



department for
**culture, media
and sport**

The use of dormant betting accounts and unclaimed winnings

A report by Don Foster MP for John Penrose MP, Minister for
Tourism and Heritage

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Executive Summary

This report deals with two distinct situations in gambling in which money owed to clients is never collected: these are **unclaimed winnings** and **dormant accounts**. It examines these two areas, and assesses whether there is a legitimate and worthwhile case for using this uncollected money to fund improving sports provision.

Unclaimed Winnings

Unclaimed Winnings mainly occur through betting transactions in **bookmakers shops (Licensed Betting Offices) or through an on-course bookmaker**. There are many circumstances when clients do not immediately collect their winnings. The most common is through a **void bet** (where a horse does not run or when the bet was late in being placed). With regards to collecting winnings, a customer can usually collect them from a bookmakers shop at any time after the event has occurred so long as they can produce a valid betting slip. Similarly on-course bookmakers allow customers to send their slip to a central office where winnings can be sent to them.

All major high-street Licensed Betting Offices (LBOs) use an **EPOS (Electronic Point of Sale)** system to electronically document and place a bet (done through a manual process known as 'translation'), determine odds and calculate winnings.

However, through writing this report it surprised me that unlike large supermarkets or retail chains, individual betting shops owned by large gambling organisations are more independent than might be imagined. Firstly, I have learned that most EPOS systems do not currently hold data regarding the sum of unclaimed winnings (although I have been advised that this would be relatively easy to change) and secondly that individual shops are not linked electronically together, with data being processed manually to head office.

Dormant Accounts

The term 'dormant accounts' normally only applies to **online or telephone (remote) betting functions**, where a customer deposits money into a betting account.

The reasons why an account becomes dormant can be as serious as the death of the account holder, or as mundane as sheer forgetfulness. There are also variations in how organisations define dormancy (definitions range between 3 and 12 months of inactivity), and whether they see money in such accounts as belonging to themselves or their customer.

When an account has remained dormant for a period of time, most betting operators will contact their customer with marketing emails and encourage them to use the money in their account. This is unless the customer has chosen to opt out of such communication. Through my discussions with the industry I understand a larger percentage of customers than might be expected opt out of such communications.

At present some organisations place money from a betting account into separate ring fenced accounts, which while protecting them from financial risk, still allows the organisation to gain interest. Once the account is declared dormant or in the case of high street bookmakers the money is unclaimed, many organisations absorb these funds into their profit line paying tax and levy in the process. It must also be noted that some betting organisations charge an administration fee for inactive accounts, which would essentially see the money in the account trickle over into the organisations profit line, depleting the funds held in the account.

Exclusions

Through writing this report it became clear to me a number of areas should be excluded from any possible actions following this report. These include the **national lottery, bingo, casinos, on-course bookmakers, society lotteries and church fetes (tombola's/raffles)**. Alongside this there are a number of areas which are under consideration to be excluded, but will require further evidence and evaluation. These include **football pools, small independent bookmakers (those with shop numbers below 5)**.

Financial Assessment

In the course of preparing this report I have formally asked each of the commercial betting operators I have spoken to for a financial breakdown of the amounts of money involved in dormant or similar accounts. The majority have refused, either on the grounds of commercial confidence or because they claim to be unable to produce the figures.

It is my view that regardless of the decision on whether or not to proceed with this policy, **the Gambling Commission should urgently consider including returns on this issue as part of their standard regulatory returns**. After discussions with the Gambling Commission, I recognise that this may be problematic and that further discussion would need to take place. But I do believe there is scope to implement such a system under section 78 of the Gambling Act 2005, which enables the Secretary of State to attach general licence conditions.

While I have been not received figures from Licensed Betting Offices at this stage, I have referred in this report to figures from Hong Kong and the National Lottery.

In **Hong Kong** unclaimed horse race winnings over 60 days old are donated to a Jockey Charitable Trust which in **2009/10 amounted to HK\$51m (£4.1m)**.

The **National Lottery**, which allows customers to collect winnings up to 180 days after the draw, saw unclaimed winnings amount to **1.5% of sales or £78.2m in 2008/2009**.

Proposals

After identifying the specific areas in which money is available, and to which organisations any subsequent action should be applied to, I submit the following recommendations.

High Street LBOs - My preference is to consult with the high-street betting operators for a **voluntary scheme** with an absolute requirement that they put in place a system to accurately record the amount of unclaimed winnings they have.

However, if no agreement can be reached then I would look towards enacting legislation requiring them to **contribute a proportion (75%) of their unclaimed amounts. They would retain the rest. This would be on the understanding that they would be liable to pay the customer if they returned to collect their winnings.** A winning would be classed as unclaimed 18 months after the event on which the bet was placed.

Remote gambling - My recommendation is for a system where the operator identifies their own figures for money in dormant accounts on an annual basis, and once again **the definition of dormancy would be 18 months.** This would be certified by means of an accountant's letter or similar condition. **My view is that the operator would then provide 75 per cent of the total amount of money identified for the fund and would then keep the remaining 25 per cent, to be added to their profit line in line with existing practice.**

Overseas - I am firmly of the view **that this provision should apply to all regulated gambling operators who legitimately conduct their business in the UK (UK, EEA, or White-Listed) or where a secondary licence has been obtained.** I do not believe that there is any case to distinguish between UK-licensed and overseas-licensed operators for these purposes. There is no merit in a policy which applied only to UK-licensed operators and it would be unfair to impose this policy only on those who operators who are regulated in the UK. Therefore, I would not be able to support its introduction on such a basis.

Other recommendations - If it is decided that the actions outlined in this report are not to be implemented or are only to be implemented at a later date, I would still suggest certain changes need to take place. These would include a **change to Gambling Commission regulatory rules**, to ensure that data on the size and scale of unclaimed winnings and dormant accounts is fully reported by all those covered by the recommendations above. As a minimum there will then be a formal and official evidence base.

