

TO:

Manager, Broadcasting and Online Content
Department of Communications,
Information Technology and the Arts
GPO Box 2154
Canberra ACT 2600



LASSETERS CORPORATION LTD
SUBMISSION

to the

**Department of Communications Information
Technology and the Arts**

*Review of issues related to Commonwealth Interactive
Gambling regulation*

(Interactive Gambling Act 2001 (Cth) Review)

Managing Director: Peter Bridge

Signature:

Lasseters Corporation Ltd

ACN 083 201 923

Lasseters Online

93 Barrett Drive
Alice Springs NT 0870
AUSTRALIA

www.lasseters.com.au



Contents

| | |
|--|----|
| 1. Introduction | 3 |
| 2. Issues | 5 |
| The Growth of Interactive Gambling Services | 5 |
| The Social and Commercial Impact of Interactive Gambling Services | 12 |
| The Operation of the IGA and the Effect of Existing Exclusions | 17 |
| Technological developments relevant to the regulation of interactive gambling services or capable of assisting in the management of problem gambling | 19 |
| The feasibility of and capacity to regulate financial transactions associated with the provision of interactive gambling services | 23 |
| 3. Other Issues | 25 |
| 4. Recommendations | 26 |

1 Introduction

Lasseters Online is the world's ninth most recognised Internet site in a study of more than 100 international casino, sports betting, lottery and bingo sites – The River City Gambler Monitor, 2001

As the only Australian-based, regulated provider of online casino gaming services, Lasseters Corporation is pleased to make this submission to the review of the *Interactive Gambling Act 2001* (IGA).

Lasseters began online operations in 1999 with the site, Lasseters Online, and has gained substantial experience and high levels of credibility internationally in what is still a young, evolving industry. The company is a market leader in the provision of online casino gambling services being considered consistently as one of the top ten online casino sites internationally.

In summary, Lasseters has:

- established a customer base of thousands of players across more than 200 countries with registrations for the first half of 2003 growing by 22 percent
- continually reported strong annual turnover growth with turnover in the first half of FY2003 growing by 39 percent to AU\$228.8 million
- achieved a corresponding increase in revenue of 19 percent to AU\$9.0 million in the first half of FY2003
- participated in industry forums worldwide as a pioneer in regulated online gaming
- employed 61 people from the information and communication technology (ICT) sector across two states, importantly in the regional centre of Alice Springs where Lasseters Corporation's headquarters are based
- merged with Gocorp Limited (listed in 2000) to become a public entity quoted on the Australian Stock Exchange

Throughout the various inquiries leading up to the introduction of the IGA, Lasseters argued that:

- If Australian consumers continue to be denied access to Australian regulated online casinos, the prime source of online gaming services will remain minimal or un-regulated offshore sites.
- There are no effective geographic or technical barriers to participation in online gaming.
- The consumer safeguards and harm minimisation techniques used in regulated online gaming far exceed the standards provided in the highly regulated land-based gaming industry and in either the land-based or online wagering industry.
- The lack of a regulated industry in Australia leaves Australians at risk of problem gambling online. Unregulated service providers offer little protection to the consumer and yet dominate the industry.

- The most effective way of protecting Australian consumers and preventing problem gambling is to regulate the full range of online gaming services.
- A high standard of regulation and strong license conditions should be benchmark for all online gaming providers – not just online casinos. It is the absence of consistent standards – rather than the online delivery mode – which poses the greatest risk to problem gambling.

We stand by these views.

Lasseters is committed to offering regulated gaming services under license from the highly regulated jurisdiction of the Northern Territory.

No other online casino operator shares Lasseters' perspective as an Australian-based entity offering services on a global scale within a variety of social, cultural and regulatory environments. Lasseters is therefore in a unique position to comment authoritatively on global consumer characteristics and the marketplace demands related to online gaming, and the technical capabilities of online gaming products and services.

Through this submission we are pleased to assist the review process by providing factual data and industry intelligence into the latest international practices and developing trends in online casino gaming. Our submission offers an insight into the feasibility, practicality and effectiveness of the IGA's restrictions on the provision of online gaming services and related services to any individual marketplace including Australia.

2. Issues

The growth of interactive gambling services

Legislation has definite geographic boundaries. The Internet does not – and cannot.

Global Perspective

The very nature of the Internet means the market for any online service is global and without geographic boundaries.

As one of the world's few fully regulated and licensed operators, Lasseters Corporation knows there is international consumer demand for online gaming as a leisure time pursuit. While Internet casino gaming remains small in comparison with other gaming and wagering operations, consumer demands are growing, albeit slower than anticipated in 2001.

Operators have become geographically diverse...

There are currently an estimated 1,800 offshore Internet gaming sites. This represents an increase in the number of sites of 28.6% since the introduction of the IGA.

According to the Internet Gambling Licenses database, there is some form of internet gaming license offered in 71 jurisdictions, covering Africa, Asia-Pacific, Caribbean, Central America, Europe, North America and South America.

