Response to the Productivity Commission Inquiry Report into Gambling: online gaming and the Interactive Gambling Act

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Abstract

The Productivity Commission recommended that Internet gambling be further liberalised, starting with online poker, and that regulation ensures strict probity and customer protection standards. Many international jurisdictions have struggled to implement effective Internet gambling policies and the effectiveness of Australia’s current mixed prohibition and licensing stance has been questioned. There is a shortage of reliable and valid evidence regarding the nature of and participation in Internet gambling in Australia. Further research is required to assess the potential impact of liberalisation of Internet gambling. In particular, a comprehensive, evidence-based model is needed to regulate Internet gambling, including harm-minimisation and consumer protection features. Collaborative efforts would be highly useful to enable comprehensive research to be completed that would inform key stakeholders and assist in the formation of appropriate guidelines for effective Internet gambling policy. Internet gambling represents an important development in the gambling field. The dynamic nature and rapid growth of Internet gambling poses a challenge to policy makers, but must be addressed in an effective manner.

Keywords: Internet gambling, policy, regulation, Australia, online gaming, wagering

Introduction

The Productivity Commission (2010) inquiry into gambling received hundreds of submissions and expert testimonies but, despite some commentary on Internet gambling, very little evidence-based research was provided to appropriately guide recommendations. Notwithstanding the widespread interest in Internet gambling and the considerable social and economic impacts that this mode of gambling stands to have, relatively few studies on Internet gambling have been conducted internationally, and fewer still in Australia. The lack of comprehensive evidence on the nature of and participation in Internet gambling limits the understanding of and future predictions that can be made with regards to the development and potential growth of Internet gambling.

When Internet gambling first became available in the mid 1990s Australia was regarded a world-leader with respect to Internet gambling policy. The Productivity Commission’s 1999 report recommended that Internet gambling be liberalised and several states had plans in development to manage Internet gambling. However, the 2001 Interactive Gambling Act (IGA) was introduced in contravention to available evidence, which effectively prohibited the provision of Internet gambling in Australia, with the exception of lotteries and wagering. Since this time the nature of and participation in Internet gambling has changed considerably and online gambling opportunities are increasingly prevalent in both legal and illegal forms. Yet, no new policies have been introduced at a federal level. Industry reports estimate that Australians spent AUD$968 million in 2010, gambling on unregulated casino and poker sites and participation in online gambling and wagering is expected to increase at 10-20% per year (Gainsbury, 2010b; Global Betting & Gaming Consultants, 2010). However, no website or corporation has been prosecuted for violating the IGA,
perhaps an indication of the lack of enforcement of this policy combined with the increasing brazenness of offshore gambling sites.

The 2010 inquiry aimed to re-examine the rationale and consequences of the IGA, consider the effectiveness of this regulation and whether it is the most appropriate policy response to Internet gambling. The Productivity Commission considered the historical context surrounding the implementation of the IGA in reviewing the rationale for this regulation. Similarly, it is important to review the current context of Internet gambling in Australia to determine whether the IGA is still appropriate and effective given the substantial changes that have occurred in Australia and internationally since it was introduced nearly a decade ago. This article aims to review the Productivity Commission’s (2010) response to Internet gambling and recommendations, and highlight important issues for consideration.

Review of the Evidence in Relation to Internet Gambling

The Productivity Commission acknowledged that the literature on Internet gambling is small and limited, for example, studies frequently utilise self-selected samples of online gamblers, which may bias results and are not representative of the broader population. The lack of solid evidence on the nature of and participation in Internet gambling in Australia makes it difficult for all stakeholders to form appropriate responses to Internet gambling. Although the Productivity Commission conceded these limitations, the report did not emphasize that recommendations made were essentially based on insufficient evidence.