There are two possible options to implement this:

- via an additional licensing condition imposed on bookmakers by the Gambling Commission, or
- via the Secretary of State imposing a licensing condition on bookmakers by Regulations.

Having discussed the issue with DCMS officials who have consulted the Departments legal advisers and the Gambling Commission I recommend that this is best achieved by the Secretary of State making Regulations under section 78 of the Gambling Act 2005 ("the Act") which allows him to impose a 'specified condition upon operating licences.'

I am aware that bookmakers may find the initial outlay of upgrading their IT prohibitive so I suggest LBO's are given twelve months in order to bring their operating systems and/or

software into line. This twelve month grace would more than account for the costs of the necessary software upgrades.

Government could also consider recommending best practice to online operators on how they should manage inactive accounts. This could include operators automatically returning unused funds after a certain period of time and a number of regular contacts to the customer to remind them money still exists in their account.

Legal, Tax and Levy issues

Legal – While I understand and accept many betting organisations have strict and varying terms and conditions, my firm view is that the variation in such terms and conditions should not prevent the successful implementation of this policy. Instead I believe **it will be possible to lay a broad definition of the accounts and time-periods that should fall within scope, over the top of companies’ existing terms and conditions.**

Tax - There is currently a modest tax take for HM Treasury from the tax paid on the increased profits caused by the betting operators adding unclaimed winnings and the contents of dormant accounts. Without the proper evidence from operators it is difficult to quantify this. **If the project is taken forward this can be explored with HM Treasury in more detail as the policy develops.**

Levy - Betting operators have also pointed out that there will be a reduction in Levy payments, given that operators’ profits made on horseracing bets are subject to Levy contribution. It is difficult to quantify this because the operators will not provide the information, but my estimate is that the potential loss to the Levy could not be more than £400kper annum. (This is based on an assumption of £10m of unclaimed winnings and horseracing betting accounting for around 40% with a Levy rate of 10% of gross profits). In the current climate, and with the wider changes to the Levy currently under consideration, I do not believe that is a significant reason not to act.

Potential Recipients

My strong view is that this report should not make a recommendation on the specific good causes the money is used for or the best route for the dissemination of funds. Ahead of addressing the practical and technical issues involved in implementation this would be an unnecessary distraction. The text in the Coalition agreement refers to ‘*...improve local sports facilities and support sports clubs*’ and this process has confirmed my view that this is the most suitable direction. For completeness though this report does outline some of the existing avenues for distribution.

I believe that while there are some areas which require further investigation, especially with regards to financial estimates, this report sufficiently establishes a basic framework and structure on which to proceed further.

FOREWORD

Consumers in the United Kingdom arguably have the easiest access to the most sophisticated betting market anywhere in the world. At the same time, betting operators here are not required to take action with unclaimed winnings and funds in dormant accounts, as is the case in different jurisdictions. It is here that I believe a change can be made.

The policy of using money held in dormant betting accounts and from unclaimed winnings for good causes was put forward in the manifesto on which the Liberal Democrats contested the General Election of May 2010. On the formation of the new Government, this policy was included in the Coalition agreement. The wording of the text states:

'We will use cash in dormant betting accounts to improve local sports facilities and support sports clubs'.ⁱ

This policy is included within the Departmental Business Plan launched on 8 November 2010, under the section on creating a sporting legacy from the Olympic and Paralympic Games. Section 5.3 on 'Supporting sports facilities and clubs states':

'Investigate how to use cash in dormant betting accounts to set up a capital fund to improve local sports facilities and support sports clubs (by December 2010) Announce findings of investigation, and begin to implement (by January 2011).'

I was delighted to be asked by John Penrose MP, the Minister in the Department for Culture, Media and Sport with responsibility for gambling, to carry out a swift analysis of the best way of achieving this policy goal and to make appropriate recommendations to him.

Following discussions with John Penrose and others, it was agreed that the use of unclaimed winnings would also be considered in this report. Hence it is important to note that it deals with two distinct situations in gambling in which money owed to clients is never collected: these are **unclaimed winnings** and **dormant accounts**. This report examines these two areas, and assesses whether there is a legitimate and worthwhile case for using this uncollected money to fund improved sporting provision.

I recognise the wider policy context in which this proposal needs to be seen - such as potential changes in the operation of the Horserace Betting Levy and in the way that off-shore betting operators are treated. Wherever appropriate I have flagged such issues and the wider policy context. However, the remit of this report does not go into the detail or merits of this context, nor does it make recommendations on them.

PRINCIPLES

In carrying out the analysis of the issue on what new approaches could be taken with the funds from dormant betting accounts and unclaimed winnings, I have been informed and guided by a number of broad principles. These principles guided my informal consultations, the drafting of this report, and in particular the specific recommendations I have formulated. These principles are:

- The technical achievability and the size of the sums that might be returned are key issues in determining the recommendations. Expressly, we should not pursue the policy unless we can be confident it will deliver real and lasting benefit.
- The results should not create a disproportionate burden additional on businesses – particularly the smallest.
- The diversity of the betting and gambling sectors should be respected and recommendations tailored appropriately.
- We should avoid the creation of new bodies – either at central government level or at arms' length. But instead focus on using existing mechanisms where they are effective and fit for purpose.
- There is no automatic assumption of the need for legislation. Where other practical and voluntary routes exist they should be used.
- Whatever the conclusions and possible recommendations, individual consumers with unclaimed winnings or dormant accounts should not be prejudiced in any future claims on what they rightly see as their property.
- Whatever the course of action ultimately decided, it should not have the unintended consequence of operating to encourage consumers to bet more than they would otherwise intend.

I must also highlight that under the terms of devolution, gambling is generally a reserved policy for the United Kingdom administration in relation to Wales and Scotland. In preparing this initial analysis I have not consulted officials in Scotland, Wales or Northern Ireland but, depending on the decisions taken by Ministers, consultation with the devolved administrations may form part of the next stage of the process.

