

Executive Summary

This inquiry into the changing face of wagering in the Victorian racing industry was commissioned by the Victorian Gambling Research Panel (GRP) as part of ongoing research into the dimensions of gambling and problem gambling. The critical objective of this research is to identify the principal changes and those 'key drivers' of change in order to inform government policy and programs.

The study was not concerned with other changes in the racing industry, *inter alia*, reforms to the structure of industry and possible mergers/acquisitions¹ except where such developments may contain implications for wagering and gambling. New products and potential new entrants into the wagering market are considered, because they offer scope to expand or alter wagering opportunities. New wagering platforms emerging from applications of technology are considered in this report.

Ultimately, the researchers were required to consider any matters across the racing and wagering industries 'in order to minimise the risk of increasing problem gambling behaviours or of attracting vulnerable people to gamble when gambling would not otherwise be of interest to them'.²

Wagering and Gambling

Gambling is an all-inclusive term for wagering, betting, gaming and lottery, as each has developed a more exact definition through decisions of the courts. For our purposes wagering involves a contract between various parties where the contract is enforceable by law and the parties stand to win or lose depending on the outcome of an uncertain event. The element of chance is the dominating element in lotteries of which the playing of electronic gaming machines (EGMs) is a sub-set; lotteries and EGMs are open gambling opportunities (i.e., non-customised, non-contractual and open to all), they are dominated by pure chance and they operate on an extensive scale. It is precisely because of these characteristics and the potential scale of social and economic harm that may arise from open and more continuous play forms of gambling opportunities that these forms of gambling were restricted. Wagering however, is distinguished from EGMs and lotteries by the customisation of the wager to a specific event, a specific outcome and between two contracting parties.

Understanding Changes in Wagering

The observed changes across the racing industry and changes in wagering are the logical result of the interplay of three key drivers — enabling technology, deepening access and widening of the wagering product.

¹ TABCORP (Vic) purchased TabLimited (NSW) while this study was being undertaken. Throughout the report TABCORP (Vic) and TabLimited (NSW) are treated as separate entities. There were other possible mergers/acquisitions being considered such as Woolworths and ALH.

² Key research outcome identified by the Gambling Research Panel.

Enabling-technology platforms such as radio, television, telephone and computer have led to a separation of the event (and actual attendance) and the opportunity to wager. They have enabled an expansion of venues for wagering (predominantly off-course) and provided new channels for wagering. Advances in technology — principally the mobile telephone, interactive television and the internet — continue this path of expanding opportunities for wagering products. The cashless transaction and ease of funds transfer support the new channels for wagering. The licensed betting operators and access to international operators have been facilitated by these enabling technologies.

The televising of the interstate event, and now global racing and other sporting events, can be understood as deepening access to the traditional wagering product. A whole raft of changes including the co-ordinated scheduling of events is designed to support television coverage. The televising of racing and other events extends coverage and deepens access to a greater array of traditional wagering products.

The third key driver involves a widening of the wagering product with the potential to accelerate the trend towards a convergence of wagering and gaming. The widening of the wagering market encompasses an appeal to the mass market (i.e., many people wager often rather than a relatively few people wager regularly), the development of sports betting, point-to-point wagering and new products. Product innovations such as ‘the mystery spinner’ and specific combinations based on number or colour represent a drift towards the convergence of wagering and gaming products facilitated by random number generation. New products, such as the casino-based random number generated horse racing events rely on computer, micro-electronic technology.

Where wagering takes the form of continuous play and/or choice is reduced to selecting the form of the wagering product (e.g., ‘one-click, random selection’), without the requirement for any exercise of skill or customisation of a wager, then the distinction between wagering and gaming is diminished.

The following summarises the significant changes occurring in wagering, including *inter alia*:

- Advances in technology platforms including mobile telephone and the internet;
- Increasing digitalisation of the wagering medium utilising home-based interactive television;
- Local, state, national and international coverage of racing and special events;
- ‘Events-based wagering’ including sports-betting;
- Decline in traditional agents such as bookmakers;
- Introduction of licensed betting operators, international betting operators;
- New products and ways of customising a wager;
- Technology enabling ease of funds transfer while separating the event from the place of the wager (‘technology conquers distance’); and
- Computerised racing products for wagering.

