



**Submission to the
Productivity Commission**

Public Inquiry into Gambling
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Executive Summary

The GTA welcomes the opportunity to comment on the findings, conclusions and draft recommendations made by the Productivity Commission in its draft report on Gambling released in October 2009.

GTA members operate in some 300 jurisdictions world-wide and supply gaming machines and gaming machine technology to jurisdictions cited by the Commission or Members of Parliament as jurisdictions and practices Australia should emulate. GTA members are therefore well positioned to comment on international gaming machine practices and their application in the Australian environment.

Technology and Transition

The GTA agrees with the Commission's assessment that future "technological developments offer the prospect of better gambling experiences for consumers" and "new ways of providing effective harm minimisation".

The Commission acknowledges that a reasonable period of transition is important for all affected stakeholders to adjust to regulatory reforms.

The GTA considers a sensible, practical and achievable transition period as critical to the achievement of best possible outcomes for all – gaming machine suppliers, venues, governments, regulators and recreational gamblers. In this regard, the GTA is strongly of the view that the national harmonisation of standards, regulations and approvals processes applying to the gaming industry is an essential pre-cursor to transition so that industry can invest with confidence.

Costs and Consequences

The GTA is concerned that the Commission's draft recommendations and findings will impose prohibitive costs on industry and recreational gamblers and could result in unintended, perverse and counter-productive effects on the industry, recreational and problem gambling.

The GTA estimates that the costs of actions proposed by the Commission in its draft report would exceed \$2 billion, of which, \$1.55 billion would be required for software set redevelopments, replacements, retrofits and significant updates.¹ This cost does not include costs to governments, regulators, venues or the impacts on recreational gamblers.

For one sector alone this is a prohibitive cost that would devastate the industry and put at risk 140,000 Australian gaming machine related jobs and \$13.5 billion in economic activity in the short run.

The Commission's draft recommendations, if implemented would dramatically degrade recreational gambling with questionable outcomes for problem gambling. The GTA is not

¹ The figure of \$1.55 billion is comprised of a mixture of retro fitting the game software of the newest 100,000 gaming machines at an estimated cost of \$2,000 each; upgrading hardware and software in 50,000 gaming machines at a cost of \$9,000 each; and replacing the 50,000 oldest gaming machines at an estimated cost of \$18,000 each.

satisfied that the Commission's methodology has adequately accounted for the costs to industry and questions the Commission's conclusion of the gain to society of nearly half a billion dollars.

Policy and Process

The Commission recognises that the "majority of Australians who do not experience problems with their gambling would lose an entertainment worth potentially billions of dollars to them were they no longer able to gamble".

The GTA notes with some concern therefore that the Commission has not taken into account all costs and consequences associated with its proposed measures and has not abided by the best practice principles governing government policy formulation.

Furthermore, the GTA's examination of the Commission's evidence and conclusions suggest that the Commission's recommendations aimed at gaming design will not necessarily address problem gambling but will significantly impact on recreational gambling, industry and the community.

International experience and examples provided by GTA in this submission demonstrate the damaging and unintended consequences resulting from changes to game design. In particular, compromises to game design may not only reduce recreational benefits but may not result in the objective of protecting vulnerable players. Perversely these changes may exacerbate problem gambling or may encourage vulnerable players to seek other forms of gambling, including gambling with little or no regulation such as internet gambling.

Pre-commitment

The GTA is of the view that a universal pre-commitment system entails significant risk, cannot be implemented by 2016 and is unnecessary. The regulatory and adjustment costs for governments, regulators and industry alike have been severely underestimated.

The GTA is of the view that mandatory identification processes or equipment does not align with the objectives of those who attend hospitality venues. Visitors are not commodities or statistics – they are guests of hospitality venues and are, in GTA's opinion, highly unlikely to accept mandatory identification or limiting requirements of their leisure activities. Alternatively, guests might be more tolerant of tailored responses to their gaming activity.

The GTA estimates that the costs to the gaming supply industry alone would exceed \$2 billion, of which, \$1.55 billion would be required for software set redevelopments, replacements, retrofits and significant updates.²

The Commission states that the costs involved in the implementation of a universal pre-commitment system could be financed by decreasing the return to player³. In the GTA's experience, decreasing the return to player generates no additional revenue.

There is a better, more effective way that does not require the identification of the individual player but that empowers players to choose to "budget" time or money and reinforces and

² See footnote 1

³ Draft Report, page 7.39

tailors individual safe gaming practices through dynamic messaging so that recreational gaming activity is actively prompted to remain within responsible, safe parameters.

This better, more effective way means that:

- Voluntary pre-commitment and dynamic messaging can be implemented on all new machines and incorporated into all routine upgrades from mid-2011 at negligible incremental cost.
- Every play, on every machine, will be tested for high risk characteristics.
- High risk play will be detected instantly and tailored interventions will take place immediately.
- High risk play on any machine will result in the same interventions – moving between machines will not diminish the testing of every play for high risk characteristics.
- Recreational players, playing responsibly, will not be inappropriately interrupted.

The GTA recommends that research into the parameters under which dynamic messages and their content could be delivered should be a priority of the national centre for gambling policy research and evaluation.

Game Features and Machine Design

The GTA considers that a \$1 maximum bet would consign Australia's gaming machines to an entertainment level no different to pinball – diminishing the appeal to recreational gamblers and inadvertently exacerbating problem gambling by encouraging more time to be spent on machines.

Further, the GTA questions the merit of the Commission's proposed machine design recommendations based on the:

- prohibitive costs associated with redesigning and redeveloping gaming machines and software (mentioned above);
- time it will take to implement such measures (over 10 years)
- likelihood that such measures will be overtaken by technology developments
- questionable impact these measures will have on problem gambling.