UNCLAIMED WINNINGS

In most forms of gambling winners will quickly receive their winnings. On-line gambling winnings reach a client's account seconds after the event on which the bet was made. Fruit Machines pay out almost as quickly, as do Lottery Scratch Cards once claimed in-store¹. In casinos and bingo halls, winnings can be collected at the end of a session. At a race course, the Tote² or the on-course bookmaker will pay out soon after each horse or greyhound race. The same applies in an off-course bookmaker's shop, if the client has waited for the end of the race or event on which the bet was made. A winning bet can be, and often is, paid out very quickly.

How unclaimed winnings occur

There are many circumstances when clients do not immediately collect their winnings. In a surprising number of cases, the winnings haven't been collected after, three, six or nine months or even longer. The level of unclaimed National Lottery prizes (1.5% of sales or £78.2m in 2008/2009) and unclaimed on-course Tote prizes (£944,000) illustrate the point.

Sometimes clients may not know that there is money they are entitled to collect. The most frequent are **void bets**. If a client bets on a particular horse to win a race but it doesn't run, the client is entitled to reclaim the stake. Similarly, if a client makes a bet after a race has started, the client is not entitled to any winnings that may be earned but *is* entitled to the return of the stake because, once again, the bet is void. Quite often the stakes for void bets are not reclaimed.

There are also a small number of cases in which an on-course or high-street betting operator mistakenly gives a customer a different bet to the one he asked for. Where this results in a win, the consumer is likely to be unaware that he has inadvertently won and so will not collect his winnings. Betting operators have told me that they do not consider such a case to be an 'unclaimed winnings' in the usual sense, but rather an administrative mistake.

Procedures to deal with unclaimed winnings

In light of this, some areas of licensed gambling in the UK already have procedures to deal with these issues. For example, in the UK, the **National Lottery** has a simple system; winnings that are not claimed within 180 days cease to be valid. ((The licence condition which refers to unclaimed prizes are in Schedule 8 of the Third National Lottery Licence (page 120) this can be found on the National Lottery Commission website here: http://www.natlotcomm.gov.uk/assets-uploaded/documents/as-at-1-june-2011_1308046676.pdf. The 180 days isn't explicitly stated in the licence. However, it is in the game rules and other documents that are approved under the relevant licences.) The money that would have been won is passed on to the "Lottery Good Causes".

¹ Large National Lottery Scratchcards win have to be claimed from the National Lottery Operator.

² The Horserace Totalisator Board ("the Tote") ceased to exist on 13 July 2011 and all its assets, rights and liabilities were transferred to a successor company which was granted a 7-year exclusive licence to carry on pool betting business in connection with horse race on approved horse race courses. The shares in the successor company were subsequently sold by the Secretary of State to the parent company of Betfred.

Other countries with a similarly strong betting market and culture have their own specific procedures for dealing with unclaimed winnings. For example:

- In **Hong Kong**, horse race winnings which are unclaimed after 60 days are automatically passed to the Jockey Club Charitable Trust. In 2009/10 this amounted to HK\$51m (£4.1m)

However, in most cases of gambling in the UK where the winnings (or stakes from void bets) are not automatically returned to the client, there are rarely clear rules about the time that must elapse before payments will no longer be made. In **bookmakers' shops**, winnings can be collected almost on request as long as a valid betting slip is produced. **On-course bookmakers**, in addition to accepting valid betting slips, also allow for the slip to be sent to a central office to be claimed at a time after the event. In some cases smaller on-course bookmakers even pass over winnings to another bookmaker when they leave the course, notifying the customer that they can collect their winnings from another location. Ultimately bookmakers, both on and off course, allow customers to collect their winnings at any time.

All betting operators – from small independent on-course bookmakers, the big chains and the on-line operators - have stressed to me the lengths they go to ensure that rightful winnings are collected or re-used. The instructions for this process are clearly shown on the back of the betting slip. A number point out that this money is their customer's and that it is directly in the interest of maintaining a positive on-going relationship to ensure that winnings are returned promptly and correctly. Others, not least the Association of British Bookmakers (ABB) has argued strongly that unclaimed winnings belong to the bookmaker until they are claimed by the customer. However, interestingly in the autumn 2010 ABB newsletter, the association seem to have re-thought this view, stating that winnings "belong to winning punters." It is therefore becoming clearer to me that unclaimed winnings do not, as a legal or conventional right, belong to the bookmaker.

Despite this great variation in approaches and definitions, in writing this report I have not found any suggestion that betting operators are using illegitimate or underhand means to hold onto winnings.

Identification of unclaimed winnings

All major high-street Licensed Betting Offices (LBOs) use an EPOS (Electronic Point of Sale) system to electronically document and place a bet (done through a manual process known as 'translation'), determine odds and calculate winnings.

In the case of High Street LBOs where they are part of a major gambling firm, each shop, despite being part of a wider chain, operates more independently than might be supposed in terms of their EPOS capabilities. The shops are not electronically linked to head office and in effect operate in isolation, completely unlike supermarkets or other retail outlets. At the end of each day there will be a reconciliation of the day's business and information will be transferred manually to the head office.

DORMANT ACCOUNTS

The term 'dormant accounts' normally only applies to **online or telephone (remote) betting functions**. When a customer signs up to an online or telephone betting service, they must create an account documenting their details and verifying their age. Therefore, unlike on or off course betting, the customer's details are known to the betting company and are therefore, in theory, traceable. The customer must then transfer money (of at least a stated minimum amount) into an online betting account with that particular company. Usually there are a number of separate accounts for a player to transfer money to, for example sports, gaming, casino, poker. Once the money has been transferred to a particular account, the customer can then place bets or gamble on an online gaming service. Any winnings will be immediately transferred to the customer's account from where the bet was placed.

The reasons why an account becomes dormant can be as serious as the death of the account holder, or as mundane as sheer forgetfulness. There are also variations in how organisations define dormancy:

- Betfair stated that they consider an account to be inactive - but not yet dormant - if it is not used for 3 months.
- The Gambling Commission defines 12 months as the minimum for an account to become dormant.

