



AUSTRALIAN  
WAGERING  
COUNCIL

## SUBMISSION

# Review of the Impact of Illegal Offshore Wagering

November 2015

**Australian Wagering Council**

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The Australian Wagering Council Limited (**AWC**) welcomes the opportunity to make this submission, on behalf of its members, to the Illegal Offshore Wagering Review (the **Review**). In recognition of the importance of this inquiry to the licensed online wagering industry, it is anticipated that a number of separate submissions will also be made by member organisations.

## 1. THE AWC AND ITS MEMBERS

The AWC is the peak industry body representing the Australian online wagering and sports betting industry. Members of the AWC are:

- bet365
- Betfair
- Sportsbet
- Unibet
- William Hill Australia

AWC members are Australian licensed online wagering service providers who operate in a highly regulated Australian market and a highly competitive global online environment.

AWC members provide recreational online wagering services on thoroughbred, harness and greyhound races and sports events to over 2 million Australians. They do not offer online gaming, poker machines, casino table games, lotto, bingo or keno.

AWC members are in the e-commerce business balancing the legitimate right of consumers to wager online on racing and sporting events with industry responsibility to provide effective consumer protection and harm minimisation measures and to maintaining a vigilant stance in regard to the integrity of all racing and sports events.

Importantly, all AWC members are licensed and regulated in Australia.

AWC members are at the forefront of Australian innovation and create highly skilled jobs across technology, finance and data, marketing and design and all areas of business management.

AWC members pay significant amounts of direct and indirect taxes in the form of state and federal taxes including GST, payroll tax, income tax and fringe benefit tax together with license fees to their respective state/territory licensing bodies and 'product fee' contributions to Australian racing and sports controlling bodies.

AWC members invest millions annually in developing innovative technology and employ thousands of Australians both directly and indirectly.

## 2. INTRODUCTORY REMARKS

The global digital environment presents a very real and rapidly growing threat to Australian licensed online wagering service providers with the emergence of illegal offshore operators.

In order to achieve the objectives outlined in the Review's Terms of Reference, the AWC believes that the Review should look at three themes:

- Consumer protection;
- Economic benefit for Australia; and
- Racing and sports integrity.

Offshore wagering operators strike at the heart of these goals, which is why the AWC both welcomes this Review and urges it to make some specific recommendations.

*'The most mature interactive nations have 'something for everyone' market equilibrium – where the government has player security and taxation; the operators have market protection and profit; and the consumer enjoys choice, value for money and player protection.'*

*H2 Gambling Capital 2015<sup>1</sup>*

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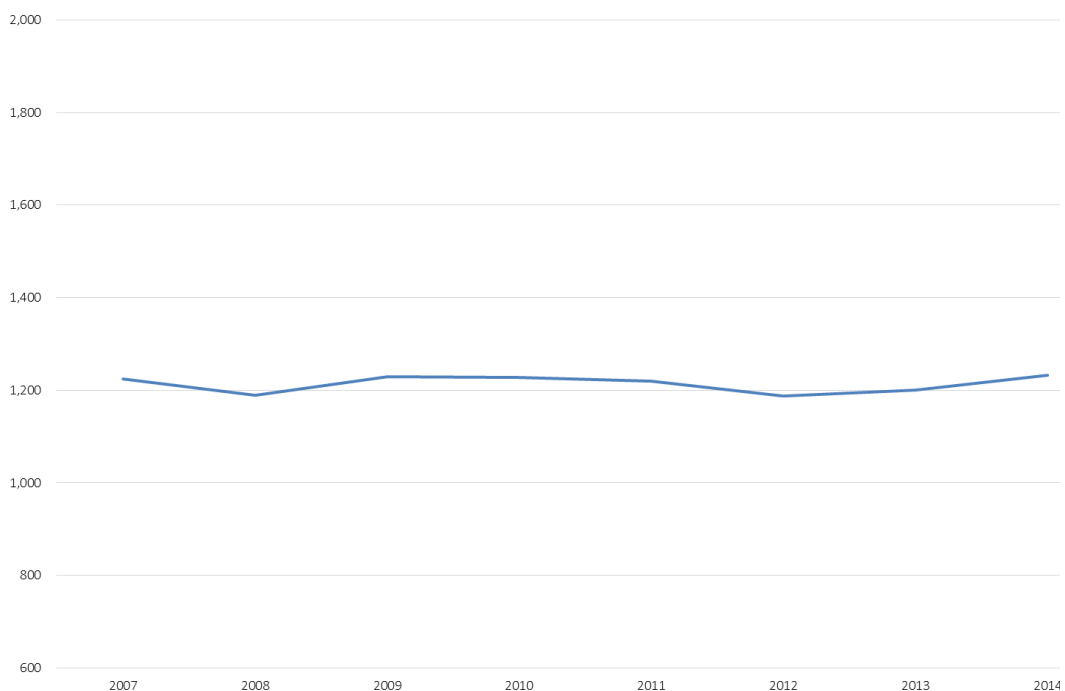
<sup>1</sup> H2 Gambling Capital - Australian Offshore Interactive Wagering Independent Report: November 2015. See Appendix A.