The GTA therefore does not support the Commission's Draft Recommendations 11.1 and 11.2. Furthermore the GTA highlights that the Commission's conclusions on average cost of play are incorrect. The GTA is of the view that the **theoretical** "expected cost of play" per hour is not \$1200 as quoted by the Commission but more likely to be in the range of \$315. The EGM revenue figures also quoted by the Commission are not accurate. The GTA estimates that the **actual** revenue per hour is less than \$11 or less than 1 per cent of the Commission's quoted "expected cost of play"⁴. This is a significant point of divergence that calls into question the Commission's draft recommendations.

The GTA notes the Commission's lateral thinking on loss-limited gaming machines. However the GTA does not consider the Commission's suggestions would constitute an effective strategy because it could prolong problem gamblers use of EGMs thereby exacerbating harm, it would inhibit recreational play and would undermine trust in the integrity of gaming. The GTA is of the view that Player Information Displays (PIDs) provide the most appropriate

⁴ See footnote 26

mechanism for delivering “cost of play” information in a timely and effective manner and recommends that the presentation and technical designs of PIDs should be nationally coordinated.

Ministerial Responsibilities and Regulatory Institutions

The GTA welcomes the Commission’s recommendations for regulatory processes and gambling policy research and evaluation.

The GTA agrees that relevant gaming Ministers should have responsibility for harm minimisation and consult with their colleagues in social portfolios as appropriate. At the federal level the GTA recommends that Ministerial responsibility should rest with the Minister for Tourism, who should be responsible for all aspects of the gaming industry.

The GTA supports the need for transparency and consistency in government policy making and regulation. The GTA considers that all stakeholders should be consulted early in the policy development phase to facilitate informed government decision-making.

The GTA strongly supports the need for national consistency in standards and regulations across all Australian jurisdictions to avoid unnecessary costs and time delays and enable industry to invest with confidence.

Importantly the GTA considers that harmonised national government regulations and industry standards are critical preconditions to any proposed future reforms.

GTA strongly supports the need for and early establishment of an independent national centre for gambling research and evaluation. The GTA emphasises the critical importance of the independence of this centre and the need for appropriate independent, individual appointments to be made to the centre’s Board on the basis of high levels of expertise and experience.

Introduction

The Gaming Technologies Association (GTA) is pleased to provide further input to the Productivity Commission's inquiry into gambling. This submission addresses specific matters raised in the Draft Report of October 2009, including comment on draft recommendations and feedback as the Commission requested. For convenience, this submission follows a similar sequence to that of the Draft Report.

GTA's members operate globally and encompass vast experience and competence levels – particularly in relation to technology. All of GTA's members design gaming equipment for international operations. GTA's members hold licences to supply gaming products to the majority of the world's regulated jurisdictions and are intimately involved in deploying technology in international markets; i.e. North and South America, Europe, New Zealand, Japan and Asia. GTA members serve on various boards and committees throughout the world advising on gaming standards and gaming network technologies. As such the GTA and its members bring a broad range of skills and knowledge to any Australian debate on gaming machines.

The differences between the gaming machines in Australia's states and territories are so fundamental that they might well be in different countries. The sweeping changes contemplated in the Productivity Commission's October 2009 Draft Report would cost the industry in excess of \$2 billion, of which \$1.55 billion would be required for software set redevelopments, replacements, retrofits and significant updates⁵, could not be completed before 2020, would severely diminish the social and economic benefits provided by Australia's hospitality industries, may inadvertently exacerbate problem gambling and would prevent technological innovation.

Over 20,000 game software sets would require redevelopment. In addition, an estimated 50,000 machines would require replacement due to their obsolescence; 50,000 machines would require major retrofits; and 100,000 machines would require less significant updates. Ancillary equipment such as in-venue and monitoring systems would also require updates at additional cost, to achieve the changes in the Draft Report.

The cost of developing and implementing a "universal pre-commitment system" is likely to be several hundred million dollars; this is on top of the estimated \$1.55 billion that would be required to implement the necessary software set redevelopments, replacements, retrofits and significant updates for machines. This takes the total cost of the Commission's recommendations to more than \$2 billion and would require a timeframe of around 10 years.

The \$2 billion figure does not include the impact of costs to the rest of the industry, government and regulators. Therefore this reflects only one portion of the total cost.

These costs are in stark contrast to the Commission's estimates of generated benefits to society of around \$450 million per year based on an assumption of a sustained 10% reduction in the costs associated with problem gambling. The \$2 billion estimate of costs relating to the Commission's recommendations for the gaming machine sector alone calls into

⁵ See footnote 1

question the Commission's findings and conclusions— particularly in terms of improving the wellbeing of the Australian community; and policy intervention based on the benefits exceeding the costs. It demonstrates the significant costs to industry (in this case only one part of industry) and calls for cautious and judicious consideration of the impacts of the Commission's draft recommendations on all parties – in particular recreational players, government and industry.

GTA agrees with the Commission that gaming machines of the future will be substantially different to those that exist today. Future "technological developments offer the prospect of better gambling experiences for consumers" and "new ways of providing effective harm minimisation"⁶.

GTA believes that gaming technologies follow the same trajectory as the personal computer and the Internet. The trend in the global gaming industry is firmly towards the machines being linked on sophisticated networks that provide the same capabilities as are used today on the Internet. GTA believes that the Australian market will follow this trend.

These gaming networks will provide many different capabilities allowing future gaming machines to interact with players in the same way that people interact with the Internet today. GTA believes that these future gaming networks offer the capability to help identify and manage at-risk activity on gaming machines without affecting the enjoyment of the recreational player.