Table 1. Jurisdictions Offering Internet Gaming Licenses

| Region | Jurisdiction |
|------------------------|--|
| Africa | Comoros (Anjouan) * Mauritius * South Africa (Western Cape) * Swaziland |
| Asia-Pacific | Australia (Australia Capital Territory) * Australia (New South Wales) * Australia (Northern Territory) * Australia (Queensland) * Australia (Tasmania) * Australia (Victoria) * Australia (Western Australia) * Cook Islands * India (Maharashtra) * India (Rajasthan) * New Zealand * Norfolk Island * North Korea * Philippines * Solomon Islands * South Korea * Taiwan * Vanuatu * Vietnam |
| Caribbean | Antigua & Barbuda * Dominica * Dominican Republic * Grenada * Jamaica * Netherland Antilles (Curacao) * St Kitts & Nevis * St Vincent * Virgin Islands (US) |
| Central America | Belize * Costa Rica * Nicaragua * Panama |
| Europe | Austria * Belgium * British Channel Islands (Alderney) * British Channel Islands (Sark) * Czech Republic * Denmark * Finland * France * Germany * Gibraltar * Iceland * Ireland * Isle of Man * Jersey * Liechtenstein * Luxembourg * Malta * Monaco * Norway * Russia (Kalmykia) * Serbia * Spain * Sweden * Switzerland * The Netherlands * United Kingdom (Great Britain) |
| North America | Canada (Saskatchewan) * Canada (Kahnawake) * United States (New Jersey) * United States (California) * United States (Louisiana) * United States (Nevada) |
| South America | Argentina * Brazil (Parana) * Brazil (Santa Catarina) * Columbia * Venezuela |

Jurisdictions can now be divided into two regulatory structures - Tier 1 and Tier 2 (Bear, Stearns & Co, 2002). The Tier 1 structure is the most highly regulated and the group, which provides high standards of consumer protection. Lasseters Corporation operates under a Tier 1 structure. Many of the regulatory structures adopted by Tier 1 countries have been based on the work done in Australia by the States and Territories in developing the AUS Model.

Tier 2 is characterised by smaller countries happy to gain revenues through license registration but enforce a less robust regulatory environment for internet gaming service providers.

The third type of operator is the un-licensed and unregulated. Where online gaming is prohibited, these operators provide the prime source of services.

As has their player base...

These operators and the number of sites they offer continue to rise as demand grows among internet users.

The continued expansion in Internet usage, particularly in developing nations and within Asia, is establishing new markets for internet gaming service providers.

In 2001, research group Datamonitor reported that the number of regular online players globally was just below 5 million in 2000, generating a turnover of US\$11.5 billion. It projected player numbers would grow to more than 15 million by 2005 with turnover expected to increase to US\$30 billion.

In 2002, Christiansen Capital Advisors estimated US online players represented 61 percent of the total online gaming market in terms of player numbers. However, this concentration of players in the US market is expected to decrease to less than one third as demand in other geographic locations increases.

While market growth is now slowing, it is still expanding by better than 20% per year...

In line with the ongoing global reassessment of the prospects for e-commerce, the latest estimates show there have been downgrades and Internet gaming remains very much a niche sector.

The Internet gaming industry was not immune from the aftermath of the stock exchange "tech wreck". Analysts' growth estimates have been downgraded and it remains a niche sector.

In September 2002, US market analysts Bear Stearns & Co questioned growth in e-gaming and halved its 2002-2003 growth estimates to 20 percent from 43 percent predicting industry-wide revenues (as opposed to turnover) of US\$4.2 billion down from US\$5 billion.

Regulated operators are at a competitive disadvantage...

What has been learned over the past two years is that internet gaming is a difficult business. It is made more difficult by the uneven playing field between the regulated and unregulated service providers.

The operation of an internet gaming business is characterized by tight margins, high initial investment costs, and a high cost of customer acquisition and retention.

A regulated operator is under a competitive disadvantage due to the enormous costs involved with establishing and maintaining operations within a regulatory framework. These include: the cost of establishing the license conditions and operating manuals, license fees, ongoing monitoring costs and a fixed payout ratio defining the acceptable rate of return to the operator.

Regulated service providers had aimed to use the regulatory framework as a competitive point of difference in attracting a player base. However, the lack of a consistent international approach, consumer complacency regarding the safety of internet commerce and the proliferation of unregulated sites offering monetary incentives have made it difficult to gain a commercial return.

But international governments are recognising regulation is the preferred response ...

Many jurisdictions have recognised the commercial potential and consumer benefits of regulating online gaming.

While the standard of regulation of internet gaming varies across the world, there has been an important change in the mindset of one the key jurisdictions, the United Kingdom.

Bear Stearns & Co has stated that "sweeping changes" in the focus of regulators in the United Kingdom is indicative of a more liberal approach to Internet gaming. The UK Department of Culture, Media, and Sport has published a White Paper outlining plans to overhaul arcane gaming laws including a move towards legalising the provision of a full range of online gaming services by UK operators.

Bear Stearns & Co predicts this move will create one of the world's most trusted and respected online gaming jurisdictions and attract considerable commercial enterprise.

One of the key issues in respect to gaining a consistent approach to government regulation worldwide is the differences between countries in their policies and ethical stance on gambling. For example, the Australian government has often looked to the US for evidence of action attempting to ban online gaming as justification for the IGA.

