



Response to the DDCMS Consultation on Proposals for Changes to Gaming Machines and Social Responsibility Measures (the “Consultation”)

1. Introduction

- 1.1 This Response is submitted on behalf of the Novomatic UK Group (novomatic.co.uk), an integrated group of gaming businesses and part of the global Novomatic Group of businesses.
- 1.2 In December 2016 we submitted a detailed response to the Government’s Call for Evidence on the Review of Gaming Machines and Social Responsibility Measures (the “Call for Evidence”).
- 1.3 We note and welcome government’s view that “the weight of evidence ... justifies government action on B2 machines ...”.¹ We continue to support that view and submit that the correct and appropriate maximum permitted stake for a Category B2 machine is £2.00.
- 1.4 We refer to and support the Response to the Consultation as filed by bacta. Accordingly, we do not repeat the detail of those submissions in this Response, but rather highlight a number of points made.
- 1.5 While we are disappointed that our submissions for changes to stakes and prizes are not being taken forward in the Consultation on anything other than Category B2 gaming machines, we do not propose to revisit each of those submissions at this time.

2. Category B2 Gaming Machines

- 2.1 As the Consultation Document notes at paragraph 2.2, there was widespread support in response to the Call for Evidence for a reduction in the maximum permitted stake for Category B2 machines to £2.00.
- 2.2 We note however that the Consultation states that “the main arguments referenced in these responses [i.e. those supporting a reduction to £2.00] focused on the disparity between the maximum stakes on B2 machines”² and the maximum stake on other gaming machines. While this disparity was recognised in many responses as unjustifiable, the vast majority of calls for a reduction in B2 stake to £2.00, were based on the need to protect consumers and staff and to reduce crime. This is the crux of the matter.
- 2.3 While emphasising that other options can be put forward for consideration, the Consultation sets out 4 specific options for a stake reduction on B2 content.

¹ Paragraph 2.11 of the Consultation Document

² Paragraph 2.3 of the Consultation Document

Projections of the number of players who would be identified as problem gamblers are given for each option. Only the projections for option 4 (a stake reduction to £2.00 on all B2 content), (“Option 4”), indicate a significant reduction in the percentage of players identified as problem gamblers. Option 3 involves a stake reduction to £20.00 on B2 non-slot games and £2.00 on B2 slot games, but the percentage of players identified as problem gamblers under that option is predicted at 42% - significantly above the 19% level predicted to follow a reduction of stake to £2.00 as set out in Option 4.

- 2.4 Each of the 4 options are reviewed in the draft Impact Assessment (the “IA”) accompanying the Consultation. We believe that the IA has miscalculated the impact of a stake reduction to £2.00. For example, we do not think it realistic to project that 25% of income lost as a result of a reduction to £2.00 would be directed to the 150 casinos in the country. That would require customers who wanted to spend more than a £2.00 stake to travel to a casino - which could involve a considerable journey, given that they are only 150 nationally.
- 2.5 Some of the key assumptions in the IA are based on evidence submitted by the ABB in the form of a report by KPMG, which regrettably has not been made available to us, nor to the wider public. This makes it extremely difficult to understand many of the projections apparently made by KPMG, including the suggestion that Option 4 would result in a reduction in revenue to bookmakers of 64.9%.
- 2.6 We have however now seen the extensive and independent analysis carried out by the Centre for Economics and Business Research (CEBR) which looks at a range of options for reducing the level of B2 stake and the behavioural responses that could take place as a result.³ For the reasons set out in the CEBR report and highlighted in bcta’s Response, we believe that the report presents a more realistic and accurate assessment of the impact of a range of possible stake reductions.
- 2.7 One of CEBR’s conclusions is that the most realistic outcome to the betting industry of a reduction in stake to £2.00 would be a loss of £335m, (as opposed to £639m as projected in the IA) and, indeed, that it might be as low as £159m. Further, it is beyond question that the highly innovative betting industry would adapt to a change in environment with new or revived products. Indeed, CEBR views it quite plausible that the majority of the GGY lost on B2 games from a reduction in stake that is then diverted to other gambling channels, would be diverted to OTC activities in betting premises.⁴
- 2.8 Additionally, CEBR found that a reduction to £2.00 would in fact provide an overall net benefit to the wider economy projected at some £45m Gross Value Added and a small net increase in the number of jobs in the economy.
- 2.9 The RGSB provided its advice following the Call for Evidence, confirming the applicability of the long established regulatory precautionary principle to the issue of Category B2 stake⁵. We are confused that it then appears to suggest at paragraph 17vii, that the precautionary principle should in some way be limited to new gambling products, or when significant changes are being considered to