The results of implementing the Draft Report

After the prohibitive investment and activity required to implement the changes proposed in the Draft Report were completed, gaming machines would be an unappealing recreational activity for most, but may remain a problem for some people. The Commission's recommendations would dramatically degrade recreational gambling and the Commission's primary objectives – the wellbeing of Australians and minimising harm from problem gambling - would not have been achieved.

In effect, nothing would be accomplished. Problem gambling would remain (and may even perversely be exacerbated) and the social issues and political emotiveness surrounding problem gambling would remain. The social and economic benefits provided by Australia's hospitality industries would have been severely curtailed. Problem gambling would not be effectively addressed and the pleasurable aspects of recreational gaming would be greatly diminished.

For one sector alone this is a prohibitive cost that would devastate the industry and put at risk 140,000 Australian gaming machine related jobs and \$13.5 billion in economic activity in the short run.

⁶ Draft Report, page XX

Achieving the best outcomes for consumers and Australians generally

A process of sensible transition would more effectively address the objective of achieving the best outcomes for consumers and Australians generally. This is acknowledged by the Commission's statement that "a rapid Australia-wide implementation would require the premature retirement of a significant share of the stock of gaming machines – an unreasonable burden on gaming venues."⁷

Industry certainty and viability are required in order to provide the financial capacity to invest; along with a shared responsibility by governments, suppliers, venues and players to support the process. The industry does not have the financial capacity to sustain a \$2 billion compliance cost related investment, let alone one that results in negative outcomes.

In the ordinary course of events, almost all gaming machines in Australian states and territories are routinely replaced over a 10 year cycle. A process of sensible transition would ensure that hospitality venues continue to operate and that the "destination" best meets the objectives of addressing harm "while preserving as much of the pleasurable aspects of playing as possible"⁸ without requiring massive unnecessary investment.

The Draft Report observes that, in the area of gambling information and education, "there is a strong *prima facie* case for other jurisdictions to make use of the Victorian model". This case can also be extended to other aspects of gaming machine operation subsequent to appropriate validation of measures to be implemented in Victoria in the near future – in particular, Maximum Bet and Cash Input Limit parameters which have been reconfirmed recently in both Victoria and Tasmania.

Pre-commitment

The Victorian Government intends to introduce some form of pre-commitment in that state in 2010. The configuration has not yet been defined and it is already impossible to meet any schedule for delivery of any significant reconfiguration. A functional extension of the existing Player Information Display might provide a realistic interim development path.

However, voluntary pre-commitment does seem likely to provide one of several tools to address gambling harm – provided its implementation conforms to stringent player-centric criteria.

The most effective tool to encourage responsible gambling is player empowerment through consumer choice and consumer control and this does not require identification of the individual player. Rather, all initial interactions between players and gaming machines should offer the voluntary facility to "budget" time or money in the context of the game and in straightforward messages that are easily understood.

"Setting a budget" will be most effective *in parallel* with dynamic messaging and should be implemented as a single package which is nationally coordinated (i.e. applied consistently across jurisdictions with consistent technology standards and consistent implementation scheduling).

⁷ Draft Report, page XXXI

⁸ Draft Report, page XXVIII

This measure does not require identification cards or other identification devices. It therefore preserves individual anonymity and privacy whilst minimising harm.

Dynamic messaging

Dynamic messaging is a key element of effectively addressing the objective of achieving the best outcomes for consumers and Australians generally.

Dynamic messaging must be delivered *in parallel* with voluntary pre-commitment. Further details on pre-commitment are provided under "Feedback on the design of pre-commitment" on page 18 of this submission.

Dynamic messaging will be very effective if delivered (a) on the game play screen and (b) in the context of the game and through straightforward messages that are easily understood. Significant further research is required to establish the parameters under which dynamic messages and their content are to be delivered and this should be set by governments as a priority research project for the national centre for gambling policy research and evaluation.

Comment on draft recommendations and feedback

Chapter 3: The policy framework

In its draft report the Commission recognises that “the majority of Australians who do not experience problems with their gambling would lose an entertainment worth potentially billions of dollars to them were they no longer able to gamble.”⁹

Furthermore, the Commission acknowledges that appropriate evidence is needed to justify policy makers’ decisions. (This underpins the need for high quality gambling research and evaluation)¹⁰.

The Commission also acknowledges that any changes to current policy settings and institutional arrangements for gambling rests on whether such changes would be “likely to improve the wellbeing of the Australian community”¹¹ and that “harm minimisation measures with modest efficacy *may* produce worthwhile net benefits as long as they do not inadvertently generate excessive costs”.¹²

The Commission has sought to concentrate on providing evidence based advice to governments about which policies are likely to be most effective in terms of reducing the harms associated with gambling while preserving most of the benefits. “This is a complex task for public policy ... its coverage and design require particular care to ensure that the potential benefits exceed the costs, and that account is taken of what is often imperfect evidence.”¹³

It is clear to GTA from the Commission’s evidence and conclusions that recommendations aimed at gaming design will not necessarily address problem gambling but will significantly negatively impact recreational gambling, industry and the community.

International examples

In 1996 the Dutch Government introduced the “Nijpels” rules, limiting the losses per hour for the slot machines located in arcades and pubs with an interval of 15 seconds after payoff in which the player cannot play the machine again. These rules had a period of grace during which no new machines were placed in the market due to a lack of demand from operators. The market decreased considerably from around 47,000 in 1999 to 8452 in 2006. During this time the number of manufacturers making gaming machines for the Dutch market dropped to only two. Whether the Nijpels rules actually had an effect on problem gambling in Holland or whether they have resulted in players moving to other venues and Internet gambling which are not subject to the Nijpels rules, is a question currently being reviewed by the Dutch government.