Overview of the Racing Industry

The popularity of racing can be seen in the following cross-country comparisons, that:

- Australia is ranked the fifth-highest wagering country exceeded only by Japan, USA, Great Britain and Hong Kong;
- Australia is ranked the fourth-highest wagering country on a per capita basis;
- Australia hosts the third-highest number of horse races annually and is the third-highest ranked in prize money after USA and Japan; and
- In Victoria, attendances at horse racing events (15.8 per cent) ranks second to Australian football (33.4 per cent). For Australia, attendances at horse racing also ranks second (12.9 per cent). In ranking of attendances in Victoria, harness racing is sixth, and dog racing is ninth (refer Table 4).

The Victorian thoroughbred racing industry provides almost one-fifth of all race meetings in Australia and one-third of total prize money on offer.

Scale and Scope of the Industry

There are different approaches to measuring the size and scale of the industry. Estimates of full-time employment (FTE) are an important measure, because of the high level of casual and part-time employment across the industry. The Australian Bureau of Statistics (ABS) estimates³ that 66.5 per cent of all employees in the horse and dog racing industry are employed on a casual basis, compared to 27 per cent of all wage and salary earners in the broader economy.

The racing industry estimates that 77,755 full-time jobs were due to the Australian thoroughbred racing industry, and of these 22,300 FTE were in Victoria. However, these estimates include all employment in all industries, throughout the economy, that result from spending in the thoroughbred racing industry. More conservative estimates are provided by calculating full time employment based on salary and wage costs. However, even these estimates vary based on the classification of the industry.

The ABS, using a survey approach based on the Business Register (Class 9311 Horse and Dog Racing) estimate that total employment (FTE) in the national horse and dog racing industry in 2002 was 15,900 persons. The Centre for Economic Studies indicative estimate is between 12,500 and 15,000 persons in the national horse racing industry. Both are likely to err on the conservative side, but are still well below that claimed for the Victorian industry alone. ACIL⁴ estimated total direct FTE in the Victorian racing industry at 12,500 (adjusted to 2003).⁵ The ABS, ACIL and Centre for Economic Studies estimates are below those of the racing industry.

³ Australian Bureau of Statistics (2002) Sports Industries, Australia 2000-01.

⁴ ACIL Australia Pty Ltd (1992) "The Contribution of the Racing Industry to the Economy of Australia".

⁵ ACIL estimate was 10,334 for 1990-91, adjusted by all industry growth rates for Victoria 1991-96 = 8 per cent, 1996-2001 = 10.8 per cent.

Trends in Wagering

- In 1989–90 wagering on thoroughbred racing represented 30.4 per cent of national wagering and gaming turnover, but had declined to 7.7 per cent by 2002; harness and greyhound racing was 9.8 per cent declining to 2.6 per cent; gaming was 59.8 per cent rising to 88.6 per cent by 2002;⁶
- The respective growth rates were thoroughbred races 1.2 per cent, harness and greyhounds 1.4 per cent and gaming 17.2 per cent over the period 1989–90 to 2002;
- Victorian wagering per adult (\$928.62) exceeded the national average (\$870.91) in 2002;
- Telephone betting in particular has increased significantly for bookmakers and the tab; sports betting has increased rapidly in the five years to 2001–02 in a component of the industry which is dominated by bookmaking firms located in the NT and ACT;
- For Australia, the share of household disposable income spent on racing has fallen from 0.71 per cent (1976–77) to 0.43 per cent (2001–02), while the share of household disposable income spent on EGMS is up from 0.69 per cent to 2.03 per cent in the same period;
- In Victoria, the share of household disposable income spent on racing has declined from 0.8 per cent to 0.46 per cent and for EGMS, increased from 0 to 2.24 in the period 1976–77 to 2001–02;
- Participation in wagering is estimated to involve approximately 16 per cent of the adult population in Victoria and is predominantly a male activity;
- Some five per cent of the adult population are regular gamblers wagering at least once a week (approximately 180,000 adults); and
- This five per cent of the total Victorian adult population (18 years+) equates to 15 per cent of only those who wager (again approximately 180,000 adults) who contribute 78 per cent of industry turnover, similar in scale to the six per cent of Victorian adults who account for 57 per cent of EGM losses.