Given the dynamic nature and rapid changes to Internet gambling sites and availability, the figures presented with regards to the prevalence of Internet gambling in Australia in 1999 and 2003 may be somewhat out dated. Some high quality research has been conducted within some states, which are informative; however, the extent to which these can be generalised to the entire population of Australia is limited given regional differences. Nationally representative research conducted by Roy Morgan (2010) found that 2.6% of Australians who purchase lottery tickets usually purchase these online. Subsequent analysis reveals that a higher proportion of Tasmanians (4.1%) and Victorians (5.1%) usually purchase lottery tickets online as compared to individuals in New South Wales (1.5%) and Western Australia (0.5%). Prevalence rates gathered internationally have limited validity in Australia due to the differences in Internet gambling policy and culture. Research from jurisdictions similar to Australia, such as Canada and New Zealand are useful, but direct replication in Australia would facilitate an accurate comparison and jurisdiction-specific details. Furthermore, industry estimates may be biased as these are generally based on a limited source of data given the large number of and diversity of available sites, which limits the reliability of this information.

The prevalence estimates of participation in Internet gambling presented by the Productivity Commission ranged from 0.1 and 4.3 per cent, suggesting regular use of Internet gambling is relatively limited in the general population. However, results of a nationally representative market research report suggest that 30% of Australians over the age of 16 engaged in Internet gambling in 2009 (Nielsen, 2010). Furthermore, Internet gambling rates appear to be higher in samples of gamblers, for example, 8% of individuals who bet on sports or races usually use the Internet for this purpose compared to 1.8% of the general population (Roy Morgan Research, 2010). There are several difficulties involved in obtaining reliable and valid research estimates of Internet gambling use. Williams and Volberg (2009) found that the stated topic of surveys, method of administration and extent of questions asked resulted in markedly different problem gambling prevalence rates (4.1% vs 0.8%) amongst the same population. The illegality of Internet gambling makes obtaining accurate prevalence rates more difficult due to a potential reluctance for participants to disclose this activity, although the extent to which Australians are aware that this activity is illegal is
questionable. The likely characteristics of Internet gamblers present a further source of difficulty in obtaining reliable usage estimates. Australian studies have found that adolescents may gamble online at higher rates than the general population (Delfabbro et al., 2005; Dowling et al., 2010; Jackson et al., 2008). Similarly, international studies indicate that Internet gamblers are more likely to be younger adults (Griffiths et al., 2008; Wood & Williams, 2009). Youth under the age of 18 are often not included in population surveys and young adults increasingly use mobile phones, rather than landlines, making it difficult to capture this population in telephone surveys. Online surveys are useful for targeting a population that is more likely to use Internet gamblers, based on research indicating that Internet gamblers are likely to be technologically savvy and use the Internet for multiple purposes (America Gaming Association, 2006; Wood & Williams, 2007; Woodruff & Gregory, 2005; Woolley, 2003). However, online surveys typically use self-selected samples and are not representative of the general population so do not allow prevalence rates to be determined. For these reasons, the Productivity Commission’s use of and consideration of multiple sources of evidence is appropriate. However, further nationally representative, methodologically sound research is needed to accurately inform the prevalence of Internet gambling in Australia.

The Productivity Commission cannot be held accountable for the lack of sufficient evidence available to appropriately drive policy recommendations. Nonetheless, greater caution should have been exercised when making recommendations without empirical support. A key example of this is the argument that online poker games appear to involve the lowest risks and, consequentially, should be liberalised as a “relatively safe online gambling product” (p. 15.31). The argument used to support this argument, presented in Box 1., contains several limitations. The parameters of legal poker playing are still unclear and differ between jurisdictions (Grohman, 2006; Kelly, Dhar, & Verbiest, 2007). Despite the element of skill involved, poker is still considered a game of chance, hence a gambling activity. Although in the long run, skill might predominate over chance, for each individual session or over a short period of time (months to a year), the outcome of poker is determined by chance (Grohman, 2006A skilled player may know that his poker-hand has an 85% chance of beating his opponent’s hand, but 15% of the time, the player will lose the hand and the money staked.