⁹ Draft Report, page 3.4

¹⁰ Draft Report, page 3.3

¹¹ Draft Report, page 3.4

¹² Draft Report, page 3.1

¹³ Draft Report, page XVII

In 2006 the German Gaming Ordinance was altered and limits were set for a player's winnings and losses from gaming machines. This resulted in consolidation of the German gaming market with a number of smaller manufacturers and operators joining with larger companies who were more capable of adapting to the new changes. This effectively strengthened the dominant position of Germany's major gaming company and limited the scope for true competition particularly by foreign manufacturers. The German market is expected to be liberalised in 2012 and on-line gambling is expected to increase. As with Holland, there is a question as to whether the Ordinance changes resolved the issue of responsible gaming or simply moved the risk to other forms of gambling.

In Norway in 2002 it was estimated that 49,000 people were experiencing gambling problems. To address this, the Norwegian government put all machine gambling under the control of Norsk Tipping, which is a state-run lottery monopoly. Norsk Tipping introduced a network for gaming machines in 2008 which has been rolled out across Norway with 4,000 terminals now in operation. The terminals require a player to identify themselves with a card before they are allowed to play, with the network limiting each player to a strict total on their losses per month. The player card also allows the player to register for the lottery network, so Norsk Tipping has a complete picture as to player gambling habits for regulated gambling in Norway (other than via the Internet).

Initial results show the network is heavily used at the beginning of the month, when the loss limit is reset, with a dramatic decline once loss limits are reached. Research is ongoing to identify whether players move on to other non-restricted forms of gaming after the losses per month limit has been reached. It was estimated that Norwegians gambled at least NOK4 billion (AU\$768 million) on unregulated Internet gambling in 2005 – a figure which had doubled since 2003. No more recent figures are available yet.

In GTA's opinion, the above examples demonstrate the damaging and unintended consequences when changes to game design are implemented whether via the maximum stake, maximum prize, losses per hour, pay out percentage, game features etc. The compromise to the game may not result in the objective of protecting vulnerable players but may encourage them to seek other forms of gambling particularly those with little or no regulation, such as the Internet.

Care should be exercised when comparing gaming machines internationally. Table 11.4¹⁴ shows "UK gaming machines", which comprise "Amusement With Prizes" (AWP) machines and "Fixed Odds Betting Terminals" (FOBTs) which are not directly comparable to Australian gaming machines – whereas New Zealand's gaming machines are directly comparable.

For the purposes of clarification, table 11.4 shows Category A machines (which are not yet in use); B1 are located in casinos only; B2, B3 and B3A are FOBTs; B4 are "club" AWP machines located in private members clubs, bingo halls, and some arcades; C is an AWP¹⁵ located mainly in pubs, seaside arcades and service stations; and D is a "seaside" AWP.

¹⁴ Draft Report, page 11.12

¹⁵ The regulation for category C has just been updated to a £1 stake and a £70 prize. Further increasing the stake to £2 and the maximum prize to £100 is currently under consideration.

AWPs are very much an UK phenomenon that migrated into Europe over the years through the export endeavour and innovative capabilities of the UK gaming machine manufacturers. FOBTs are another distinct feature of the UK gaming market that came about after a concerted effort by the UK licensed betting offices (LBOs) to develop a gaming machine for their outlets that complied with the then in-force regulations. FOBTs have now been incorporated into the UK 2005 Gaming Act by introducing a new game type with the characteristics of a very large stake for a game with a fixed payout; i.e. roulette. The maximum bet for a FOBT is £100 per game.

Video Lottery Terminals (VLTs) arose in the USA when various states nominated gaming terminals that could be connected, and run from, their state lottery networks. These terminals depended on the central lottery server to calculate the winning sequences and were no more than just an extension of instant lottery. Over the years the legislation surrounding VLTs has changed and now in some states they are indistinguishable from standard gaming machines. GTA anticipates that the technology used in the VLT form of gaming will migrate and merge with the networked gaming that will be deployed in future USA casinos; i.e. these two game types are merging from a technology perspective.

There is some common technological ground between the USA VLTs and Australian gaming machines. GTA anticipates that Australian gaming networks will follow the USA trend and that in future network technologies, the difference between a gaming network and a VLT network will simply depend on the type of content being deployed.

Some relative maximum bets and their Australian Dollar equivalents include:

<i>Country</i>	<i>Maximum Bet</i>	<i>AU\$ equivalent at 3-Dec-09</i>
Macau SAR	HK 1,000	139.68
Nevada USA	US 100	108.25
Norway	NOK 50	9.62
Sweden	SEK 20	3.15

Draft Finding 3.1

Even under conservative assumptions, a sustained 10 per cent reduction in the costs associated with problem gambling is estimated to generate benefits to society of around \$450 million a year in 2008-09 prices, and longer-term benefits amounting to several billion dollars. This implies that even harm minimisation measures with modest efficacy may produce worthwhile net benefits so long as they do not also involve excessive costs.

The harm minimisation measures outlined in the Draft Report will **involve excessive costs estimated in excess of \$2 billion**, of which, \$1.55 billion would be required for software set redevelopments, replacements, retrofits and significant updates.¹⁶

The GTA is concerned that the Commission has not taken into account the costs and impacts on industry of its draft recommendations.

Industry certainty and viability is critical in order to provide the financial capacity to invest in innovative technology intended to address issues including harm.

¹⁶ See footnote 1

Chapter 6: Gambling information and education

Information on gambling should be tailored to individual circumstances and should be designed to empower and educate without detracting from pleasurable recreational pursuits. In this way consumers can exercise choice and control.