Trends in Gambling

A key finding is that large changes in gaming produce relatively smaller changes in wagering. That is to say, the fall in real wagering expenditure represents a small transfer away from wagering and contributes only a tiny fraction of the current level of expenditure on EGMS in Victoria and at the Crown Casino.

- For Australia the share of household disposable income spent on all gambling was 3.41 per cent (2001–02) up from 1.7 per cent in 1976–77, with all growth in the past 15 years;
- In Victoria, the share of household disposable income spent on all gambling was 3.81 per cent (2001–02) up from 1.28 per cent in 1976–77, again with dramatic growth in the last 15 years;
- The explosive rate of growth in expenditure is due entirely to the expansion of expenditure on EGMS and casino gaming;
- The researchers find some support for the hypothesis that the growing popularity of EGMS and casino gambling did contribute to a decline in the popularity of wagering;
- In Victoria the growing popularity of other gambling forms accounts for half of the \$21.24 per adult fall in real wagering expenditure per adult since 1989–90;

⁶ Respective growth rates: thoroughbred races 1.2 percent, harness and grey hounds 1.4 per cent, gaming 17.2 per cent over this period.

- The introduction of EGMs in most jurisdictions has preceded a larger than normal fall in real wagering expenditure. In Victoria for 2001–02, the researchers estimate the level of wagering expenditure would have been \$21 million higher without EGMs;
- The introduction of casinos preceded a larger than normal fall in real wagering expenditure, so that wagering expenditure in 2001–02 would have been \$33 million higher without the Crown Casino.

An examination of industry customer profile data, a review of literature, analysis of those who participate in wagering and sports betting via the internet, the views of social researchers and informed industry participants indicates that:

- Those who wager and those who attend race meetings are predominantly male, the recreational punter tends to be younger (aged 20–35) than the professional punter (aged 45–64); both groups often have some prior association with racing; both are likely to attend race meetings and maintain an account with a licensed bookmaker and/or the TAB;
- The regular TAB punter is also male; internet users for wagering were overwhelmingly male, were employed and generally earned high incomes in professional, management and trade occupations;
- Sports betting attracts a younger clientele; and
- There are large, well organised and sophisticated syndicates operating in the wagering market that are not participants in EGM or casino gambling.

In contrast to those who wager (and participate at the casino) the EGM player is:

- Middle aged (36 to 65 years) with heavy play by those aged 46–55 years (contribute 32 percent of turnover);
- They spend on average 1.5 hours playing per visit;
- People in the 18–25 age range contribute less than 1.4 per cent of industry turnover; and
- EGM participation involves more females (53.3 per cent) concentrated in the 50–64 age range.

It is estimated:

- Among problem gamblers, 84 per cent experience problems with EGMs, less than nine per cent report problems with wagering;
- Participation rates for EGMs are estimated at 33–35 per cent of all adults while participation in wagering is estimated at 16–19 per cent. (Note: Industry estimates suggest participation in wagering is slightly higher than this); and
- 15 per cent of EGM players who are members of loyalty card programs are estimated to contribute 57 per cent of net gaming revenue (losses) while five per cent of those who regularly wager contribute 78 per cent of wagering turnover.