How dormant or abandoned accounts occur

There appears to be as much variation in how dormant or abandoned accounts come about as in the case of unclaimed winnings. Betting operators have told me that these reasons can include:

- With the relatively recent rise in on-line betting there are people who create numerous accounts with on-line providers and then move their betting activity across the field, eventually finding a favourite and then not bothering to formally close other accounts, trusting that they will wither away.
- In a very competitive market-place consumers will move their activity between operators to take advantage of special offers, favourable odds and loyalty schemes. The practical effect will be that some accounts are not used very often.
- The large number of introductory offers or 'free bets' means that new customers are encouraged to create accounts which may not ultimately be used beyond the introductory offer.
- Some people may use an on-line account only on big occasions – such as the Grand National, World Cup, and FA Cup Final. Whilst these accounts may seem to be dormant for much of the year, in fact they are as active as the customer wants them to be.
- Work, extended periods abroad, or a change in financial circumstances or lifestyle may result in accounts not being used for a period of time, but where the customer does not wish to formally close the account.
- Account holders may simply choose not to use an account any longer.

- Accounts may become formally redundant on the death of the account holder.

Procedures to deal with funds in dormant accounts

When a customer has not used their account for a period of time, it is standard industry practice to contact on-line account holders by e-mail (unless they have opted out of such contact) to advise them of special offers and to remind them of the existence of their account.

Betting operators use a variety of methods to contact customers and encourage them to reactivate their accounts. These include offering customers free bets and maintaining strong consumer knowledge in order to know which customers are interested in certain sports or events and contacting them to remind them when they take place.

Alongside this however, a number of well-known betting operators are also charging an administration fee. For example one on line operator charges a fee of 10 per cent on unused money in their online accounts, presumably as both an incentive on consumers to keep their accounts active and to reflect what the operators may see as their increased operating costs and another charges £2 or 5% each month (whichever is greater) on unused balances after 12 months of inactivity. This ultimately means that over a long period of time betting operators are diminishing, and even eradicating customer funds while also gaining interest on these accounts.

Similarly, some operators place money held in a betting account into a ring fenced account. This diminishes any financial risk with customer's money, as these funds are kept separate from any business assets but also usually gives the betting company a profit boost as any money left in an online betting account generates interest for the company.

Other countries also have their own specific procedures for dealing with funds in dormant accounts. For example:

- In **Alderney**, the Gambling Control Commission Regulations require a licence holder to designate an account as inactive if not logged into for twelve months and seek to return the funds to the customer. If this is unsuccessful for an additional 12 months, the customer's entitlement to the funds is extinguished and the funds should be donated to charity. If the customer subsequently contacts the licensee for return of abandoned funds they are refunded from pending donations to charity so long as the claim is verified.

Given the nature of the market and business involved, I do not believe that there is any evidence of betting operators deliberately seeking to maintain large numbers of dormant or abandoned accounts in order to ultimately retain the funds. The reverse is much more likely to be true. However, there is no doubt that via administration charges and interest accrued, almost all operators benefit financially to some degree from these accounts. Although not necessarily to the same degree to which they would benefit were the accounts to be active.

What happens to this money at present?

If the efforts described above to return unclaimed winnings and to reactivate dormant betting accounts are ultimately not successful, the betting operators have confirmed to me that after a variable period the result is that through an accountancy procedure those funds will simply revert to their own profit line. Once included there, the funds will be liable to tax and levy contribution from profits on bets on horseracing, according to the regular procedures.

My view is that there is a strong case to be made that as long as every reasonable effort has been taken by the betting operator to contact the person and get them to activate their account or to collect their winnings, that good causes have a better call on those sums of money than the betting operator's profit line.

EXCLUSIONS

I have completed this report without changing my view that the principle of using money in dormant betting accounts and others for good causes is both right and justified. Whilst I have found no evidence of bookmakers deliberately holding onto winnings or seeking to increase the numbers of dormant accounts, neither have I been convinced of their arguments about the impracticality of identifying and transferring such funds.

At the same time I do not think that it would be appropriate or cost-effective to focus policy on how to deal with individual accounts or individual instances of unclaimed winnings. I believe that this report shows that there are significant sums of money in such accounts, but that the best way to relate to these is at the overall company level, not to get involved in the details of individual shops, consumers or accounts.

With regards to the accumulation of unclaimed winnings, I recognise that there are significant parts of the betting and gaming sectors which it would not be either proportionate or appropriate to include within these recommendations. This is primarily because of their size, in recognition of – in my view - the disproportionate burdens that the current Gambling Act licensing structure places on smaller-sized businesses, and the fact that surpluses are already directed to good causes. My view is that a number of areas should be excluded from further consideration in terms of this policy.

On hearing evidence from the **National Lottery Commission** I have taken an early view that the National Lottery should be excluded from the scope of this report. I take this view in the light of the very strict rules and short time-limits (typically six months) for consumers to make claims on wins, as well as the fact that the unclaimed funds are already diverted to good causes, rather than Camelot's profit line.

There are a range of areas where the likelihood of unclaimed winnings is small and I would consider these proposals a disproportionate burden. These areas include:

- Bingo
- Casinos
- On-course bookmakers
- Society lotteries
- Church fetes (tombola's/raffles)

I am minded to exclude football pools from the proposals. Sportech, which operates the Football Pools, has indicated that any proposal in relation to unclaimed winnings would not cause it any issues. Its model means that only a very small part of the business is deposit-based. The vast majority of Football Pools sales take place either through direct standing forecasts or through door to door or retailer sales. However, they inform us that all winners are paid automatically so customers do not need to make a claim and there are not therefore unclaimed winnings as held by other operators.

FINANCIAL ASSESSMENT

I recognise that it will be important to establish a degree of confidence in the kinds of sums of money that might be available. This is crucial to whether proposals are likely to be proportionate and effective.