It is in the consumer's best interest to regulate e-gaming.... – White Paper, UK Department of Culture, Media and Sport

However, it is important to recognise that:

1. at the time of preparing this submission, no legislation has been successfully ratified in the US to ban online gaming despite several attempts
2. there is however, long-standing legislation making online sports betting and wagering illegal in the US

This is the complete opposite of the Australian scenario.

It demonstrates the difficulty in gaining a global approach to online gaming regulation. The Australian government has an obligation to protect the interests of its people and that should be the only driver for action.

Australian Perspective

In Australia, the IGA had the direct authority to block Australian access to one regulated site: Lasseters Online. The lack of proactive monitoring and policing of internet gaming marketing and participation, and the lack of consumer awareness regarding the IGA and the risks of unregulated gaming, has meant Australians have been willing and free to register with offshore providers.

Other than Lasseters, all other online gaming service providers have either been forced offshore or closed down for a variety of reasons: the government enforced moratorium, credit card fraud, ineffective market development, and unviable tax regimes.

The effect of the IGA has been that under regulated, and in many cases unscrupulous, fly-by-night operators are now the ones providing services to Australian players. It is these operators' lack of standards – and not Internet gaming per se - which pose the risk to players.

The IGA has pushed Australian Internet gamblers into global waters where there are no shortages of sharks

First internet gaming statistics now available

Since 2001, the value of online gaming in Australia has begun to be captured by independent statistics and research which bring valuable perspective to the debate.

The Australian Bureau of Statistics (ABS) report, *Gambling Industries, Australia*, released in July 2002 found the total net takings from all forms of gambling in Australia during 2000-01 was AU\$13.8 billion, representing an increase of 26 percent since 1997-98.

Worldwide spending on online gaming revenues in 2000 equaled only about one quarter the amount Australians spent on poker machines in the same year.

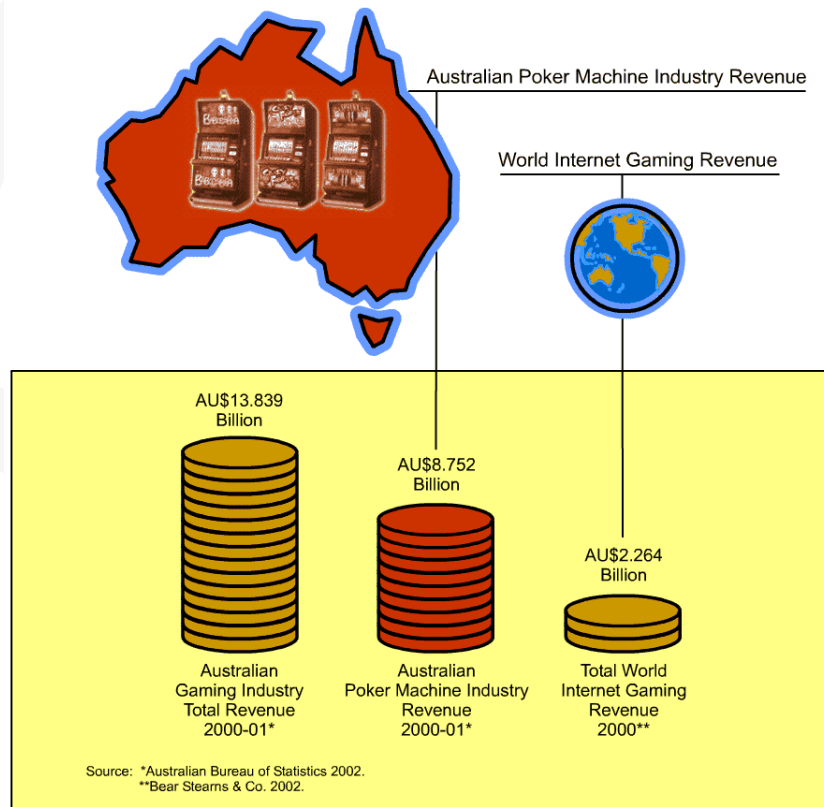
Less than 6 percent (AU\$765 million) of that figure was attributed to gambling via the Internet.

The report found the major source of net takings from gambling remains poker/gaming machines. The net takings from poker/gaming machines had increased by 39 percent since 1997-98 with the major venues for the machine takings being hospitality clubs (AU\$4.238

billion), pubs, taverns and bars (AU\$3.280 billion) and casinos (AU\$1.021 billion).

To place the size of the Internet gaming industry in perspective, the Bear Stearns & Co estimate of global Internet gaming revenues totaling US\$1.4 billion (AU\$2.3 billion) in 2000 would rank the entire industry at about one quarter the size of Australia’s poker machine industry. The Australian Bureau of Statistics (ABS) found there was AU\$8.8 billion in expenditure on the machines during 2000-2001 – 63 percent of all the money expended on all forms of gambling.

Illustration: Comparative value of gaming revenue generated by the Australian gambling industry, Australian poker machine takings and the world internet gaming industry.



Other studies have also found poker and gaming machines to be the largest area of gaming expenditure. The Australian Centre for Gambling Research (ACGR) at the University of Western Sydney reported that total expenditure for all forms of gambling within Australia during 2000 – 2001 was AU\$14.34 billion.

Its estimate of online gaming expenditure was below that of the ABS, including it in the “other” category, along with keno, minor gaming and sports betting which accounted for only 1.9 percent of total expenditure.