Trends in the Racing Industry

The Joint Venture Agreement provides strong financial support to the three racing codes and has contributed to improved facilities and management of the events. The popularity of thoroughbred racing and its 'people aspect' is reinforced by attendance figures. It is important to acknowledge the social/community content of racing meetings, particularly major metropolitan meetings, marquee events and some rural/regional race days. These observations are drawn out in the first two summary points below:

- Racing attendances have continued to increase, confirming the popularity of thoroughbred racing. Attendances at greyhound meetings have stabilised in recent times but average attendances fell from 832 people (1994) to 175 people in 2002–03;
- Attendance figures for thoroughbred racing for the October and November period are around half a million with no discernible increase in total turnover (\$'s) per patron over the last four years; and
- The three codes have received significant financial distributions from the Joint Venture Agreement with TABCORP (Vic) — some \$244 million in 2002–03 — with Racing Victoria receiving the major share (72 per cent).

However, it should also be recognised that most race meetings are run for, and are essentially justified by, televising for the off-course wagering industry. This observation is considered in the following:

- The wagering market continues to shift decisively off-course with 93.8 per cent of turnover for horse racing and 96.6 per cent for greyhounds coming from retail outlets and telephone and internet betting;
- Changes in the industry include 'events management' focused around a high-profile meeting and twilight meetings, that have helped stabilise attendances; other changes include expanded television coverage and the emergence of the social punter (the 'convenience wager'), and simplified betting such as on a colour or 'mystery bet'; and
- Continued expansion and improvement in facilities for off-course wagering, in large part reflecting changes in the target audience and changing consumer preferences.

Technology, Wagering and the Future

- Overall, telephone betting with TABCORP (Vic) accounted for 22.2 per cent of total TAB wagering turnover while wagering via the internet accounts for 0.8 per cent of total TAB wagering;
- Off-shore wagering and 'betting exchanges' (involve peer-to-peer [P2P] matching of individual client bets and is thus not reliant on the off-course pool wagering model) are considered by the racing industry to pose potential threats, principally in terms of lost revenue;
- Enabling technology platforms, based on digital media such as telephones, computer and interactive television will increasingly drive and shape future wagering business;
- New wagering products will continue to blur the distinction between gaming and wagering (e.g., 'mystery spinner product, random number generated simulated race products: see Section 4.2).
- An important implication of the above is the appropriateness of the differential regulatory regimes governing wagering and gaming in Australian States and Territories.

Future Directions

Future directions in wagering:

- Will be reliant on new products that possess a potential to blur the distinction between wagering and gaming (i.e., the convergence of wagering and gaming products);
- The utilisation of new technological platforms for delivering wagering opportunities;
- Access to the 'globalisation of racing and sporting events'; and
- Increase in competition from betting exchanges, which is likely to immediately impact for sports betting and then the 'large stakes, high volume punter'.

The three key sites for accessing new wagering products will be the home (internet and interactive television), mobile devices and leisure gambling venues. Traditional wagering (and lottery) products over the internet or telephone represent lower risk than interactive gaming products, because wagering events are controlled by an external agent and are subject to time delays. Online internet wagering is a close substitute for other platforms for wagering.

The profile of wagering participants, still significantly influenced by the 'old social structure of racing', is dominated by male participants who increasingly access off-course betting facilities;⁷ this group is usually in employment in the professions or trades, earns above average incomes, while many have lifelong but indirect association with racing.

Another group of punters are the well-organised semi-professional syndicates. The recreational punter tends to be younger and is attracted to the sport by the special events, television coverage and newer forms of wagering which involve less skill and knowledge. A significant number of this group maintain an account with a licensed bookmaker and/or the TAB.

Relative to wagering, participants in gambling particularly via the highly accessible EGMs have a more diverse profile; they comprise more women players who are concentrated in the 46–55 age range but more broadly involve many aged 36–65 years. Young people appear to be less attracted to EGM play in part because it involves no skill level at all.

Protections for minors are in place in regard to telephone and internet wagering principally through the requirements to establish accounts, transfer funds and verify identity before a pay-out is provided. These protections are far more substantive than any that exist for EGM play. We note that the AHA (Vic) continues to oppose the 'self-exclusion program for wagering' which was intended to be implemented in hotel venues.⁸ All account holders can self-exclude from retail outlets and from using their account.