Undoubtedly the best and most comprehensive evidence of the amount of money involved would come from the audited accounts of individual betting operators. Unfortunately, there is no requirement to report the information in this form, and the sums of money involved are merely indicated in the overall profit and loss figures. Whilst there is nothing preventing betting operators including this information in their accounts, it is perfectly understandable, if regrettable, that they do not choose to do so.

In the course of preparing this report I have formally asked each of the commercial betting operators I have spoken to for a financial breakdown of the amounts of money involved in dormant or similar accounts. The majority have refused, either on the grounds of commercial confidence or because they claim to be unable to produce the figures. In businesses with such a strong focus on the profit margin and on turnover, my strong belief is that each operator will know – to some degree of accuracy or another – the amount of money involved.

Despite the unwillingness of some parts of the industry to cooperate there are some indications of the amounts of money involved. For the 2009/10 financial year the Tote had unclaimed dividends for pool betting of £944k.

Betfair have been one of the only betting operators to share data on the size and scale of dormant accounts. I am grateful to them for their openness and willingness to cooperate in the writing of this report. The figures they have provided on the existence of dormant accounts are not included in the published version of this report as they were provided on a confidential basis.

The figures from Betfair, the Tote and the RCPA who were also very helpful, are the most effective sources that we have. Each clearly shows that there is the potential for operators of this scale to be providing several hundred thousand pounds per year into good causes.

I regret that in the main betting operators have not complied with my requests to provide detailed evidence. I think that such inactivity tells its own story. Regardless of the decision on whether or not to proceed with this policy I suggest that the Gambling Commission should urgently consider including returns on this issue in their standard regulatory returns. But in the meantime I believe that the figures supplied by Betfair and the Tote give comfort that this is policy worth pursuing and there is enough evidence to make the case.

PROPOSALS

High Street LBOs

The position with retail operators is complex, not least because I recognise that there are legitimate concerns about the ability of retailers to accurately assess the level of unclaimed winnings, individual sleepers or closed accounts across their shops.

I have considered whether a compulsory (legislative) or a voluntary solution would be more appropriate. My preference is to consult with the high-street betting operators for a voluntary scheme with an absolute requirement that they put in place a system to accurately record what the amount of unclaimed winnings. Given the logistics involved, I am minded to give retail operators twelve months in order to bring their operating systems and/or software into line. I suspect this period of twelve months grace would more than account for the costs of the necessary software upgrades, many of which are already in the pipeline.

However, if no agreement can be reached then I would look towards enacting legislation requiring them to contribute a proportion (75%) of their unclaimed amounts but with the understanding that they would be liable to pay the customer if they returned to collect their winnings. This process would take place 18 months after the event on which the bet was placed.

So in summary, after 18 months 75% of any unclaimed amounts will be given to the government.

Tote/Pool

I believe that all forms of pool betting, including those carried on by the successor company to the Tote under its exclusive licence, should be included in any action in this area. As the successor company to the Tote has been taken into private ownership then any dormant accounts provisions should apply to them in the same way they would apply to on-line and high street operators.

Remote Gambling

I am confident that it is perfectly possible for online operators to analyse simply and cheaply the number and size of accounts involved.

My recommendation is therefore for a system where the operator identifies their own figures for money in dormant accounts on an annual basis and like LBO's the definition of dormancy would be 18 months. This would be certified by means of an accountant's letter or similar condition. My view is that the operator would then provide 75 per cent of the total amount of money identified for the fund and would then keep the remaining 25 per cent, to be added to their profit line in line with existing practice.

I would naturally prefer the total sum of money in dormant accounts to be provided to good causes. However I believe that by giving the betting operators full liability for reimbursing consumers who subsequently wish to reactivate their account or claim winnings, it is possible to justify their holding onto a 25 per cent stake. It is worth adding that they will also be holding onto interest from the contents of these accounts.

I am firmly of the view that this provision should apply to all regulated gambling operators who legitimately conduct their business in the UK (UK, EEA, or White-Listed) or where a secondary licence has been obtained. I do not believe that there is any case to distinguish between UK-licensed and overseas-licensed operators for these purposes. There is no merit in a policy which applied only to UK-licensed operators and I would not be able to support its introduction on such a basis.

I do not have a fixed view on the length of time to define a dormant account. But I am clear that there will need to be a standard definition – at least for these purposes – if we are to avoid betting operators running rings round the policy. I am currently minded to make this period 18 months, to avoid frightening consumers, but also to prevent the account management fees applied by some operators from significantly reducing the funds before they become available for good causes.

Alternative approach

I am conscious that for a range of reasons Ministers may not wish to pursue this route further until a later date. If that is the case, I suggest that nevertheless there are actions which could help advance this issue. Specifically I would suggest a change to Gambling Commission regulatory rules to ensure that data on the size and scale of unclaimed winnings and dormant accounts is fully reported by all those covered by the recommendations above. As a minimum there will then be a formal and official evidence base.

After discussions with the Gambling Commission, I recognise that this may be problematic and that further discussion would need to take place. But I do believe there is scope to implement such a system under section 78 of the Gambling Act 2005, which enables the Secretary of State to attach general licence conditions.

Government could also consider recommending best practice to online operators on how they should manage inactive accounts. This could include operators automatically returning unused funds after a certain period of time and a number of regular contacts to encourage the punter to bet again.

ANNEX A – PRACTICAL ISSUES

In this Annex I identify the key practical issues that will determine whether the proposal expressed in the Coalition agreement and the Departmental Business Plan can be brought to a successful conclusion. In particular the issues surrounding overseas experiences; the identification of the accounts involved; the assessment of the amount of money that may be at stake; the potential tax and Levy issues; and the kinds of possible recipients.

Overseas experiences

Consumers in the United Kingdom arguably have the easiest access to the most sophisticated betting market anywhere in the world. At the same time, betting operators here do not have a monopoly on the way in which unclaimed winnings and dormant accounts are handled in different jurisdictions. There are distinctly different approaches to unclaimed winnings and dormant or abandoned accounts in other jurisdictions where there is nonetheless a very strong betting market and a strong culture of betting.