Draft Recommendation 6.1

Governments should draw on the Victorian model for gambling warnings:

- making them conspicuous on machines and other areas of venues
- using imagery that has been found to be effective
- highlighting the behaviours that are indicative of problem gambling and the benefits of altering these
- including contact details for help services.

Warnings should be market-tested for effectiveness prior to their introduction, and their impacts assessed by monitoring help-line services before and after implementation. They should be periodically changed to maintain their effect.

GTA is of the view that gambling warnings should be executed in context using appropriately targeted dynamic messaging to address problem gambling activity without unduly affecting responsible, recreational play. Gaming is an entertainment activity conducted in a secure hospitality setting and it is inappropriate to bombard recreational players who may never experience harm, with negative messaging.

Such warnings are more effectively delivered on the game play screen at appropriate times relevant to the player's current activity.

Given dynamic messaging on the game play screen, GTA does not believe it is necessary for gambling warnings to be conspicuous on machines and other areas of venues and does not support this aspect of the Commission's Draft Recommendation 6.1.

GTA suggests that reference be made in recommendation 6.1 to delivering warning information in the context of players' activity, on the game play screen.

Research undertaken by the University of Sydney on the impact of 'responsible gambling' messages in which GTA was involved¹⁷ found, among other matters, that:

- Player messaging delivered through the gaming machine screen appears to be more effective than static signs in capturing player attention and increasing message comprehension.
- Self-appraisal messages appeared more effective than blank or informative messages.

A copy of the research report is attached.

¹⁷ "Impact of responsible gambling signs for electronic gaming machines on regular gamblers", The University of Sydney November 2008

Dynamic warning messages

As the Draft Report discusses, "Two studies have shown that gaming machine players are more likely to respond to 'dynamic' warning messages than to the static warnings commonly used".¹⁸

GTA wholeheartedly agrees with these findings and contends that such messaging, combined with voluntary pre-commitment, will effectively target problem play *before* the player inflicts harm.

Dynamic messages would not be seen by recreational players whose activity remains within safe spending and time limits. However, where activity exceeds thoroughly researched parameters in areas which might include:

- increasing bet size over time
- increasing bet size after a losing run
- increasing the frequency of button presses
- playing through minor win celebrations and
- any other agreed areas

Then the machine itself could respond with increasingly emphatic tailored messaging, enforced breaks or staff notification – thereby applying a stringent set of 'tests' to every play on every machine, in real time and with an appropriately tailored response message. No message would be displayed where play is within responsible gaming limits.

Research into the parameters under which dynamic messages and their content are to be delivered should be a priority for the national centre for gambling policy research and evaluation. The development of technical standards and implementation of dynamic messaging should be nationally coordinated.

¹⁸ Draft Report, page 6.6

Chapter 7: Pre-commitment strategies

Draft Recommendation 7.4

Governments should implement by 2016 a universal pre-commitment system for gaming machines that:

- provides a means by which players could set personally-defined pre-commitments and, at a minimum, a spending limit, without being subsequently able to revoke these
- encourages gamblers to play within safe spending and time limits by specifying default limits
- enables gamblers to opt-out, with periodic checking of their preference to do so
- applies to all gaming machines in all venues in a jurisdiction
- allows occasional gamblers to stake small amounts
- avoids identity fraud
- is not complicated for gamblers to understand and use
- does not unduly affect the enjoyment of those selecting safe playing options
- presents few obstacles to future innovation in the presentation and design of the system.

A “universal pre-commitment system” entails significant risk, cannot be implemented by 2016 and is unnecessary.

The system and its infrastructure would require a huge development effort which is likely to require at least 10 years’ dedicated effort – at a massive cost.

It is of concern to GTA that some observers apparently believe that “a lot of this can be done with a few strokes on a keyboard”, which we interpret to refer to the respective States’ gaming machine monitoring systems. A recent Private Senator’s Bill seeks to (1) prevent all machines from accepting \$100 and \$50 notes, (2) prevent all machines from accepting credits exceeding \$20, (3) limit Max Bet to \$1, and (4) limit losses to \$120 an hour.

None of the above can be achieved through NSW’s monitoring system. Our understanding is that the Victorian systems can achieve (1) but not (2), (3) or (4) above. Queensland’s systems may be able to provide (1) and (2) above, as we believe could those in Tasmania and the Northern Territory.

All of these systems would require major redevelopment. Updates to every machine would also be required to integrate with the system from both hardware and software perspectives.

GTA’s view is that the overall cost of such an effort would cost in excess of \$2 billion, of which \$1.55 billion would be required for software set redevelopments, replacements, retrofits and significant updates.¹⁹ This enormous cost, with its unknown outcomes, renders its consideration invalid.

The GTA therefore does not support draft recommendation 7.4 in its current form.

¹⁹ See footnote 1

A Better Way

All initial interactions between players and gaming machines should include a voluntary facility to “budget” time or money in the context of the game, in straightforward messages that are phrased in simple English and are easily understood by players. Combined with dynamic messaging, this measure will address high risk play without impacting responsible play and can be implemented within normal capital expenditure schedules for equipment upgrades and replacements.

Further details on pre-commitment are provided under “Feedback on the design of pre-commitment”, below.

Draft Recommendation 7.5

In advance of the full implementation of the pre-commitment system, governments should:

- determine the exact limits and other options available in the default and opt-out modes of the system, and the design of the interfaces with gamblers
- market test and trial the appropriate set of user-controlled options and ensure technical standards that would enable a common system to be deployed across Australia
- give priority to the development of national standards that would permit machine manufacturers to sell machines during the transition period that would be network-compliant when the system was ‘switched on’
- develop approaches to ensure probity in the system, deter tampering with cards or other pre-commitment devices, and ensure the system meets national privacy regulations
- determine marketing of, and information provision about, the pre-commitment system to consumers.