Australian participation in internet gaming is increasing

Online casino gaming is a niche market dwarfed by other forms of gambling, particularly poker machines. Industry analysts often place online casinos in a category marked “other”, along with bingo and raffles.

The Australian Casino Association (ACA) reported in February 2002 that the IGA had failed to curb online casino gaming but had instead forced Australians to use largely unregulated offshore sites. The ACA’s report was based on findings by independent internet researcher, Hitwise, which indicated that between February and December 2001 the number of international Entertainment-Gambling websites, including casino and sports betting sites, visited by Australian Internet users had increased by 38 percent.

During February 2001, Hitwise monitored 304 Entertainment-Gambling websites, 100 of which were based in Australia. By the end of the survey period, in December 2001, six months after the introduction of the IGA, the total number of Entertainment - Gambling websites monitored had increased to 419, with the number of Australian sites remaining constant at 100.

The report concluded that the Entertainment-Gambling category attracted less than 0.5 percent of total Internet traffic in Australia per month between February and December 2001.

Implications for the Review

The implications of these findings for the review are that:

- Internet gaming is a niche market growing at a minimum of 20% per annum worldwide. In any industry, this rate of growth would be considered impressive.
- However, internet gaming remains only a small sector in respect to the overall gaming industry.
- In the past two years, a rising number of jurisdictions are investigating regulating online gaming with many considering regulatory frameworks based on the high standards established by the AUS Model.
- The United Kingdom, in particular, has focused on regulation in the interests of consumers.
- Australia's IGA is at odds with international thinking on internet gaming and consumer protection regulation.
- The attention paid to internet gaming in Australia on the basis of concern for problem gambling appears out of perspective given that it represents less than 6% of the total gaming spend.
- Statistics now available on internet gaming participation indicate the IGA was ineffective in preventing Australian access to offshore internet gaming service providers.

The Social and Commercial Impact of Interactive Gambling Services

Critics say Internet casino gambling lets you lose your home without leaving it. In reality, regulated online gaming is the only form of gambling which has built in controls helping players limit losses.

Social Impact

We recognise the IGA was intended to “limit potential problem gambling in Australia associated with interactive gambling services”. However in practice, the introduction of the IGA has simply removed the ability to track online gaming behaviour and has closed a revenue source to fund player protection and advisory services. Its introduction was also contrary to recommended social and industry policy.

Prior to the introduction of the IGA, two major government inquiries recommended a regulatory policy to internet gaming rather than prohibition. Since the introduction of the IGA, a review of the overall gambling industry by the Productivity Commission has questioned the effectiveness of regulatory action to prevent problem gambling.

Table 2. Summary of the major inquiries and their recommendations

| Inquiry | Report Date | Recommendations or Key Findings |
|--|--------------------|---|
| Productivity Commission Gambling Industries Inquiry | December 1999 | ‘Managed liberalisation’ of online gaming to establish minimum standards of consumer protection. Regulation of internet gambling is, subject to controllability, an important objective and is consistent with the aspirations of other regulations applying to gambling such as consumer protection, probity and preservation of revenue. |
| Senate Select Committee on Information Technologies, Inquiry into Online Gaming, Online Gambling Inquiry | March 2000 | Uniform and strict controls on online gambling focusing on consumer protection and policies reflecting community standards including assistance for problem gamblers, prohibition of game manipulation, electronic security measures and financial controls. A moratorium on online gaming licences until national standards are in place. |
| Productivity Commission’s Gambling Inquiry: 3 Years On | November 2002 | Significant deficiencies remain in the regulatory environment for gambling. It remains unclear whether problem gambling and its associated impacts have moderated since the action taken by governments and industry between 2000 and 2002. |

Even after the introduction of the IGA, the Government's Productivity Commission has recognised the benefits of the controls implemented by regulated online gaming services. Their report *The Productivity Commission's Gambling Inquiry: 3 Years On* (2002) noted that in the broader gaming industry there was "little attention" to issues such as:

- problem gamblers accessing additional cash and credit on gambling premises
- hazardous gaming machine features such as bill acceptors
- mechanisms to assist problem gamblers to exclude themselves from gambling premises
- mechanisms to permit gamblers with pre-commitment options limiting their losses.

However, it noted the exception was "the emerging Internet gambling industry". The Commission also noted the "moderating features" of Internet gaming "such as the greater potential for proximity of family, and the scope for more effective consumer protection mechanisms – including complete transaction records, and (most importantly) effective mechanisms for precommitment on spending".

Online casino gaming is the only form of gaming in Australia either online or in land-based venues, which has controls in place to assist players to limit losses and set strict betting limits.

Under the AUS Model developed by the Australian States and Territories and reflected in some legislation, regulated and licensed sites have in place strict player protection measures including:

- limits on the monthly spend – upon registration, players are restricted initially to depositing a maximum of US \$500 per month to their playing account and then bet with this and their winnings
- credit betting is not permitted – the amount deposited is dependent on approved funds within bank accounts and cash deposits
- limits on the amount bet – limits for each game are set by the service provider but players also have the option of setting maximum bet limits which cannot be changed without a notice period
- player behaviour monitoring – players exhibiting problem gambling behaviours can be identified through online tracking and can be excluded from further play
- self exclusion – players can give immediate notice that they are excluding themselves from further play at the Lasseters site for seven days. If they use this facility three times, they are blocked from playing at the Lasseters site for life.