Furthermore, when played on the Internet, poker can be both rapid and continuous, with multiple games played simultaneously, immediate shuffles and dealing and large stakes possible. The assertion that online poker players do not experience dissociation is contrary to results from a study examining potential predictors for excessive online poker playing (Hoppley & Nicki, 2010). This research found that in a sample of Internet poker players, dissociation was one a significant predictor of problem gambling. Similarly, Griffiths and colleagues (2009) reported that length of online poker sessions was a predictor of problem gambling in a sample of student online poker players. The authors concluded that this might be related to experiencing dissociation during play. Finally, the evidence cited that poker players typically spend small amounts is taken from studies of player accounts on a European-based sports wagering site that also offers poker as opposed to a dedicated poker site (LaPlante et al., 2009; LaBrie et al., 2008). Analysis of Internet poker play found that the majority of players (95%) bought a median of AUD$16 worth of chips at each of two poker sessions per week (LaPlante et al., 2009). The remaining 5% appeared to be more heavily involved gamblers who bought a median of AUD$120 worth of chips at each of 10 sessions per week and played for three times longer than the majority of the sample (LaPlante et al., 2009). These results suggest that online poker may cause problems for some players, similar to EGMs. None of the players in this study were Australian. The majority of participants were males (94.6%) of European descent, in their mid to late 20s. Participants from non-European countries accounted for less than 4.2% of the cohort. While somewhat informative, caution should be used in generalising the results to indicate how Australians typically play online poker.
There is not sufficient evidence at this time to suggest that online poker is less problematic than other forms of Internet gambling. There is also insufficient evidence to determine the prevalence of Internet poker play in Australia to inform on the popularity or potential demand for this form of Internet gambling. The recommendation to legalise online poker is premature due to the lack of evidence of the potential social and economic impact of legalised online gambling. Furthermore, the suggestion from the Productivity Commission that “if, in fact the harms appear to be too great” (15.31) that the online licences could simply be withdrawn is imprudent, particularly given the admission by the Productivity Commission that the liberalisation of EGMs was problematic and should not be repeated.

The brief mention of tournament poker in the Internet gambling chapter (Productivity Commission, 2010) merits further discussion. This refers to contests with an up-front entry fee and set number of competitors (not including tournaments with multiple buy-in options). Poker tournaments with a cash entry fee and commission charged are legal outside of casinos in New South Wales and Victoria and with free entry in Queensland; although these are monitored to ensure that they comply with regulations. Recent Australian court rulings (Police v Jones, Police v Ravesi, 2008, SAMC 62), state that poker is not wholly a game of chance; however it has not been defined whether poker is a game of mixed chance and skill or a game of skill. The upfront cost of play is fixed in tournament poker which limits the monetary losses that players can experience. Nonetheless, tournaments involving many players can take a considerable amount of time, which is important to consider as excessive periods of play have been associated with problem gambling amongst online poker players (Griffiths et al., 2009; Hopley & Nicki, 2010). Due to the element of skill involved and the fixed cost of play, tournament poker may be an appropriate target to investigate as a potentially less-problematic form of online gambling.

**Review Recommendations – Managed Liberalisation**

Consistent with the 1999 Productivity Commission report, following a review of the available evidence, the 2010 Productivity Commission recommended managed liberalisation of Internet gambling in Australia, beginning with Internet poker. An increasing degree of consideration of the benefits and costs of liberalising Internet gambling can be found in the academic and grey literature (e.g., McMillen, 2000; Monaghan 2008a, 2009a, 2009b; Gainsbury & Wood, 2010; Wood & Williams, 2007). The argument advanced by the Productivity Commission for regulation and licensing of Internet gambling sites is partially based on the apparent public demand for regulated Internet gambling opportunities (although strong evidence is not provided to support this claim) and the likelihood that gamblers will access unregulated sites if these are not available. Although some unregulated sites, particularly large, established brands, provide customer protection measures,
unscrupulous operators may cheat players who are left with little to no recourse in resolving disputes. Legalised and regulated Internet gambling sites would offer a safer online gambling platform with stronger customer protection and responsible gambling policies.

With regards to economic considerations, currently Internet gambling and tax revenues are lost to overseas operators and governments. Legalised Internet gambling would establish an appropriate taxation model resulting in taxation revenue returning to the federal and state governments and the community through funding of research, prevention and treatment schemes from government and industry bodies. The impact that increased liberalisation of Internet gambling would have on existing gambling operators is unclear. The Productivity Commission noted that to remain competitive with other international jurisdictions, online gambling sites would have to be taxed at lower rates than terrestrial operators. In addition to not having to pay overheads associated with having a physical venue, this would allow online operators to provide gambling opportunities with lower costs to consumers as compared to land-based venues, which may have an impact on existing operators.