### 3. EMERGENCE OF ONLINE WAGERING AND THE CURRENT MARKET STRUCTURE

Gambling is an enjoyable pursuit for many Australians and meeting that demand gives rise to a significant service industry which in turn helps fund sport and racing and contributes to the economy more widely. As much as possible, policy should aim to preserve these benefits, whilst targeting measures at gamblers facing significant risks or harm.<sup>2</sup>

The Australian wagering market has changed markedly since the introduction of the *Interactive Gambling Act (IGA)* in 2001. Technological developments, communications convergence and changing consumer preferences over these periods are highly relevant against the context of the rapid globalisation of the industry.

Contrary to the perception of an ‘explosion in wagering’, wagering is not growing in Australia in net terms as the figure below shows.



*Real Wagering Turnover Per Capita<sup>3</sup>*

<sup>2</sup> Productivity Commission Inquiry Report: Gambling 2010.

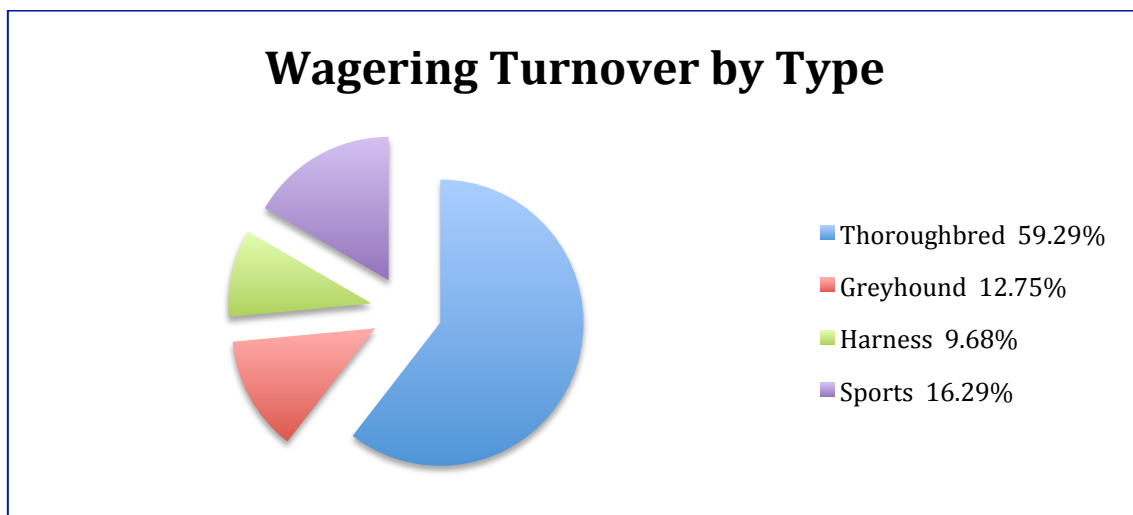
<sup>3</sup> Australian Bureau of Statistics; Australian Racing Factbook. Note - Turnover is value of bets places as opposed to player spend

As the figure below shows, wagering on thoroughbred, harness and greyhounds racing accounted for 13.2% of Australia's total gambling expenditure and wagering on sport for the relatively small proportion of 3%. The majority of gambling spend is still on poker machines in clubs and hotels (52.2%) and casino gaming (20.7%).<sup>4</sup>



*Australia's Total Annual Gambling Expenditure 2013/14,  
Total expenditure: \$21,155,919 Billion  
Source: Australian Gambling Statistics 31<sup>st</sup> edition*

Thoroughbred racing remains the most popular wagering product, at no risk of being engulfed by sports betting, as demonstrated in the figures below.