These controls and the influence of the Government regulators are highly effective. For example, Lasseters has had several players who have utilised the self-exclusion facility to block themselves out of the site. They have since applied to the Northern Territory Director of

Gaming to ask for this to be overturned. None of the applicants have had their request granted. Lasseters has no influence over these requests.

This standard of control and regulation contrasts greatly with the structure of unregulated online gaming sites. The risks associated with these sites include:

- fraudulent use of funds or credit card details: operators closing their sites overnight and absconding with the monies invested in playing accounts
- operators who will not payout winnings or put restrictions on issuing winnings that disadvantage players
- credit betting: players being able to generate large debts through unlimited play
- unlimited play: no controls on bet limits
- low payout ratios not monitored by independent regulatory bodies: potential returns to players are low
- no rights in disputes over payouts or withdrawals because there is no third party arbitrator
- sale of personal information on players
- lack of protection against access by minors
- no support if problem gambling habits are developed

Amongst online gaming providers, the greatest risk to increasing problem gambling is presented by the unregulated service providers. It is these operators that the IGA should target.

Who gambles online?

Lasseters Corporation, in conjunction with the Australian Centre for Gambling Research (ACGR), undertook an online survey in February 2003 to further research into the Internet Gambling industry and explore, in particular, associated social issues. The project was conducted under a SPIRT Grant by the Australian Research Council to Professor Jan McMillen (Australian National University) - grant no.C0002296.

There were 1,285 respondents from the survey providing a substantial sample of opinion and making it one of the most significant research projects undertaken into Internet gaming and an important collaboration.

The key findings were:

- 58.2% of players participate at least weekly while 31.6% play monthly or less frequently
- 54% of players said their use of online gaming was either the same or less than six months before, demonstrating that in the majority of cases, online gaming does not tend to increase the level of gambling overall by an individual
- 72.7% of players said the fact that Lasseters is Australian regulated was an important factor in choosing to register with the site

The typical online casino player works as a full-time professional or semi-professional who bets online for up to a few hours a week making small bets

- 64.8% of players said internet gaming made life more enjoyable
- 65.4% of players have accounts with up to three online gaming sites
- players like online gaming for the convenience, ease of access, account convenience, up-to-date information on their gaming activity, and responsible gambling/player protection services
- 79.2% of players said it is the individual gambler who has responsibility for problem gambling behaviour, rather than the government or gaming service provider

The *Hitwise Online Gaming Report* supports the AGRC survey findings that online gamblers use the service as a leisure time pursuit. It found level of traffic to websites in the Entertainment – Gambling category, which includes sports betting and casinos.

The average session duration for all sites in the Entertainment – Gambling category was found to be eight minutes and 21 seconds.

Commercial impact

Loss of industry investment and development

Three years ago, online gaming had the potential to contribute positively to the Australian Information Technology industry. In its submission to the National Office of the Information Economy (2000), the Australian Casino Association estimated that business investment in online gambling totalled about AU\$70 million up until 2000. At the time, there were expectations of additional investment in the sector of AU\$350 million between 2000 and 2005.

This level of investment has not been achieved and the commercial advantage Australian consultants in this field had established has largely been lost.

Lasseters Corporation is a substantial employer in the information and communication technology (ICT) sector with 61 people in Alice Springs and Brisbane. In the beginning, the company employed a range of consultants in the fields of software development, games design and regulatory auditing.

Since the introduction of the IGA, Lasseters Corporation has noted a decline in small businesses in the ICT sector. Many of these businesses relied on the online gaming sector as an important component of their overall business offer. In particular, they focused on areas including web design and consumer protection measures with applications to a broad range of areas, including provision of consumer and business services to Australians in remote and regional areas.

The disappearance of small businesses such as these and their core skill areas weakens the overall ICT sector and results in a loss of skills and projects in a range of technology-related areas. In response to the

Lasseters Online is one of Australia's largest e-businesses. The site is recognised as one of the most heavily regulated and trustworthy online casinos offering excellent customer service -WinnerOnline.com annual global review, 2000 and Casino Player Magazine

decline in technology skills, Lasseters Corporation has increased its research and development capabilities and employed more skilled staff to replace previous consultancy relationships. While this has assisted to preserve employment in the sector it has narrowed the range of technology development projects.

Loss of revenue

Because of this loss of industry investment and the continued access by Australians to offshore sites, the IGA has also had the effect of losing revenue. A strong Australian industry would have:

- generated state taxation revenue which would then be available for distribution for community needs
- ensured operating revenue stayed in Australia to support continued employment and investment
- generated contributions to funds to support problem gambling support services

Implications for the Review

The implications of these findings for the review are that:

- The decision to introduce the IGA under the auspices of preventing problem gambling is at odds with the findings of various reviews undertaken by government bodies which favoured the introduction of regulation as providing the means to control and limit player behaviour.
- Evidence of behaviour from among Lasseters' players counters myths surrounding online gaming that players can 'lose their house', will increase their spending on gambling, and devote hours at a time to gambling online.
- The introduction of the IGA has had serious impacts on the development of a specialised sector within the Australian information technology industry which had achieved world recognition for its professional standards.
- The IGA has stopped a flow of revenue to the Australian economy which could have supported employment, industry investment and problem gambling support services.