To support the recommendation of liberalisation, the Productivity Commission argued that both consumers and operators are disadvantaged by the IGA, which limits the available choices and opportunities to access and provide Internet gambling. Legalised Internet gambling would enable operators to offer this service and compete with offshore sites and customers to have greater choice in selecting their preferred online gambling site. Some consideration is given to the option of strengthening the effectiveness of the IGA, but the Productivity Commission concluded that the IGA is comparable to a ban on EGMs, and although this form of gambling is associated with significant harm, it is still legally supplied.

The Productivity Commission recommended that liberalisation of Internet gambling should be subject to a regulatory regime that includes strict probity and harm-minimisation standards. However, the report failed to provide an appropriate model to facilitate this recommendation. The provision of a model for liberalisation and regulation may be outside the scope of the current inquiry and report. It is also made difficult given the absence of a proven successful regulatory model. However, these challenges are faced by many international jurisdictions and the difficulties involved with establishing an appropriate regulatory regime is not sufficient grounds for continuance of ineffective policies.

The Productivity Commission recommended that the Australian Government should monitor the effectiveness of implemented harm-minimisation measures, the performance of the regulators, and the impact of the provision of online gambling. Monitoring and ongoing evaluation is important, however much more research is required before Internet gambling is liberalised further. Research should be commissioned by stakeholders, including state and federal governments and Internet and terrestrial gambling operators. Key questions to examine include determining who is currently engaging in Internet gambling and how they are using this mode of gambling, as well as the current and predicted impact of Internet gambling in Australia. Research is also needed to investigate the differences between various forms of online gambling, characteristics of players and patterns of play as well as to explore the relationship between Internet gambling and problem gambling. The economic impact of liberalised Internet gambling on existing operators and taxation should also be considered. Internet wagering has been associated with allegations of corruption, cheating and match fixing, suggesting that sporting bodies and associations should also support research to examine the potential for harms to sporting codes and strategies to reduce the potential problems that may damage the credibility and reputation of sporting codes and bodies.

The Productivity Commission discussed some potential measures to protect customers and reduce the harms associated with online gambling. Harm-minimisation standards should be tested in advance of and following implementation. These should include:
Player identification to prevent underage play, duplicate accounts and betting by individuals involved in an event;
Communication of account activity in an easily comprehensible and meaningful format;
Pre-commitment strategies for time and money;
Education about games, statistical probabilities of winning and responsible gambling including practical strategies;
Feedback on player behaviour including self-tests and alert systems which identify potentially problematic play;
Self-exclusion options;
Customer support.

Although certain features of Internet gambling may increase the risk of gambling problems, including the constant availability and speed of play, responsible gambling features may prove more effective for this mode of gambling than for traditional terrestrial games (Monaghan, 2008b). The ability to monitor play and interact and communicate with identified players is a key advantage that should be maximised to enable responsible play. Several online systems to promote responsible gambling have been developed and implemented in jurisdictions that have legalised Internet gambling including Sweden and Canada. Preliminary evaluation indicates that optional tools to assist with self-control of online gambling behaviour are used by a substantial minority of players (26%) and are generally considered useful (52%) (Griffiths, Wood, & Parke, 2009).

A regulatory regime must also address the wider issues that will be impacted by Internet gambling. A decision must be made with regards to cross-jurisdictional play and ownership, including whether international customers will be permitted to play on Australia sites and foreign owners and operators can obtain licenses. This has implications for advertising and taxation as well as working with international policies. Taxation laws must be firmly established at both state and federal levels as well as advertising and marketing standards. Finally, if Australian sites are to be liberalised, a strict strategy must be established for managing Internet sites that are not licensed and regulated to protect Australian interests. The Productivity Commission suggested only allowing licensed sites to advertise to Australian residents, yet this policy is currently in place and no Internet gambling site has ever been prosecuted for providing access to Australian customers. To ensure that regulation, whether it be prohibition or liberalisation, is effective, stronger efforts are required to uphold the rules set and provide incentives for operators to act accordingly.

