

Fixed-odds betting terminals

Executive summary

Spending on fixed odd betting terminals (FOBTs) makes up only 13.6 per cent of the UK's total gambling expenditure. This is less than half the amount spent on either lotteries or online gambling. The amount spent on FOBTs has been greatly exaggerated in the media as a result of confusion about what is staked and what is lost.

Betting shops have not 'proliferated' in recent years. Britain currently has fewer betting shops than at any time since 2003 and has barely half as many as it had in the 1960s.

There is no evidence of a rise in problem gambling since 1999. Rates of problem gambling in Britain are low by international standards.

There is no reputable source for the claim that FOBTs are the 'crack cocaine of gambling'. This term was coined in the 1980s and anti-gambling campaigners have used it to describe virtually every form of gambling in the years that followed.

FOBTs are not jackpot machines and therefore require a higher stake limit for players to get a sufficient sense of risk and reward. Anti-gambling activists have called for a £2 stake limit knowing that this would reduce consumer appeal and amount to a *de facto* ban.

FOBTs are one way for the incumbent betting industry to keep pace with changing tastes in a digital world. Regulation cannot afford to be anachronistic in a market in which punters can place unlimited bets on their mobile phones. Existing regulation and taxation is more than adequate, if not excessive, for a gambling product that is only available in licensed, adult-only establishments.

The background

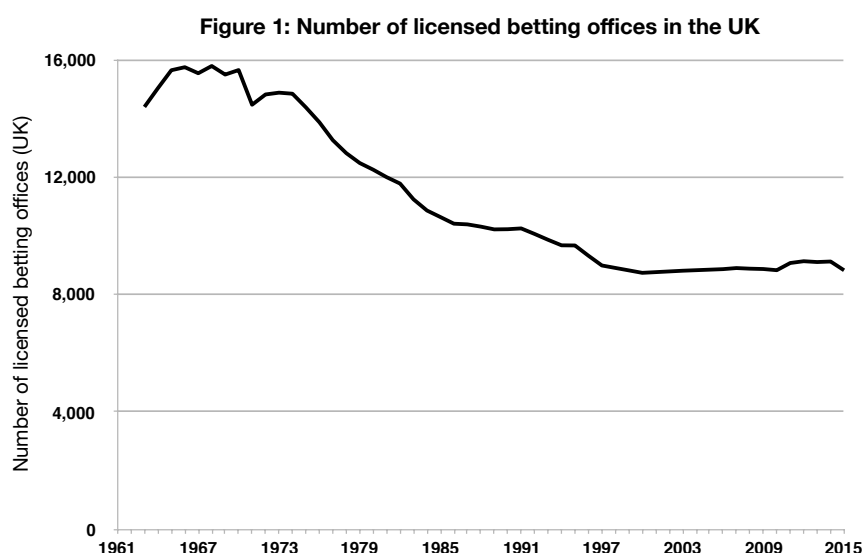
Betting shops and casinos were legalised in Britain half a century ago, but periodic moral panics about gambling continue to surface. The current *bête noire* of anti-gambling campaigners is the fixed-odds betting terminal (FOBT), a machine that allows virtual casino games, mainly blackjack and roulette, to be played in licensed betting offices with a minimum stake of £2, a maximum stake of £100 and a maximum payout of £500. These machines have overtaken over-the-counter betting as bookmakers' biggest source of Gross Gambling Yield, ie. revenues received before overheads and taxes are deducted. Gross Gambling Yield in the bookmaking industry in 2014/15 was £3,201 million, of which £1,702 million came from FOBTs (Gambling Commission 2016). The gambling sector's yields are shown in **Table 1**.

Gross Gambling Yield (2014/15)	
Arcades	£383 million
Bookmakers	£3,201 million
Bingo	£691 million
Casino	£993 million
Online	£3,636 million
State lottery	£3,293 million
Other lotteries	£357 million
Total	£12,556 million

In recent years, FOBTs have been the subject of a heated debate driven by the Campaign for Fairer Gambling (CPG) - also known as Stop the FOBTs - a pressure group founded by the casino entrepreneur who invented Three Card Poker. CPG claims that the machines are linked to problem gambling and 'want FOBTs to be banned in the UK'.¹ Partly as a result of this negative publicity, George Osborne increased the profit tax on FOBTs in his March 2014 budget and bookmakers have introduced a raft of measures to counter problem gambling (detailed below). This briefing paper summarises and updates an IEA report published in 2013 (Snowdon 2013).

Proliferation of betting shops?

It is claimed that Britain has seen a 'proliferation' of betting shops in recent years, driven by FOBT use in low income neighbourhoods (BBC 2011; Walsh 2015). It is not obvious why this should be seen as undesirable since these businesses employ people, pay taxes and provide a service at a time when high streets are struggling. At it happens, however, it is not true. **Figure 1** shows the number of licensed betting offices in Britain since the early 1960s when the industry was legalised. Numbers fell dramatically between the mid-1970s and the mid-1990s. In the last twenty years, numbers have been virtually static.