The operation of the IGA and the effect of existing exclusions

Responsive rather than proactive policy...

Lasseters submits that the key difficulty in the effective operation of the IGA is that it is responsive, rather than proactive, to online gaming issues.

It relies upon consumers lodging complaints with the Australian Broadcasting Authority (ABA) regarding content and advertising, rather than monitoring and policing online gaming activity.

In practice, consumers who are satisfied with the ability to access online gaming are unlikely to lodge complaints. We have already demonstrated that statistics show Australian online gaming participation is rising. The fact that only 13 complaints have been received therefore indicates two possibilities:

1. Australian internet users see online gaming as a non-issue
2. the processes and procedures for lodging complaints are not well known among Australian internet users

Reflective of the double standard on gaming regulation...

We believe the results are more indicative of the perception of internet gaming as a non-issue. We suggest Australians are more concerned with immediate, recognised sources of problem gambling, such as poker machines, than they are with internet gaming.

This stems from a culture and policy in which gambling of all forms is readily accepted and accessible. The list of exclusions for various forms of wagering and sports betting draws a fine line between acceptable and unacceptable forms of gambling.

This lack of concern also flows from the fact that Australian consumers are used to seeing a low standard of regulation and player protection controls through the wagering and sports betting industry.

Telephone betting, online betting on racing, sports and other events, keno and lotteries were, at the time the IGA was introduced, the more popular uses of online gaming and far exceeded the popularity of the developing sector of online gaming. However, their standards of player protection were, and remain, far below those offered by regulated internet gaming service providers.

All the IGA has done is discriminated against innovative service providers developing new product delivery methods for traditional, well accepted gaming services.

Offshore regulators easily slip through unnoticed...

In the absence of effective monitoring combined with a lack of concern, it is relatively easy for offshore operators to subvert ISP attempts to block online gaming services.

The very nature of the Internet, with its lack of geographic distribution boundaries, means the prohibition has been ineffective for operators and players who ignore the IGA.

Internet users expect:

- a borderless market of service providers
- open access to Internet content
- the ability to personally choose to block internet content at a PC level

Implications for the Review

The implications of these findings for the review are that:

- The lack of complaints indicates the low level of concern regarding online gaming.
- A proactive policy response based on consumer education, promotion of regulatory safeguards and the provision of an optional, safe, regulated industry, would be more effective at directing online gaming participation.
- The lack of proactive monitoring or policing of internet gaming participation and player behaviour makes it impossible to predict if the IGA has been effective in preventing problem gambling.

Technological developments relevant to the regulation of interactive gambling services or capable of assisting in the management of problem gambling

Technology has managed problem gambling for at least 4 years

The technology necessary to manage problem gambling online is not new. It has been used for at least four years and is proven in its effectiveness.

Lasseters has developed and implemented a sophisticated range of player protection measures which address every concern raised about problem gambling behaviours. Similarly, other regulated and licensed operators around the world have adopted such measures and their further enhancement is the subject of extensive research and development.

Importantly, these online protection measures exceed any offered in the 'physical' world by gambling operators providing either gaming or wagering services. The player protection measures provided by Lasseters Online are summarised in Table 3.

Table 3. Online player protection measures

| Problem gambling issue | Lasseters' technical safeguards |
|-------------------------------|---|
| Underage gambling | <p><u>Personal Identification Controls</u> Players must be aged over 18 years. Proof of identity, age and address is required to authorise registration. Identification must be provided within 90 days or the account is suspended. Strict player registration procedures are followed each and every time a player logs into the site. Players must use passwords and other individual identifiers.</p> |
| Betting too heavily | <p><u>Bet Limits</u> All games offered by Lasseters Online have minimum and maximum bet limits. In addition, players can control their betting through the option to pre-set personal betting limits. Having set a limit, they cannot raise it without providing seven days notice of their intention.</p> <p><u>Deposit Limits</u> There is a ceiling on the amount that can be deposited each month for wagering. The initial deposit limit is a maximum of US\$500 a month. Players wager with their deposit and any accumulated winnings. The amount players can potentially lose is therefore controlled by their account balance.</p> |

| Problem gambling issue | Lasseters' technical safeguards |
|---|---|
| Excessive Debt | <p><u>No credit betting</u> There is no credit gambling. Players are unable to operate their account to a negative balance. Only approved funds and accumulated winnings can be used for wagers.</p> <p>Credit cards with unlimited lines of credit, such as American Express and Diners Club, are not accepted for opening gaming accounts.</p> <p><u>No immediate access to winnings</u> Players' winnings are issued by non-negotiable cheque and are posted to the registered account holder's address. Alternatively, payments are made through third-party providers.</p> <p>Winnings can not be paid directly into credit card accounts.</p> |
| Losing track of how much is spent | <p><u>Transaction Record</u> A full audit trail of all transactions on player gaming accounts is available at any time. This records information such as the date and time of online play, amounts wagered, won and lost, and any withdrawals requested.</p> |
| Gambling too frequently | <p><u>Self-exclusion facility</u> A self-exclusion button gives players the option to exclude themselves from play for a cooling off period of 7 days. If the button is used three times the players are considered to have a problem and are permanently excluded from registering again. Player tracking systems monitor behaviour and identify potential problem behaviours. These players can then be excluded from further play.</p> |
| Availability of assistance for problem gambling | <p><u>Online counselling support</u> A hotlink is provided to community counsellors, Amity House and similar operations around the world for international players. These services advise on gambling problems, provide self-help information and assistance. In the case of Amity House, their site includes a self-test questionnaire to assist players to identify if they are developing a problem.</p> |

As noted by the Productivity Commission in its 1999 report, online gaming offers many advantages in terms of player protection measures when compared with physical gambling services. All of the protection measures are now in use on Lasseters Online.