Further Considerations

The Productivity Commission correctly identified the importance of working with international jurisdictions to formulate appropriate Internet gambling policies. The nature of online gambling means that it operates outside the traditional restraints of jurisdictional borders, which presents both challenges and opportunities. Given Australia’s relative lack of experience in regulating Internet gambling, it would be prudent to build on the knowledge that can be gained from other jurisdiction’s involvement with Internet gambling policy, in order to appropriately respond to the unique challenges posed by this mode of gambling. Cultural and societal differences mean that policies successful in one country may not be efficient in another, but successful aspects from various policy regimes can be melded together. For example, the U.K. has strong regulations on the appropriate advertising of Internet gambling, including the involvement with sports sponsorship and promotional products. These may be very relevant in Australia to protect consumers and youth from inappropriate exposure to and inaccurate depictions of Internet gambling. The Canadian province of Ontario have announced a plan to provide regulated access to Internet gambling, but
this will follow a three year period of consultation with experts and stakeholders and research to ensure that online gambling is implemented as safely as possible. This is another example of international policy that may be suitable for implementation in Australia. Lessons can also be learnt from countries with a similarly prohibitive stance towards Internet gambling. For example, in the U.S. Internet gambling is prohibited, yet U.S. citizens remain one of the largest groups of customers for online gambling sites, despite strict regulations on banks and financial institutions, indicating the potential futility of this approach.

The benefits of aligning Australian regulation with that of similar jurisdictions include the promotion of international consumer protection standards. Given the multitude of different regulations, it is very difficult for Internet gambling operators to abide by these for each jurisdiction; however, the use of a common set of guidelines would make it easier for operators to comply and jurisdictions to enforce regulation. In particular it is important that a common set of regulations be used across Australia in each state and territory. The Productivity Commission advised that a regulatory body should be national in scope and supported by federal legislation. This would take precedent over state legislation, although states would retain the right to prohibit the provision of particular gambling services. A national regulatory body would more easily be able to regulate and monitor online gambling sites and for operators to ensure that they abide by rules. It would avoid the duplication of resources and services and allow a central consumer protection body to operate and investigate any complaints or regulatory breaches. Although the Productivity Commission recommended that this central regulatory agency should have the capacity to conduct ongoing research, it may be more sensible for this agency to grant access for selected independent researchers to access and evaluate industry data. Ongoing research is crucial to establish the effectiveness of policies, particularly the impact of Internet gambling and success of consumer protection measures. The use of independent researchers is important to protect the credibility of findings and recommendations.

The Productivity Commission briefly commented on the use of Internet counselling for problem gamblers. Internet interventions, both self-guided and involving therapist assistance, represent an important treatment development for problem gambling. Contrary to the claims of the Productivity Commission, there is increasing evidence to support the use of brief online interventions as a cost-effective, successful treatment option for a large proportion of problem gamblers who are unable or unwilling to seek traditional forms of formal help (Gainsbury, 2010a; Monaghan & Blaszczynski, 2009a; 2009b, Rodda, 2010). Importantly, online interventions for problem gambling also appear to be successful for youth (Monaghan & Wood, 2010), who are at increased risk of gambling-related problems (Delfabbro, 2008). As Internet gambling has been associated with increased rates of problem gambling (Petry & Weinstock, 2007; Wood & Williams, 2009) any act of liberalisation should be conducted in accordance with increased attention to available treatment options.

Conclusions

The Productivity Commission's recommendations on Internet gambling were not initially accepted by the Federal Government; however, they may still have considerable impacts on key stakeholders in the gambling field as they indicate increasing support for regulatory change and legalisation of online gambling, which is consistent with many international jurisdictions. More research is needed and the formation of collaborative working partnerships between researchers, industry operators, regulators and policy makers would facilitate methodologically-sound empirical research that may accurately inform on the state of and impact of Internet gambling.
Regulators and policy makers must carefully consider the current and predicted future state of Internet gambling in order to create effective and responsible legislation and guidelines. The Productivity Commission is to be commended for managing such a controversial topic so well in this complicated context and completing a relatively complete review of the state of the field. Although it appears that the IGA is not currently effective in preventing all Australians from gambling online, it is difficult to state with certain the economic and social impact of increased liberalisation of this mode of gambling. The liberalisation of Internet gambling would have a significant impact on many aspects of Australian society and a substantial amount of research is required to inform such a decision. Importantly, any act of liberalisation should be based on a sound regulatory regime including strong consumer probity and harm-minimisation measures, which should be defined and specified before any recommendation is accepted.

References