³ Assessing the Potential Impacts of Maximum Stake Reduction on B2 Gaming Machines: CEBR - January 2018

⁴ See CEBR page 6

⁵ Eg para 26 of the RGSB advice

existing products. This does not seem to sit with other statements made in the course of the advice. For example, at paragraph 2 of the Executive Summary it states there is “sufficient evidence of harm associated with gaming machines (primarily B2s) in licensed betting offices (LBOs) to apply the precautionary principle.” On the basis of the evidence before government, this must be right. We are unclear as to why RGSB concludes at paragraph 150iii of its advice that a reduction to £2.00 might not be proportionate given that it might interfere with the enjoyment of those players who play stakes at higher levels. The evidence on B2s and the accepted applicability of the precautionary principle to them outweighs any such concerns. Indeed, the enjoyment of many of those who play other categories of gaming machines is curtailed by some of the current limits on stakes, but that does not seem to have been viewed as a relevant factor by the RGSB in its advice on suggested changes to those stakes.

- 2.10 As the RGSB concludes in its recommendations “it is desirable that any new maximum stakes should be at a sustainable level and not subject to further frequent changes”. This supports a reduction to £2.00.
- 2.11 The RGSB’s responsibilities include that of advising the Gambling Commission. In turn, one of the statutory responsibilities of the Gambling Commission is to advise government. While the RGSB notes in the annex to its advice that the advice was provided to the Gambling Commission, the latter does not itself appear to have provided advice to government. Instead it would seem that the RGSB’s advice has been passed/given direct to government. This is confusing given the terms of reference of each of the two independent organisations and does not aid transparency.

3. Other Category B Gaming Machines

- 3.1 We are concerned at the apparent conflation of Category B3 and B2 games in terms of their impact on problem and at risk, gamblers, as referred to in the Consultation and accompanying documentation. The data produced by the Gambling Commission and which is referred to in the Consultation⁶ includes only a fraction of play on B3 games. As such, the comparison is highly distorted. What is clear from the data is that higher B2 stakes are associated with higher losses.
- 3.2 Further, attempts by the RGSB to extrapolate potential loss rates for Category B3 machines (and indeed Category C machines) using a model, have incorporated inaccurate assumptions and resulted in an inaccurate overview. As the RGSB notes at paragraph 39 of its advice, using averages (as was done in this model) masks the play at the extremes. As noted by CEBR in its report, “Gambling Commission data provides clear evidence that extreme outcomes for the gambler are far more frequent on B2 machines than on the other types of machine featured”⁷.
- 3.3 For the above reasons we cannot agree with the RGSB conclusion at paragraph 126 of their advice that B3 machines “appear in practice to be causing similar average losses to B2 gaming machines and some large losses in broadly similar proportions”. This conclusion is reached on the basis of an incomplete picture and does not refer to the actual number of losses nor the size of those losses.

⁶ Paragraph 3.20

⁷ Page 8

- 3.4 B3 gaming machines are the highest category of gaming machines permitted to be played in AGCs. It is telling that the GamCare statistics for 2016/17 show that only 2% of callers to its problem gambling helpline cited arcades as a location which they used. This is to be compared with 19% who declared that they played machines in land-based betting premises and 50% who used online activity.
- 3.5 We note that government feels unable at present to proceed with the proposal for a new Category B5 machine and we will work with bcta in taking this forward. We believe the machine would be a proportionate and socially responsible addition to AGCs in particular. AGCs are the traditional home of gaming machines – and without innovative product with appropriate protections, these venues and businesses will stagnate.

4. Social Responsibility Measures

- 4.1 We are entirely supportive of the continuing review of social responsibility measures and we will work with the Commission and the wider industry in furthering measures that might be taken. There is a misconception amongst some, particularly when referring to the “hierarchy of gaming machines”, that AGCs are less well regulated and subjected to weaker supervision (whether as a requirement or in practice) than bingo or more particularly, betting premises. This is not the case. Save in relation to the £50.00 regulations (which have been assessed as ineffective) which are applicable to B2 machines in betting premises, the statutory and licence obligations on AGCs in relation to gaming machines are the same as those which apply to betting premises. In practice, the difference is that AGC operations effect far greater supervision and interaction with customers than do betting premises operations. The traditional model of AGC operation is centred on staff engagement with customers - employees circulate the premises floor, rather than being based behind a static counter.