Lasseters Corporation contends a process to fully regulate the industry should be put in place making player protection measures mandatory and preventing unscrupulous practices.

Technology for filtering or blocking internet sites is unreliable

While technology can be used to enforce player protection measures it cannot be effectively used to block or filter Internet sites in a way that will restrict access to Australian residents.

“There are technologies available that would allow the Australian Government to apply a ban on interactive gambling, however none of the technologies are 100% effective.” ... Com Tech Integration Services, March 2001

Two technical studies reported in March 2001 remain the most up-to-date technical analysis of the potential for this technology. These studies were *Options and Impacts of Blocking Interactive Gambling Content* by Com Tech Integration Services under contract for NOIE and The Gartner Group’s *Blocking Online Gambling – Technical Study*. Both studies found that while there are technologies available to allow internet content to be blocked, none are 100 percent effective.

The Gartner Group found that filtering or blocking access to online gambling sites has significant technical flaws. The report identified four types of filtering - IP Blocking, List Blocking, Content Blocking and Rating but found that all could be avoided simply.

At present, complaints referred to the ABA concerning Internet gaming sites are investigated and recommendations made to service providers to improve filtering software. However, the Gartner Group report outlines many technical problems with filtering or blocking Internet content given the Internet’s primary function is to facilitate broad, unfettered and frequent exchanges of information. The Gartner Group makes the following observations.

Blocking Internet Protocol (IP) addresses is not feasible: Hosting services can provide many web sites from the same IP and blocking an IP address with multiple web sites will block all the web sites at that IP address.

List blocking can lead to content being incorrectly classified: It involves the comparison of a request for information against a pre-determined list, such as IPs or Universal Resource Locators (URL). However, they are created using programs which search the Internet and sometimes misclassify content. For instance list blocking might block IPs or URLs classified by content type, such as gambling, but might not block anything related to gambling.

Content blocking using keyword filtering can also misclassify content: It can use broad categories which are ineffective for blocking a particular site or type of site.

Rating and Classification Filtering does not work at a broad level: It utilises software designed for personal use and has significant performance and scalability problems when executed in a high performance environment, such as an Internet Service Provider.

The Gartner Group also identifies approaches used to avoiding filtering, such as Peer-to-Peer communities that allow the establishment of communities – such as a group of users – which cannot be detected by filtering.

Additionally a URL can be disguised through the use of a program which converts all words in the URL into binary numbers which can pass through filters. The URL can also be disguised using a proxy server which masks the URL's identity and use ports which are not monitored by filtering software. Site owners can use additional strategies such as constantly changing IP addresses to bypass filters, using encryption technology to establish secure connections which cannot be blocked and using streaming media or satellite technologies to bypass blocks and filters.

Implications for the Review

The implications of these findings for the review are that:

- Both the Government's consultants and independent, world leading technical consultants agree that the technology available to block Internet content is not reliable.
- There is proven technology available which effectively provides online player protection safeguards which prevent problem gambling.
- Technology can effectively address all the major indicators and risks of problem gambling.
- The safeguards are effective at a service provider to player level.
- Technology for blocking content at an ISP level has been unreliable as techniques are readily circumvented by experienced offshore operators.

The feasibility of and capacity to regulate financial transactions associated with the provision of interactive gambling services

Independent advisors agree that regulation through financial transactions is unreliable

Merchants can bypass filtering systems and there are problems for credit card processors in successfully identifying if a payment is being made for online gambling.

The Gartner Group's findings on the ineffectiveness of blocking and filtering technologies also apply to the feasibility of regulating or blocking financial transactions on the Internet.

The Gartner Group found there are technical problems with attempting to block credit card payments. Merchants can bypass filtering systems and there are problems for credit card processors in successfully identifying if a payment is being made for online gambling. In addition, gambling sites can offer other payment methods apart from online payment. Payment can be made by phone using a credit card or other methods of funds transfer. A cheque can be paid up front to a gambling account with credits then drawn upon by the player.

Following the recent withdrawal of services by some credit card providers to online gaming providers in offshore markets, new providers have quickly emerged to take their place. For instance, entities such as FirePay and NETeller provide payment facilities in offshore markets.

These payment providers act as intermediaries, accepting credit card payments and electronic funds transfers and then crediting accounts which can then be used with online gaming operators. In addition there are other electronic money products in use which allow for the electronic storage and transfer of funds.

A report by authoritative Las Vegas lawyer, Mark Schopper, *Internet Gambling, Electronic Cash & Money Laundering: The Unintended Consequences of a Monetary Control Scheme*, also points to the dangers of restricting traditional payment methods.