Pre-commitment does not require identification of the individual player. However, all initial interaction between each player and each gaming machine should offer a voluntary facility to “budget” time or money in the context of the game and in straightforward messages that are phrased in simple English and are easily understood by players.

Cards or other pre-commitment devices are unnecessary and inappropriate in the hospitality context, unless they are applied for other purposes such as player loyalty. In this submission and its previous submissions to the Commission, the GTA has outlined what in its view are better and more effective ways of utilising technology to address this issue. The GTA therefore does not see the need for recommendation 7.5.

Feedback on the design of pre-commitment

The Commission sought feedback on “the appropriate detailed aspects of the design of a pre-commitment system meeting the broad criteria in recommendation 7.4, including:

- the viability of using one-off small denomination cash cards for occasional gamblers to use on machines, with only minimal identification requirements
- the capacity to configure machines to play in a low-intensity ‘safe mode’ if no pre-commitment method is being used
- any requirements that might apply to players who opt out of pre-commitment
- measures to avoid identity fraud

- the appropriate transition to a pre-commitment system and the capacity of some jurisdictions to provide systems prior to 2016.”

As previously mentioned in this submission, almost all gaming machines in Australian states and territories are routinely replaced over a 10 year cycle in the ordinary course of events. A process of sensible transition would ensure that hospitality venues can continue to provide benefits to communities and that the “destination” best meets the objectives of addressing harm “while preserving as much of the pleasurable aspects of playing as possible”²⁰.

As also previously mentioned in this submission, “setting a budget” will effectively target problem play *before* the player inflicts harm *in parallel* with dynamic messaging; and should be implemented in a nationally consistent manner.

In essence, the design of a budgeting function for the game play screen should reflect the theme of the game. The process would involve the following:

- a) Initial interaction – insertion of cash, touching screen or pressing any button.
- b) Game themed screen asking if the player wishes to set a budget of time or money, providing a Yes or No option.
 - If Yes then provide time budget values and dollar values including defaults.
 - If No then proceed to game play.
- c) Where budget values were selected, then stop game play after the ‘trigger’ event; display budget reached message and values; and cash out.

²⁰ Draft Report, page XXVIII

Chapter 11: Game features and machine design

The average cost of play

Table 11.1²¹ makes a number of assumptions and omits several variables, resulting in skewed statistics which dramatically overstate the “expected cost of play”. The regulated minimum spin rate is unachievable on a sustained basis and an estimated 50% of Australia’s gaming machines accept a lesser maximum bet than the regulated limit.

The Draft Report notes that the CIE estimated an average spin rate of 5.5 seconds²² in 2001; since then, free games and similar features have increased which results in slower spin rates. The average return to player across Australia is 90.4%. A \$10 maximum bet only applies in South Australia, New South Wales and the Australian Capital Territory; the other Australian jurisdictions have implemented (or are implementing) a \$5 maximum bet.

At 5.5 seconds per spin, 90.4% return to player and a \$5 maximum bet, the \$1200 per hour “expected cost of play” in Table 11.1 would more accurately be \$315 – but even this figure is exaggerated if it is intended to represent a practical indication of the average cost of playing a gaming machine in the field. Table 11.2²³ presents a slightly more realistic scenario but cannot be said to accurately represent the average cost of EGM play.

The Draft Report notes that 198,303 gaming machines are currently operating in Australia²⁴. Assuming they are available for play 15 hours a day on average, their actual revenue per hour is less than \$11 or less than one per cent of the Draft Report’s “expected cost of play”²⁵.

²¹ Draft Report, page 11.5

²² Draft Report, page 11.4

²³ Draft Report, page 11.6

²⁴ Draft Report, page 2.24

²⁵ This figure was calculated using the following information:

Draft Report, page 2.5 EGM **expenditure in 2006-7** (including those in clubs, hotels and casinos) came to a total of **\$11.841 billion**.

Draft Report, page 2.24 states that there are **198,303 gaming machines** operating in Australia (this includes EGMs in clubs, hotels and casinos) in 2009.

So \$11.841 billion / 198,303 gaming machines = **\$59,711 revenue per machine per year**.

\$59,711 / 365 days / 15 operating hours per day on average = **\$10.91 per machine per operating hour**.

This is a conservative number because the 12,306 machines in the casinos are open longer than 15 hours daily and generate roughly double the revenue of those in clubs and hotels.

Draft Recommendation 11.1

In all jurisdictions, the maximum bet limit on gaming machines, other than those in high roller or VIP rooms at casinos, should be set at one dollar.

This recommendation would consign Australia's gaming machines to an entertainment level no different to pinball, resulting in an unappealing recreational activity; and yet may inadvertently and perversely exacerbate problem gambling.

GTA is of the view that a \$1 maximum bet on gaming machines would quickly diminish the participation of recreational players by diminishing the range of choices available to them, whilst most likely not diminishing problem gambling. Therefore the proportion of revenue derived from problem gamblers would trend towards 100% as recreational gamblers moved to other forms of entertainment.

It is GTA's view that the maximum bet value is an irrelevant measure from the point of view of player protection. Players allocate the size of bet with which they feel comfortable and this flexibility is one of the pleasurable aspects of the game.

The GTA does not support Draft Recommendation 11.1. The GTA suggests that the responsibility for defining limits should be made the subject of researched collaboration between the national centre for gambling policy research and evaluation and regulators. The GTA recommends that appropriate parameters for maximum bet and cash input limits should be reviewed by the national centre for gambling policy research and evaluation.

