry, potentially commoditizing the gambling devices to a large extent and enabling non-traditional entrants into the market. Standards currently controlled by State Regulators may largely default to existing ISO or Australian Standards on networking, security, and so on, thereby eroding the degree of direct State Government control over the industry. However, it is envisaged that the operational aspects would still remain unique (e.g. game design and operation).

- The greater reliance on account-based, networked gambling brings with it a new risk profile. However, I have demonstrably proven such risks to be capable of mitigation (c.f. The regulated internet gambling experience (the most "extreme" form of networked account based gambling) with Lasseters Online and MGM MIRAGE[1] and others).

[1] Note: Testing, control and security work performed in 2001, was presented and found acceptable to even US regulators. However, the business model of being a "good corporate citizen" was proven not to be viable (regulation is expensive) when competing in an internet world where regulatory and player protection measures are largely voluntary. Hence, neither Lasseters nor MGM MIRAGE Online continue to operate today. Perhaps empirically demonstrating that market self-regulation does not work in gaming or E-commerce?

Moreover, the ATO and Medicare, have demonstrably proven a capability to protect large national databases, so there is experience to draw upon.

- The level of stakeholder cooperation may limit success.
- Public reluctance to pay. However, an argument can be presented that if someone cannot afford say, $50.00 - 100.00 on a gambling license, they should not be gambling.

Yours sincerely,

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