Hong Kong

Winnings unclaimed for 60 days are transferred to their Jockey Club's Charitable Trust as donations. In 2009/10 this amounted to HK\$51m (£4.1m).

France

The monies are put towards additional pension funding for retired former employees in the racing industry. Around 16m Euro's is also put to fund social and training activities for those employed in training stables. Unclaimed money from the National Lottery also goes to good causes.

Alderney

The Gambling Control Commission Regulations require a license holder to designate an account as inactive if not logged into for twelve months and seek to return the funds to the customer. If this is unsuccessful for an additional 12 months, the customer's entitlement to the funds is extinguished and the funds should be donated to charity. If the customer subsequently contacts the licensee for return of abandoned funds they are refunded from pending donations to charity so long as the claim is verified.

Although far from being conclusive, I think that these examples demonstrate that there is value in pursuing the idea of re-routing funds to good causes instead of betting operators profit lines.

Domestic experience in related areas

In writing this report I have considered the relatively recent developments in areas such as the use of the funds within dormant bank accounts, in order to assess whether there are parallels with the policy issue on dormant betting accounts.

Banks carried out an information campaign 2 years ago to alert the public to the intention to capture funds left in accounts left dormant over 15 years. All liability for the funds is transferred to the government and the fund is a voluntary scheme.

Primary legislation had to be passed to implement this scheme. This was because the Banks had the liability to repay the account holder (with no bar on the statute of limitations) so they insisted on legislation to transfer the liability away from them and instead to the central reclaim fund.

The issue of state aid had to be resolved and the expected amount of funds available should be in the region of £800m which will go to good causes via the Big Lottery Fund. A central reclaim fund has to be set up by the private sector and will be regulated by the Financial Services Authority. An obvious alternative would be a public facility (as they have in Ireland) but that puts the liability with the Government/public body. Some building societies prefer to give half of their money from dormant accounts to charities they support and the rest to the central fund. But all the liability is still passed to the government.

Identification

It is important to be able to establish whether betting operators and bookmakers are able to accurately identify the number of dormant betting accounts and others, such as unclaimed winnings that their business creates.

Unfortunately, the Gambling Commission do not hold figures on the number and size of dormant accounts. It was previously proposed that this data was collected for remote regulatory returns but the proposal was dropped during consultation with the industry. I consider that decision, taken under pressure from the industry, was a mistake and constitutes a valuable missed opportunity which should be rectified at the next available opportunity.

The Gambling Commission's most recent Industry Statistics for 09/10 were compiled from the regulatory returns of licensed operators. This showed that as at 31 March 2010 there were 8,822 licensed betting shops, of which over 80% were operated by the largest five bookmakers. Other key statistics include:

- For the period 1 April 2009 to 31 March 2010 there were 39,710 full time equivalent betting shop employees.
- Betting shops accounted for a betting turnover of £9.2 billion from 1.5 billion bets with gross profits of £1.4 billion. [NB. The betting shop gross profit from gaming machines was £1.3 billion.]
- On-course (including racecourse and dog track bookmakers) turned over £317 million with gross profits of £28.0 million.
- Pool betting (including horse races – the Tote – greyhounds and football) had turnover of £457 million and gross profits of £135 million.

- The Industry Statistics for remote operators are less helpful as they don't distinguish between remote betting operators and those for bingo, casino etc. In addition, it is important to be aware that these are the returns for Gambling Commission licensed operators only, so do not include information about offshore operators that are accessible to British customers. Also during the regulatory return period William Hill and Ladbrokes took their internet operations offshore.
- For the period 1 April 2009 to 31 March 2010 there were 17 million customer accounts, of which 4.3 million were active during the preceding 12 months. The total funds held in all accounts amounted to £288 million.

During my discussions betting operators have been at considerable pains to stress the difficulties in providing reliable information on unclaimed winnings. But I can appreciate that the information and analysis systems deployed by different categories of operators varies greatly between on course, high street, on-line and others. For that reason I deal with them separately in the following sections.

On-course bookmakers

Although they have a rapidly declining share of the overall betting market, on-course bookmakers at horseracing and greyhound courses are still integral and important to the industry. Discussions with such bookmakers have been extremely helpful in determining the process for identifying late or unclaimed winnings.

I understand from those discussions that the typical time for a late pay claim to arrive is approximately one week after the race. The vast majority of late pays emerge within two weeks. The longest time after the raceday is around two years and there is a trickle of claims (approximately three or four a year) that date back over one year. Anecdotally, late claims can result from overly-refreshed customers not realising they have won, or leaving the course before the results of races are known. Bookmakers I spoke to provided good evidence for how they account for unclaimed winnings, which occur relatively frequently but are unlikely to account for significant sums of money. Understandably, the few claims that are not eventually collected they view as occasional windfalls which balance out mistakes and the rounding-up that bookmakers do (e.g. paying a winning customer £20, rather than the technical £19.18 they were due).

Overall the assessment is that there are around 3000 officially late (i.e. not claimed on the day) claims to on-course bookmakers or the track's betting office. With a total of around 29 million on-course bets annually, this equates to around 1 in 10,000 bets taken. I was told that on average there is one unclaimed winning bet at a course racing on any one day. There is no requirement in the various Gambling Commission returns that on-course bookmakers are required to complete to report unclaimed winnings.

High street retailers – Independent

In my discussions with the representatives of small, independent retailers I was told that there is usually no routine process for dealing with unclaimed winnings. Although it is possible for an individual shop manager to carry out a paper reconciliation exercise, and this is usually done at the end of trading day, given the relatively low numbers of unclaimed wins involved, there is no great incentive to record unclaimed wins on a routine basis. This is particularly the case where the expectation is that the claims will be paid out in the following days. My overall view is that shop managers will generally have a broadly accurate, if technologically unsophisticated, view of their on-going liabilities on a daily or weekly basis.