Schopper found that this can result in the emergence of new financial instruments and processes. These can offer players the highest levels of security but may not meet the demands of regulators because they also offer completely anonymous and untraceable transactions.

The new payment mechanisms can also allow for immediate payoffs, similar to those in physical casinos, increasing their attractiveness to online players. Schopper states that the new methods, because they are untraceable, could be used as a money laundering tool and states "it would be nearly impossible to stop its use without pulling the plug on the entire Internet (and maybe not even then)".

Copies of the papers outlined by The Gartner Group and Mark Schopper are available on request.

Implications for the Review

The implications of these findings for the review are that:

- There are numerous ways for internet gaming service providers to bypass financial transaction barriers.
- Each time an issue arises, it creates a new business opportunity on the Internet, such as happened with the growth of online financial intermediaries.
- The most effective method of managing financial transactions for online gaming is through regulation at a service provider/player level.

3. Other issues

There are now 1,800 online gambling sites operating from many jurisdictions. Any attempt to prohibit online gambling would have to consider the position of each of these jurisdictions

In the Call for Submissions, the DCITA notes that the IGA currently makes it an offence to provide online gambling services to Australian residents but that the Minister for Communications, Information Technology and the Arts has the ability to widen the offence to include the provision of such services to people in a “designated country” under the so called ‘Good Neighbour Policy’.

It is important to recognise that Internet casino gaming is only a part of the total Internet gaming sector and an even smaller part of the total gaming industry. Because it is a small, niche market, and because of the high costs involved in the business operation, it must operate globally to be financially viable.

Its global spread does not indicate an attempt to secure market domination, rather a need to meet a comparatively thin spread of consumer demand.

Since the introduction of the IGA, Lasseters Corporation’s entire player base is located overseas.

Lasseters complies with the legislative and regulatory requirements of each of the countries where it provides services to respect social, cultural and technological needs.

We are concerned however that any attempt to widen the powers of the ‘Good Neighbour Policy’ will significantly impact on the global market for Lasseters’ services. An extension to this policy appears unjustified based on:

- the move by many developed nations, including the UK, to regulate rather than prohibit online gaming
- the fact that in the past two years, no countries have sought to have access to their population banned

Lasseters Corporation can see no advantage to Australian residents in the Minister seeking to extend the IGA to another designated country.

4. Recommendations

The IGA has been unsuccessful in prohibiting online casino gaming but successful in presenting new opportunities to offshore operators, including under regulated entities, who now provide services to a growing number of Australians

Lasseters Corporation makes the following recommendations to the review of the IGA:

- Regulated online casinos from around the world which meet the AUS Model standards of regulation for player protection as a minimum, should be included among the exemptions to the IGA. It is only through regulation that the government can be assured that player protection is provided.
- DCITA should take a proactive rather than reactive position on managing online player behaviour and minimising risks. Instead of waiting for complaints, promote greater consumer awareness for the differences between regulated and unregulated or under-regulated internet gaming service providers.
- Content blocking strategies and financial transaction controls are best regulated at the service provider/player level rather than an ISP level. Proven technology exists to achieve these standards of control and prevent problem gambling.
- The system of State and Territory regulation of Australian online casino operators should be maintained.
- There should be no extension to the 'good neighbour policy' within the IGA. The IGA in its current form has not been successful in prohibiting online casino gaming in Australia, therefore the Act should not be widened to include designated countries.
- Through regulation, the government can provide options for players that will support reduced problem gambling and Lasseters supports this objective. However ultimately, it must be recognised that players are responsible for managing their gaming behaviour. Prohibition simply encourages players to seek alternatives outside a regulatory framework and thereby increases the risks.

References

Australian Bureau of Statistics, "Gambling Industries, Australia", July 2002

Australian Casino Association, "Australians continue to bet online", media release, February, 2002

Bear Stearns & Co Inc, "Without credit cards can e-gaming survive:

Bear Stearns & Co Inc, "Examines the latest hurdle for online gaming", 2002

Bear Stearns & Co Inc, "E-Gaming: A Giant Beyond Our Borders", 2002

Christiansen Capital Advisors, LLC and The River City Group, "E-Gambling: Wagering on the Internet", 2002

Datamonitor, "Global online gambling", 1st edition, 2001

Gartner Group, "Blocking Online Gambling – Technical Study", March 2001

Hitwise, "Hitwise Online Gaming Report: Australian Internet Traffic in the Entertainment – Gambling Sector: February – December 2001", 2001

Internet Gambling Licenses Database, www.gamblinglicenses.com, 2003

Options and Impacts of Blocking Interactive Gambling Content, Com Tech Integration Services Pty Ltd, March 2001 (DOCITA – 2014)

Productivity Commission, "Australia's Gambling Industries", 1999

Productivity Commission, "The Productivity Commission's Gambling Inquiry: 3 Years On", Gary Banks, November 2002

Schopper, Mark D, "Internet Gambling, Electronic Cash & Money Laundering: The Unintended Consequences of a Monetary Control Scheme", 2002.

Preliminary findings dated 14 April 2003 of the Lasseters Player Survey under the SPIRT Grant by the Australian Research Council to Professor Jan McMillen (Australian National University) Grant No. C0002296