There was a slight increase in betting shop numbers (of less than three per cent) between 2009 and 2014 but subsequent closures have reduced this total to 8,809. The UK currently has fewer betting shops than at any time since 2003 and has barely half as many as it had in the 1960s, despite significant population growth (Gambling Commission 2016).

There is some anecdotal evidence that there is 'clustering' of betting shops

in some densely populated urban areas where the legal limit of four machines per shop is insufficient to meet demand, but under no reasonable definition have betting shops 'proliferated'. The perception of betting shop growth may be due to shops being relocated to more visible parts of the high street as a result of the post-recession fall in commercial rents.

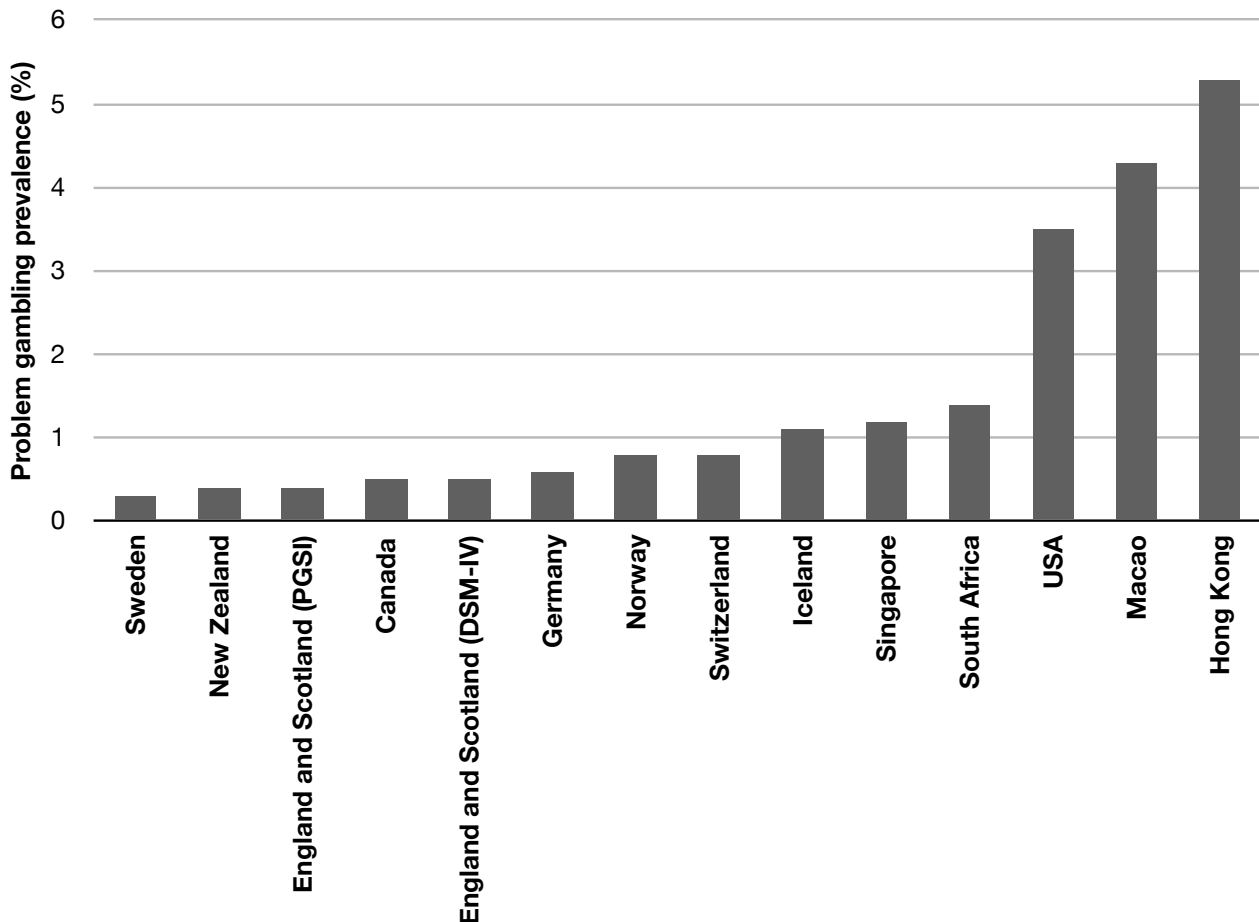
Problem gambling

It has been claimed in the media that the number of gambling addicts has increased, or even doubled, in the past decade (Gallagher 2013). There is no evidence for this whatsoever. Nothing in the available data implies that problem gambling rates have risen since FOBTs became popular in the mid to late 2000s. Three official surveys carried out in 1999, 2007 and 2010 found similar rates of problem gambling at around 0.6 per cent of the adult population. The last of these surveys estimated that there were between 254,900 and 593,400 problem gamblers in the UK (Wardle et al. 2010: 84). The wide confidence interval in this estimate reflects the scarcity of problem gamblers in the population; in the 2010 survey, only 64 people out of the 7,756 people surveyed had symptoms that identified them as problem gamblers (ibid.: 85).