High street retailers – Chain

Of much more interest to me than on-course operators or small independent shops is the way that the big high-street retailers such as Ladbrokes, William Hill and Coral operate their betting shops. These and similar retailers make up the majority of the 8,822 retail outlets (figure based on the Gambling Commission regulatory returns).

At the moment each shop, despite being part of a wider chain, operates more independently than might be supposed, in terms of their inability to react to wider market conditions. The shops are not electronically linked to head office and in effect operate in isolation, unlike supermarkets or other retail outlets. At the end of the day there will be a reconciliation of the day's business and information will be transferred manually to the head office.

Evidence from the OpenBet technology company, which appears to occupy one of the top spots in terms of betting hardware and software, has been extremely useful in establishing the procedures and potential in this area. OpenBet recently acquired the company which supplied the EPOS systems for betting shops. Their goal is to integrate the online and retail systems so that they provide real-time information both at head office and in the betting shops. The creation of unique reference numbers for each individual bet will then allow a full tracking of bets and appropriate reconciliation where a winning bet is redeemed in a different shop to the one in which it was made. OpenBet express that such an upgrade could be done in 'a relatively short space of time' and could allow for unclaimed winnings to be traced and calculated.

OpenBet have told me that their plans to integrate the on-line and shop-based systems are likely to take six to nine months. Although they were at pains to stress that the mergers of the two systems would be at the choice of the betting operators who operate the shops and online systems, it seems unlikely that the operators would not wish to join the systems, given the advantages held out before them though there would be a cost involved. My view is that although OpenBet is not the only operator in this market, the technological advances they are proposing are probably either already being planned by their competitors or are in the offing.

In summary, I believe that there may be genuine technical difficulties in high-street retail chains providing an accurate picture of unclaimed winnings. Although were they to be

sufficiently interested in providing evidence I believe they would quickly be able to find a way of doing this, albeit manually. However, it is likely that the technological advances currently in train will roll-up this issue in the near future at a cost to betting operators though this has yet to be offered or confirmed by the company who supply 4,500 LBO's.

Pool Betting

Pool betting operators, including the Tote (while it existed as a statutory corporation), have been very open with me in their evidence on the identification of unclaimed winnings. At the end of each meeting there is an electronic print-out which sets out in detail the amount of money taken and in particular unclaimed winnings. Allowing for claims at subsequent meetings, this appears to demonstrate that the number of ultimately unclaimed winnings is consistently around 1 per cent of the total. I have no doubt that this would provide an accurate method for assessing the unclaimed winnings across the pool betting system.

Online operators

The position of on-line operators is relatively straightforward. There are no unclaimed winnings online, as wins from bets made through on-line accounts are automatically credited to the consumer's betting account. However as expected, it is clear, from discussions with OpenBet and others, that online operators have very sophisticated data management systems that offer the betting operators unrivalled access to detailed information on the performance, activity and preferences of individual account holders. I suspect that it would require no more than a routine data run to discover the number and size of dormant betting accounts.

What does all this add up to?

I strongly believe that the information required to establish the number of sleepers and/or dormant accounts is either already available, in the case of on-line bookmakers, and in the case of high-street chain bookmakers could be available with a relatively small-scale and inexpensive software adaption. I recognise that the position of on-course bookmakers and small independents is significantly different.

Legal, Tax and Levy issues

Legal

In my discussions betting operators have generally taken great pleasure in telling me about all the pitfalls awaiting this policy. Not least in terms of consumer's claims against the Government for unlawfully taking their winnings when they discover the contents of their unused account have been given to good causes; or the legal action that will follow, when they turn up with a long forgotten winning ticket, to be told that the Government has taken their winnings.

In actual fact the system operated by the National Lottery, which has an absolute cut-off point of six months after which the winnings will not be paid to the holders of the winning

ticket, but will be instead added to the good causes pot, has not run into such presentational problems. There is widespread acceptance of the six-month period, although there is sympathy with those few who fall foul of it. That gives me confidence that there would not be a problem with a similar approach to dormant accounts if it was clearly stated in the terms and conditions.

However, I am aware of the presentational issues surrounding disgruntled consumers and my preference – and the one expressed in the recommendations in Chapter 5 – is for a device to be constructed which places the responsibility for paying out to late claimers firmly on the betting operators, not on the Government or the good causes.

I readily acknowledge that each betting operator has different terms and conditions, such as administrative charges, procedure on non-use of an account and definitions of dormancy. There is no question of requiring or expecting companies to standardise such terms and conditions, which are a natural product of the fierce competition for market share.

However, my firm view is that the variation in such terms and conditions should not prevent the successful implementation of this policy. Instead I believe it will be possible – as described in the Proposals section – to lay a broad definition of the accounts and time-periods that we think should fall within scope, over the top of companies' existing terms and conditions.

My view is that the accounts of those who are deceased should be treated in the same way as other accounts subject to this policy. The reality is that betting operators will only know a client is deceased when they are contacted by the executors of the deceased's estate, when they will then take steps to move any remaining funds to the estate. In all other circumstances the account will only be known to be dormant, rather than incapable of being used. I am of course aware of the sensitivity of perceptions that the Government has seized the assets of dead citizens, so I propose in the Proposals section the same solution as outlined above.

Tax

A number of betting operators have told me that they view the dormant accounts proposal as a backdoor form of taxation and that if the Government wishes to devote more money to good causes it would be more honest to simply raise the profits tax that betting operators already pay. That is a predictable criticism and one to which I believe we have a good answer in terms of the specific link between betting operators and sport.

However it is true to say that there is currently a modest tax take for HM Treasury from the tax paid on the increased profits caused by the betting operators adding unclaimed winnings and the contents of dormant accounts. Without the proper evidence from operators it is difficult to quantify this. This can be explored with HM Treasury in more detail if the project is taken forward.