5. Consultation Questions

Turning to the specific questions raised as summarised in the Consultation:

- Q1.** Do you agree that the maximum stake of £100 on B2 machines (FOBTs) should be reduced? If yes, what alternative maximum stake for B2 machines (FOBTs) do you support?

A: Yes. A reduction to £2.00. Please see above.

- Q2.** Do you agree with the government’s proposals to maintain the status quo on category B1?

A: No comment.

- Q3.** Do you agree with the government’s proposals to maintain the status quo on category B3?

A: Please see paragraph 1.5 above.

- Q4.** Do you agree with the government’s proposals to maintain the status quo on category B3A?

A: Please see paragraph 1.5 above.

- Q5.** Do you agree with the government's proposals to maintain the status quo on category B4?
- A:** Please see paragraph 1.5 above
- Q6.** Do you agree with the government's proposals to maintain the status quo on category C?
- A:** Please see paragraph 1.5 above.
- Q7.** Do you agree with the government's proposals to maintain the status quo on category D?
- A:** Please see paragraph 1.5 above.
- Q8.** Do you agree with the government's proposals to increase the stake and prize for prize gaming, in line with industry proposals?
- A:** Yes.
- Q9.** Do you agree with the government's proposals to maintain the status quo on allocations for casinos, arcades and pubs?
- A:** We support the casino industry request for an aligned machine to table ratio of 3:1, capped at 80 machines for both 1968 Act casinos and small casinos under the 2005 Act, with a minimum of 20 machines for small 1968 Act casinos. The vast majority of casinos in the country are currently restricted to 20 machines, a limit that has been in place since 2007 and which is not commensurate with protections offered. This may have an unintended effect on visiting players who have to compete for such a restricted number of machines and who might therefore be unwilling to take the breaks in play they otherwise would.
- Q10.** Do you agree with the government's proposals to bar contactless payments as a direct form of payment to gaming machines?
- A:** No. Society's move to cashless payments continues apace. No other legal consumer facing industry (including retailers of alcohol) has such a complete embargo on the use of debit cards. While there are acknowledged concerns about the implications of direct use of cards on machines, this could provide an opportunity for a form of tracked play, which the Consultation suggests should be considered as a Social Responsibility measure. We believe there is merit in further discussion and consideration of introducing direct use of debit cards on machines. Without it, the machine play industry will wither.
- Q.11** Do you support this package of measures to improve player protection measures on gaming machines?
- A:** Without detail it is too early to comment, but we support the general sentiment that player protection measures should be continually developed and evaluated. Bacta is discussing these issues with the Gambling Commission and RGSB and we are exploring enhanced measures directly ourselves. We are aware that the Gambling Commission is looking to advise on the costs and benefits of introducing a form of "tracked play" on B1, B2 and B3 gaming machines. The last of these are played in a variety of venues, including AGCs which are the traditional home of low stake, anonymous play. The concept of "tracked play" can

have many meanings and it is essential that consideration of that concept is measured, balanced and carried out in an agreed and staged way. Rushing to force an introduction of a particular view of “tracking” could be catastrophic for AGCs in particular and a “one size fits all” approach to all Category B machines would not be proportionate, nor appropriate.

Q.12 Do you support this package of measures to improve player protection measures for the online sector?

A: No comment.

Q.13 Do you support this package of measures to address concerns about gambling advertising?

A: No comment.

Q.14 Do you agree the Government should consider alternative options including a mandatory levy if industry does not provide adequate funding for RET?

A: It is not clear that the current voluntary model is failing. While figures for industry contributions appear in publications, the actual figure, as included in the annual returns submitted by all operators, has not been provided. That overall and anonymised information is in the possession of the Gambling Commission and would provide a clear picture of the level of contributions, rather than restricting them only to the amounts that have been paid to Gambleaware.

Government will be conscious that a levy would entail increased administrative costs in establishing and maintaining an administrator. We think that the correct approach is for Gambleaware and RGSB to confirm the amount they conclude is necessary for RET with specific reference to activities and then move forward on a voluntary basis, noting the total amounts that are contributed. As it stands, we understand that the amount raised and administered by Gambleaware alone is in surplus and is projected to be for some time⁸. We do not suggest that is because too much has been raised, but rather that it underlines the need for a required level of contributions to be determined as an initial step.

Q.15 Do you agree with our assessment of the current powers available to local authorities?

A: No comment.

Q16. Are there any other relevant issues, supported by evidence, that you would like to raise as part of this consultation but that has not been covered by questions 1-15?

A: No.

Novomatic UK

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⁸ Per minutes of the Gambleaware Board of Trustees’ meeting 8 June 2017