Draft Recommendation 11.2

In all jurisdictions, the maximum amount of cash that can be inserted into a gaming machine should be \$20, with no further cash able to be inserted until the maximum credit on the machine falls below \$20.

- This restriction should not apply to gaming machines in high roller or VIP rooms at casinos.

As discussed on page 17 of this submission, measures involving major redevelopment of multiple systems and updates to every gaming machine are prohibitively costly. During the next 10 years, such measures will be overtaken by technology which is highly likely to 'tailor' activities according to the player's wishes and control within accepted parameters.

The GTA therefore does not support Draft Recommendation 11.2 and suggests that the responsibility for defining limits should be made the subject of researched collaboration between the national centre for gambling policy research and evaluation and regulators.

Feedback on loss-limited gaming machines – a novel proposal for safer play

GTA appreciates the Commission applying lateral thinking to an alternative strategy. However the strategy would not be effective for the gaming industry because:

- Prolonging problem gamblers' use of gaming machines might exacerbate harm.
- Return to player within a game is not a variable in any Australian gaming machines and cannot be approved for use. Such variation would most likely undermine players' trust in the integrity of gaming.

- It inhibits recreational play, thereby creating adverse outcomes for recreational gamblers and venues.

Draft Recommendation 11.3

Governments should ensure that gaming machine players are informed about the cost of playing, through disclosure of the 'expected' hourly expenditure and the percentage cost of play.

- Expected hourly expenditure should be shown as a range, from the minimum based on a low intensity rate of play to the maximum permitted within the machine's parameters.
- The percentage cost should be calculated as 100 minus the return to player percentage.

GTA is of the view that informed players are more likely to gamble responsibly. GTA's efforts in this regard are well documented.²⁶ Examples include:

1. Player Information Displays (PIDs). GTA members noted the Productivity Commission's comments in its 1999 Report in relation to meaningful information about the effective 'price' of playing poker machines²⁷. In 2001, GTA (then AGMMA) proposed to the National Standards Working Party (NSWP) that uniform PIDs be implemented in all Australian jurisdictions.

Since then, a form of PIDs has been implemented in Victoria, a similar version has been required to be implemented in Tasmanian casinos and an entirely different version is currently being implemented in Queensland. Other jurisdictions have not implemented PIDs. (Note that yet another entirely different version has been implemented in New Zealand.)

PIDs have been a significant issue in recent years in New Zealand, where they were mandated by the regulator without consultation and required to be implemented by 1 July 2009. The result was the expenditure of more than NZ\$60 million to upgrade 19,479 machines in 1,501 club and hotel venues. Opinions vary on the efficacy of this measure, which has not as yet been reviewed.

The process of developing PIDs involved major investment in research, development and compliance by gaming machine manufacturers.

2. Production and distribution of "Responsible Gaming Machine Play" information leaflet. This leaflet outlines how gaming machines work and highlights the reasons why they are designed to entertain; and are not designed to make players money on any regular or long term basis.

The leaflet includes a win/lose table which indicates how players are likely to fare on a single session of play and the proportion of players who will experience returns at various levels. Over 70,000 paper copies of the leaflet have been distributed without charge since its publication in November 2007 and many more have been downloaded from GTA's website www.gamingta.com.

3. Production and publication of the Gaming Machine Information Presentation. The Gaming Machine Information Presentation is a 12 minute interactive video (comprising 12 mini videos) which provides the information from the above leaflet in a more "digestible" and accessible form. The presentation was completed in July 2008 and was distributed via a USB memory stick to 1,000 delegates at the Australasian Gaming Expo in August 2008.

²⁶ Gaming Machine Information at www.gamingta.com, Responsible Gaming Machine Play leaflet, etc

²⁷ Productivity Commission Inquiry Report 26 November 1999 Summary p40

The Gaming Machine Information Presentation can be accessed via http://www.gamingta.com/gaming_machine_information.html. Since being published online and with no promotion or advertising, there have been over 10,000 clicks on the link.

4. Development of “smart gaming” technologies. GTA and its members have been considering various technologies which empower players to gamble responsibly for many years.

GTA is of the view that Player Information Displays (PIDs) provide the appropriate mechanism for delivering ‘cost of play’ information in a timely and effective manner. The presentation and technical design of PIDs should be nationally coordinated.

Further views on jackpots

The Commission sought further views on the effects of jackpots on gaming machine play. GTA disagrees with some aspects of Box 11.3 “How do jackpots work?” in the Draft Report²⁸. Gaming machines do not discern whether a jackpot “ceiling” is being approached during play. They repeatedly provide *the same sequence of events* on which players bet. There is no change in the rate of return from when the first bet is placed involving a jackpot pool, to the point at which that jackpot pool is won.

Jackpots provide 100% return to players – all the money shown on the jackpot meter(s) must be paid to players.

GTA and its members regard jackpots as a simple tool for increasing Return To Player (RTP), thereby providing players with increased value for money. GTA perceives no reason that changes should be warranted.

²⁸ Draft Report, page 11.36

Chapter 12: Online gaming and the Interactive Gambling Act

GTA's members hold licences and approvals in around 300 jurisdictions worldwide, some of which prohibit online gaming. In the event that a GTA member breached such prohibition in one jurisdiction, all of that entity's licences could be jeopardised.

In the event that online gaming were to become accepted worldwide, then Australia should consider liberalisation under significantly more strict regulatory oversight in order to guarantee operational probity in the relatively undisciplined online environment.