Levy

Betting operators have also pointed out that there will be a reduction in Levy payments, given that operators profits made on horseracing bets are subject to Levy contribution. It is worth noting, however, that this is only an issue if the Levy continued on a gross profits basis and not if it were turnover based. Again, it is difficult to quantify this because the operators will not provide the necessary information, but my estimate is that the potential loss to the Levy could not be more than £400k per annum. (This is based on an assumption of £10m of unclaimed winnings and horseracing betting accounting for around 40% with a Levy rate of 10% of gross profits). In the current climate, and with the wider changes to the Levy currently under consideration, I do not believe that is a significant reason not to act.

Potential recipients

During the course of writing this report there has been no shortage of suggestions of good causes to which any funds raised could be directed and of organisations willing to oversee this. Examples range from causes closely connected to the sports on which bets have been taken - such as welfare and education for jockeys and stable staff - to gambling care charities, through to community sport facilities.

My strong view is that this report should not make a recommendation on the specific good causes or the best route for the dissemination of funds. Ahead of the consideration of the practical and technical issues involved in implementation this would be an unnecessary distraction. The text in the Coalition agreement refers to '*...improve local sports facilities and support sports clubs*' and this process has confirmed my view that this is the most suitable direction. But for the sake of completeness this section offers a brief overview of the various options.

Causes closely connected to sports on which bets are traditionally taken

The British Horseracing Authority suggested that jockeys and stable staff could benefit from the funds from dormant betting accounts. Examples include care and welfare post injury and retraining. There are two main charities that are specific to horse racing:

- **Racing Welfare**
- **The Injured Jockeys Fund**

It has also been suggested that a '**Racing Foundation**' could be established - similar to the Football Foundation - to distribute monies within the horseracing sector. There would be similar calls in relation to greyhound racing. It may be argued that racing already receives a contribution from these accounts, given that the Levy is based on betting operators' profits, and the sums in question already currently going onto operators' profit lines.

Problem-gambling care causes

Another potential group of recipients are the charities and organisations connected with the support and treatment of problem gambling. Specifically it has been suggested that the Gambling Research Education and Treatment Foundation could get some of the money. Whilst I am not opposed to this in principle there would need to be a firm consideration of the scale of the organisation – which currently has a relatively modest turnover, plus whether the ability of the Foundation to raise funds through voluntary contributions from betting operators and others would be compromised.

Community sport facilities

There is a strong and acknowledged case for any funds raised to be used for the creation or improvement of community sport facilities, possibly through the creation of a capital fund. It has been put to me that one of the possible routes for such distribution could be **Sport England**.

Sport England has developed a strong understanding of localism through its partnerships. It has a comprehensive grasp of what is needed to help as many people as possible in local communities into taking part in and enjoy sport. It is specifically set up to administer grassroots sport funding programmes and it has existing expertise in effective and efficient grant-making.

In addition, its relationships with local, regional and national partners across sport, the public and private sector means that it may also be able to provide further leverage from this investment. Many capital projects it invests in, for example, receive £2 for every £1 of investment. Sport England has stated that it would like funding from this proposal to be distinctive from what they are already delivering, in an area not yet tackled by previous sports funding, and which ultimately would have a positive impact on communities across the country.

Were this route to be pursued, **we would need to make similar allocations to the sports delivery bodies in Scotland and Wales**, if they wish to receive such funds.

There is an obvious attraction in using delivery systems that are already in place and which would not attract significant additional administrative costs. On the downside there is the possibility that some may object to the use of funds which are connected to gambling, even if it is for the benefit of young people. Although the parallel is not completely accurate, the widespread acceptance of Lottery funding suggests to me that this is not likely to be a significant problem.

Other causes

The Football Foundation has made a strong case to me for their use of the money. Although there is not the same traditional link here as there is with horse and greyhound racing, the rapidly increasing prevalence of betting on football makes this route more plausible.

Regardless of the recipient, what principles could be applied to the distribution?

I have said that at this stage I do not believe that there is any benefit in taking detailed decisions on the likely recipients. But there are a number of principles that I would urge Ministers to bear in mind in any subsequent decision. These include:

- Not hypothecating separate sums of money according to the proportions of bets on horseracing, greyhound racing and other sports.
- Avoiding any duplication or replacement of other sources of funding, particularly where those funds already come from betting operators.
- Using, wherever possible, existing distribution mechanisms, to avoid anything more than the bare minimum being spent on administrative costs.
- Certainty that the good causes involved will find instinctive favour with betting consumers.
- Any explicit link between gambling and sport for children.

ANNEX B – LIST OF INFORMAL CONSULTEES

Between 24 August and 11 October we conducted informal consultations with members of the betting and racing industries, the Gambling Commission, the National Lottery Commission and other interested parties.

My thanks go to them all for their cooperation and advice.

(Alphabetical)

Trevor Beaumont	CE, Horserace Totalisator Board
Nic Coward	CE, British Horseracing Authority
Martin Cruddace	Betfair
Mark Davies	CE, Camberton UK
Clive Feltham	Managing Director, GRA Limited
Katie Fuller	Betfair
Neil Goulden	CE, Gala Coral
Robin Grossmith	Chairman, FRB
Clive Hawkswood	CE, Remote Gambling Association
Matthew Hill	Director Strategy, Research and Analysis, Gambling Commission
Richard Ingram	National Compliance Manager – Betting, Gambling Commission
Hugh King	IBA
Will Lambe	Head of External Affairs, British Horseracing Authority
Simon Levingston	General Secretary, Racecourse Promoters Association
Andrew Lindley	Legal and Commercial Director, Horserace Totalisator Board
David Loveday	CEO, OpenBet
Patrick Nixon	CE, Association of British Bookmakers
Ciaran O’Brien	Ladbrokes
John O’Reilly	Ladbrokes
Joe Phillips	IBA
Bryony Sheldon	Head of Consumer Protection and Game Licensing, National Lottery Commission
Susanna Underwood	Director of Communications, OpenBet

ANNEX C – END NOTES

ⁱ The Coalition agreement: our programme for government. Cabinet Office. May 2010

The report has been updated to reflect the sale of the Horserace Totalisator Board (Tote) on 13 July 2011.