¹ <http://fairergambling.org/what-are-we-trying-to-do/>

Since 2010, responsibility for collecting problem gambling data has been passed to public health authorities in England and Scotland. The only relevant figures published by these authorities so far are based on data from 2012 and found no rise. The prevalence in England and Scotland (combined) is 0.4 or 0.5 per cent, depending on which methodology is used.² Both figures are at the low end of the international average, as **Figure 2** shows.

Figure 2: Estimated problem gambling prevalence



Seabury and Wardle (2014) have collated the data from both sources and whilst they say that comparisons should be ‘made with caution’, they note that ‘the methods and questions used in each survey were the same’. The results are shown in **Table 2**. Seabury and Wardle conclude that ‘problem gambling rates in Britain appear to be relatively stable’. It is hard to disagree.

² The two measures are DSM-IV, based on the fourth edition of the Diagnostic and Statistical Manual of the American Psychiatric Association, and the Problem Gambling Severity Index (PGSI). Both systems use a checklist of symptoms to identify problem gamblers.

Problem gambling prevalence (England and Scotland)	DSM-IV methodology	PGSI methodology
1999	0.6%	N/A
2007	0.6%	0.6%
2010	0.9%	0.7%
2012	0.5%	0.4%

The ‘crack cocaine of gambling’ meme

In the absence of evidence that FOBTs have caused a rise in gambling addiction, anti-FOBT campaigners simply assert that the machines are the ‘crack cocaine of gambling’. The popular press routinely use this term when discussing FOBTs and yet there is no credible source for it. The phrase seems to have been coined by Donald Trump in the 1980s when talking about Keno, a form of video bingo, which he saw as a threat to his casino business (Rutsey, 2005). Trump failed to get Keno banned but ‘he succeeded in providing a great shorthand term for all opponents of gambling’ (Rutsey 2005). It is a shorthand that has been used extensively around the world ever since.

In the 1990s, video lottery terminals were often described as the ‘crack cocaine of gambling’ in Canada. In 2004, the *New York Times* reported that ‘anti-gambling activists’ were calling slot machines ‘the crack cocaine of gambling’ (Rivlin 2004). In 1997, a Republican Senator in Arizona called internet gaming the ‘hard-core crack cocaine of gambling’ (Zeuthen 1997). When lottery scratchcards were launched in Texas in 2007, Senator Eliot Shapleigh said: ‘Scratch-off tickets are to the lottery what crack is to cocaine’ (Schwartz 2007). The Reverend Tom Grey, executive director of the National Coalition Against Legalised Gambling not only described casinos as the ‘crack cocaine of gambling’ but also dubbed slot machines ‘electric morphine’ (Novak 2004).

A plethora of other examples could be cited to further illustrate the fact that FOBTs are not unique in being compared to crack cocaine. Indeed, it is difficult to find any form of gambling that has avoided this epithet in the last twenty years. Anti-gambling activists never attribute the term to any specific individual because it is not based on any expert testimony or empirical evidence. Through constant repetition it becomes attached to whatever gambling product is popular with the public - and, therefore, unpopular with anti-gambling campaigners - at the time. At the moment, that product is the FOBT.

The economics of FOBTs

Gambling is unusual in being a form of entertainment for which the cost is not known until it is concluded, and it is unique among leisure activities in that expenditure is often described as ‘loss’. Nobody would talk about buying a football ticket as ‘losing thirty pounds’ since the money is being exchanged for entertainment. By contrast, someone who has enjoyed two hours entertainment in a casino or betting shop will be said to have ‘lost thirty pounds’. This is understandable because, unlike watching a football match, you can leave a gambling establishment with more money in your pocket than you went in and a tally of profit or loss is, in part, a measure of how successful the trip has been.

Nevertheless, the act of gambling confers private benefits on the gambler irrespective of financial winnings. Because the odds are fixed, FOBTs take 3p in every pound gambled, on average. This is a much smaller cut than fruit machines, which typically take 20-30p, or the national lottery which takes 50p. Whether any of these cuts are acceptable depends on the tastes and preferences of the player, but nobody expects the gambling industry to work for free and the pleasures of gambling clearly have a value.