Chapter 14: Regulatory processes and institutions

With respect to regulatory processes and institutions, the GTA supports:

- Each jurisdiction's gambling regulator having statutory independence, regulatory control over all forms of gambling within that jurisdiction, and a public interest focussed charter, noting that state and territory government have prime responsibility for gambling policy and regulation (R 14.1)
- Relevant ministers should have explicit responsibility for minimising harm – with emphasis placed on a holistic approach to, and understanding of, the gaming industry. The relevant Minister should therefore be the relevant gaming industry minister in each jurisdiction and should consult with other Ministerial colleagues in social and legal portfolios as appropriate (R 14.2)
- The strengthening and transparency of government consultation processes with emphasis placed on **early** consultation with all relevant stakeholders in the policy development process (R14.3)
- The need for routine preparation and public availability of regulatory impact statements. However these statements should be made public in **draft form before government decisions are made** to ensure the full involvement of industry and enable informed government decisions (R14.4)
- Nationally consistent gaming machine standards, unless variations can be justified. Again industry and key stakeholders need to be consulted **early** in this process to ensure effective implementation of any rationalisation and accreditation systems (R14.5)
- The need for more prompt regulatory approvals processes. Gaming machine approvals can take up to 7 years to approve with variations across jurisdictions imposing significant and unnecessary costs and investment uncertainties for industry.
- Governments should pre-commit to a reasonable time period or default to "deemed approvals" where these time periods are exceeded (DF 14.1)
- Regulators providing reasons for gaming machine requirements deemed unacceptable and to making these reasons public (R14.6).

Chapter 15: Gambling policy research and evaluation

GTA agrees with the findings and recommendations in this chapter.

The GTA supports the need for a national centre for gambling policy research and evaluation to play a key role in assisting stakeholders to deliver “a better way” of addressing harm and a range of other matters in a collaborative approach, including to:

- establish the parameters under which dynamic messages and their content are to be delivered
- consider industry certainty and viability in order to provide the financial capacity to invest in innovative technology intended to address issues including harm
- confirm Maximum Bet and Cash Input limits in the Victorian model
- consider involving New Zealand

GTA urges the expeditious implementation of draft recommendation 15.3 and adoption of the above research projects as urgent priorities of the national centre for gambling policy research and evaluation.

The GTA strongly supports the need for an independent centre for gambling policy research and evaluation that is initially funded by the Australian Government. This is an essential criterion if this centre is to be credible and have the confidence of governments, industry and the community. It will also be important that the centre:

- has a charter to independently initiate research and respond to requests by Governments
- coordinates national evaluations, survey and reviews including reviews of national consistency and application of gambling standards and regulations
- establishes best practice guidelines, methodologies and processes to be undertaken by state and territory governments.

Furthermore the GTA suggests that appointments to the centre’s board or governing body should have high levels of expertise in areas relevant to the centre’s work such as:

- the gambling industry and gambling technology
- fostering responsible gambling and minimising harm
- auditing, evaluating or implementing standards and regulations as they apply to the gaming sector
- research, economic analysis
- public sector governance.

The GTA agrees with the need for expert advisory panels to be drawn from community, industry, research and other experts to assist the national centre in its work. The GTA welcomes the opportunity to participate on such a panel.

Feedback on involving New Zealand

The Commission sought feedback on the likely merits or drawbacks of involving New Zealand in a proposed centre for gambling policy research and evaluation.

GTA actively participates in the gaming machine industry in New Zealand through Board membership of the Gaming Machine Association of New Zealand, participation in the Department of Internal Affairs' Gaming Regulation Forum, operating the annual New Zealand Gaming Expo²⁹ and a variety of other activities.

GTA's members have provided virtually all of the gaming machines in New Zealand and maintain a significant administrative and operational presence in Auckland, Wellington and elsewhere.

GTA's opinion is that involving New Zealand in a proposed centre for gambling policy research and evaluation is a positive initiative from a variety of perspectives. Australia and New Zealand share similar peoples, closely aligned economies, similar gaming machines, the same gaming technology and quality assurance base. However, the countries are culturally diverse and their approach to gaming in clubs and hotels is different.

Coordinated, comparative research would leverage existing knowledge and expertise by involving academics and stakeholder experience from both sides of the Tasman Sea.

Feedback on the suitability of different parties

The Commission sought feedback on the suitability of different parties for evaluating and reviewing gambling programs, regulations and legislation. In particular, views were sought on ways to balance the appropriateness of reviewers and evaluators, considering both their expertise in gambling regulation and policy, and the importance of minimising any potential for conflicts of interest.

The GTA supports the need for better coordination between policymakers, regulators and administrators, gambling enforcement bodies and evaluation specialists both within and across jurisdictions. The GTA also supports the need for transparency of reviews and evaluations, consistent evaluation methodology and the need for credible, unaligned, independent specialists to contribute to reviews and evaluations.

The GTA strongly supports the need for the establishment of an independent body to undertake such reviews and evaluations.

²⁹ www.nzgamingexpo.com

Chapter 16: Transitions

The GTA firmly believes that practical and reasonable transition periods are critical to the implementation of any major regulatory reform. In the case of the gambling industry, the regulatory reforms currently proposed by the Commission are very significant and the implementation and adjustment period should not be underestimated.

For industry to be in a position to comply with any final regulatory and policy reforms, Governments, including regulators, must first put in place the necessary harmonised, standardised national regulatory frameworks so that industry can operate with confidence.

The GTA is of the view that a 2016 timeframe for the implementation of measures outlined by the Commission in its Draft Report is not achievable.

The Commission's Draft Recommendations are very complex, very costly and if agreed, would require significant levels of investment by governments, regulators and industry to implement.

The GTA recommends a more feasible transition where voluntary pre-commitment, strengthened by dynamic messaging, is implemented within normal capital expenditure schedules for equipment upgrades and replacements.