Conclusions

Responsibility for racing and wagering will remain with the States and Territories. The National Guidelines for Responsible Wagering Practices should be agreed by all new entrants in the wagering and sports betting market.

⁷ Turnover for racing off-course: 93.8 per cent; for greyhounds 96.6 per cent.

⁸ See discussion in SACES report, 'Evaluation of Self-exclusion Programs in Victoria', February 2003 for Gambling Research Panel.

Internet wagering is already a part of the service provided by existing TAB operators and is an extension of telephone betting where bets can be remotely lodged. However, prohibitions should remain on interactive gaming and casino type games as they differ from online wagering, in that interaction implies choices and decisions to affect the outcome of the game/activity. The other major difference is that the punter does not control or initiate the actual event in online wagering.

Regulators will shape the future wagering market through the types of bets allowed rather than through determining the media by which wagering and gaming opportunities are provided.

Sports betting provides for new wagering opportunities some of which are volatile and high risk. Spread betting is one example where the punter must be highly informed. Harm minimisation measures such as stop/loss or stop/win options should always be incorporated in these betting products. This illustrates how regulators will shape the market through the types of bets and protections available to punters.

Regulators will also be required to incorporate wagering through betting exchanges into State and Commonwealth spheres of taxation, plus require that a contribution is made via the payment of product fees or access fees to those who administer racing.

Regulators will also require credit wagering audit trails as the use of mobile, internet and interactive television platforms gain in popularity. Operators of wagering and betting exchanges will need to have in place early warning and detection systems to minimise wagering that is undertaken as a result of illegal or fraudulent activities.

Currently there are restrictions on 'in-the-run-betting' or micro-betting imposed by the *Interactive Gambling Act 2001*. While it is outside the scope of this inquiry to make recommendations to the *Interactive Gambling Act 2001*, regulators will need to satisfy themselves that forms of micro-betting do not possess the potential to increase the number or severity of problem gamblers.

Regulators should ensure that online gambling services provide mechanisms to limit harm from wagering. Credit and account-based facilities provide two obvious mechanisms:

- The ability to set bet limits and total pre-commitment for any account; and
- Account statements to inform players of activity, wins/losses over specified time period; while
- Sports betting products such as spread betting should also provide pre-commitment limits and bet/loss limits as important harm minimisation measures.

Regulators might in future require operators of wagering and betting exchanges as a condition of license, to provide more detailed analysis of client characteristics and wagering participation to satisfy themselves of the integrity of the products offered and to inform consumer protection advertising and policies.

The industry and any new entrants such as betting exchanges will need to ensure:

- Strict identification checks are in place to protect against minors accessing wagering for racing and sports betting;⁹
- Potential key sites for accessing wagering products — the home and mobile devices — will require stronger consumer protection, privacy, a high level of security and confidence in online systems and trust in the provider and the product;
- Participation in wagering remains distinctly different to participation in gaming; and
- National Guidelines for Responsible Wagering Practices are universally agreed and promoted.

Finally, the principal risk of an increase in problem gambling behaviours arises from the introduction and accessibility of open gambling opportunities. The researchers have noted the dramatic expansion of open gambling opportunities in recent times through the introduction of casinos, EGM venues and State and privately run lottery games. They are different from the customised wager that is linked to a specific event and specific outcome. This is no better illustrated than by wagering and gaming turnover figures for Australia in 2001–02:

- All wagering¹⁰ \$14,171 million;
- Gaming \$110,485 million;
- Wagering as a proportion of all betting 11.3 per cent

⁹ It is our view that TABCORP (Vic) has strict processes to protect against betting by minors, it has well-developed systems for credit card accounts and deposit facilities and it adheres to requirements in relation to cash-based transactions to protect against fraud and illegal activities.

¹⁰ Includes Thoroughbred Racing, Harness and Greyhound Racing and Sports Betting.