Because the payout rate on FOBTs is unusually high, the amount of money put into the machines is 33 times greater than the amount that is retained by the bookmaker. There is a crucial distinction between 'the churn' (the amount wagered) and 'the drop' (losses to players minus winnings) which seems to have alluded much of the media, leading to headlines such as 'Sussex's gambling problem totals £1 billion' (*The Argus*), 'Gamblers spending nearly £1 billion a week on "crack cocaine" machines' (*The Mirror*) and '£1 billion in one month... what Ladbrokes made from "crack cocaine" machines' (*The Daily Mail*). Since the Gross Gambling Yield (the drop) from FOBTs for the entire UK bookmaking industry amounted to £1.7 billion in 2014/15, none of these claims can possibly be true.

Failure to make the fundamental distinction between money staked and money lost creates the perception that British gamblers spend vastly more on FOBTs than they really do. The actual facts are these. The amount spent on FOBTs in 2014/15 made up less than a seventh (13.6 per cent) of the UK gambling industry's Gross Gambling Yield. It was less than half the amount spent on either lotteries or online gambling. Moreover, the £1.7 billion figure is not the profit made by bookmakers, it is the revenue received before staff salaries, rents and other overheads are deducted, after which profits are taxed at 25 per cent.

FOBTs are undoubtedly an important part of the modern bookmaking business - in 2012, FOBTs yields exceeded over-the-counter betting yields for the first time - but the amount spent (or 'dropped' or 'lost') on them has been greatly exaggerated by campaigners and the media.

Stakes and prizes

To a non-gambler, it might seem incongruous that FOBTs have a stake limit of £100 when other gambling machines have a limit of £1 or £2, but this only reflects the different nature of the games. Fruit machines with a low stake have jackpots which allow up to £500 to be won in a single spin. FOBTs, by contrast, do not have jackpots. In blackjack, a winning player can usually do no more than double what he has staked. The same is true of a roulette player betting on red or black, or odds or evens (the exception is when the player bets on a single number which returns at a rate of 36:1, but since FOBT payouts are capped at £500 it makes no sense to place more than £13 on such a bet).

Given the 1:1 payout ratio, there would be little excitement in betting £2 to win £2 and therefore the stake is considerably higher on FOBTs. In most casinos, the minimum stake on blackjack and roulette is £5 and it is often as high as £10 or £15. Any cap on the maximum stake can only ever be arbitrary, but it must be set high enough for players to get a sufficient sense of risk and reward to make the games satisfying.

Anti-gambling activists have called for a £2 stake limit. This has been portrayed as a way of reducing the risks to problem gamblers and may have been perceived as such by naive observers. In practice, however, it is an attempt to put an end to FOBTs by the back door because such a severe reduction in stakes and prizes would reduce consumer appeal and amount to a *de facto* ban. Not for nothing is the group leading the campaign for a £2 stake called Stop the FOBTs.

Regulation and self-regulation

Academics who have studied problem gambling understand that it is not 'caused' by specific gambling products. Problem gamblers are attracted to gambling in many different forms and so the question for regulators is how to help problem gamblers without infringing on the rights of the majority. As a result of the negative publicity surrounding FOBTs, bookmakers have introduced several voluntary measures to identify and help problem gamblers.

Under the 2015 Responsible Gambling Code, all FOBT players must decide whether they want to set a voluntary time and/or spend limit before they can start playing. There is an enforced 'break in

play' when this limit is reached and staff are alerted behind the counter. Responsible gambling messages are displayed on the top screen of the FOBT for at least 25 per cent of the playing time and there are mandatory pop-up reminders on screen and behind the counter every 30 minutes or for every £250 inserted. Leaflets with information about problem gambling must be available in areas of the shop where FOBTs are played. Gambling machines cannot be advertised in the shop window and all staff are trained in how to interact with customers displaying any signs of problems. An enhanced system of self-exclusion is in operation 'allowing customers to exclude from multiple shops across different operators' (ABB 2015).

Conclusion

The campaign against fixed-odds betting terminals closely resembles previous moral panics about new gambling products and can largely be attributed to ignorance and misinformation: ignorance about how gambling works and misinformation from a small but well-organised group of campaigners who make claims that cannot be supported by evidence.

More than a decade after their introduction to the UK, there has been no increase in problem gambling and no proliferation of betting shops. The real story of the last ten years in the betting sector has been the rise of online gambling, much of which remains offshore and untaxed. FOBTs are one way for the incumbent betting industry to keep pace with changing tastes in a digital world. I have argued previously that twenty-first century gambling preferences require twenty-first century legislation if the sector is to thrive (Snowdon 2012, 2013). Regulation cannot afford to be anachronistic in a market in which punters can place unlimited bets on their mobile phones. If politicians try to wind back the clock to the days when betting shops were filled with old men gambling on greyhounds they will consign bookmaking to history. FOBTs might not be to everybody's taste but they have a place in the modern industry and existing regulation and taxation is more than adequate, if not excessive, for a gambling product that is only available in licensed, adult-only establishments.

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