*Breakdown of Wagering Turnover between Racing and Sport in Australia  
Source: Australian Racing Fact Book 2014*

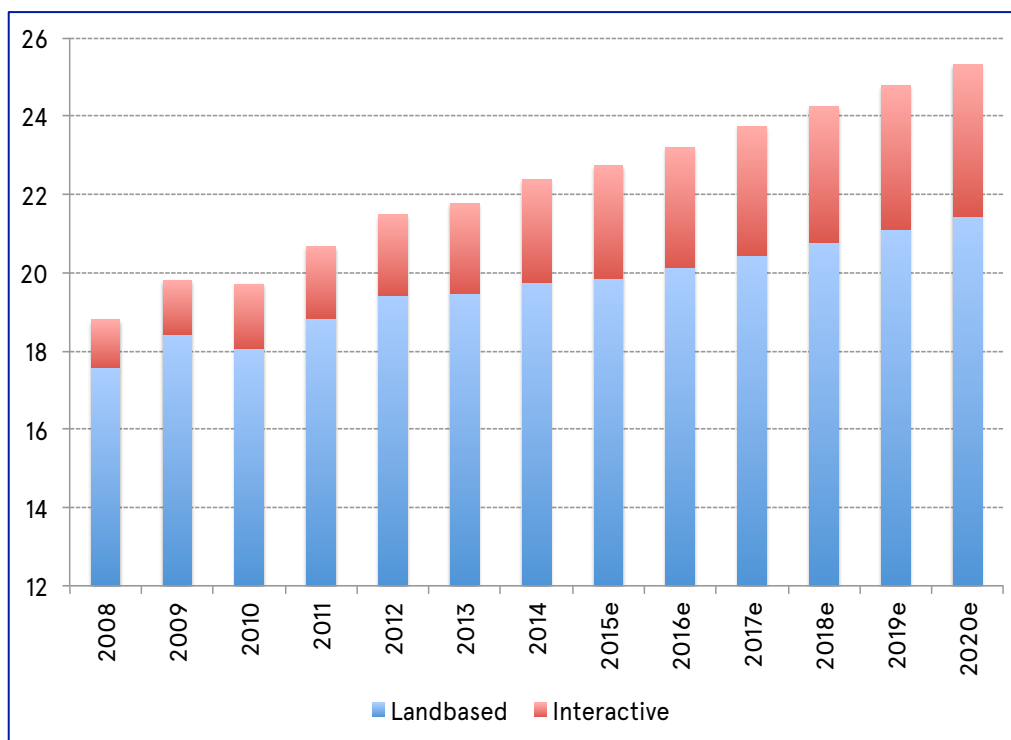
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<sup>4</sup> Ibid.

During 2014, H2 Gambling Capital has assessed the size of the Australian gambling market in terms of gross win to be **A\$22.4 Billion** - **2.8% ahead** of its 2013 level.

In the current year, H2 is expecting the market to grow a further 1.8% to A\$22.7 Billion and then, assuming a continuation of the current regulatory framework, to **A\$25.3 Billion by 2020**, the latter representing a **Compound Annual Growth Rate of 2.2%** over the coming five years (see figure below).<sup>5</sup>

**Australian Gambling Gross Win by Market Channel (A\$bn)**



*Source: H2 Gambling Capital 2015*

<sup>5</sup> H2 Gambling Capital - Australian Offshore Interactive Wagering Independent Report: November 2015. See Appendix A.

## 4. AUSTRALIAN HIGH DIGITAL CONNECTIVITY RATES

This is thus not a story about rising wagering spend per capita. It is a story of a significant shift in means of consumption (onto the internet, especially the mobile internet). It is a shift that reflects the wider rise of e-commerce and the use of digital devices by Australians to manage their lives.

Australians are early adopters of technology and have some of the highest rates of digital connectivity in the world with nearly all adult Australians now going online.

The Australian Communications and Media Authority (**ACMA**) released a report in March 2015 on *Australians' digital lives*.<sup>6</sup>

The report drew on information from the Australian Bureau of Statistics (**ABS**) and commissioned their own survey, conducted by Roy Morgan Research, on our habits of digital consumption.

92% of Australians use the internet, with 100% of people aged 18-44 going online in the survey period.

The way Australians access the Internet is also changing. Whilst laptops and desktop computers are still the devices used most often to access the internet, 70 per cent of Australians go online using a mobile phone and 50 per cent with a tablet.<sup>7</sup>

A comparison of ABS statistics since the introduction of the IGA shows a steep increase in the proportion of internet users purchasing or ordering goods or services via the internet growing from 11% of adults in 2001<sup>8</sup> to 76% in 2012-13.<sup>9</sup>

Australians are active participants in the online economy clearly demonstrating that e-commerce, in all its forms, is here to stay. In the three months to June 2014, 9.1 million Australians (62 per cent of internet users) made a purchase online.

In the four weeks to June 2014, 10.85 million Australians completed an e-commerce transaction on a range of goods and services, including (from highest to lowest spend):

- Entertainment and Leisure; Fashion; Reading material; Food and beverage; Electronics; Travel; and Health and beauty.

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<sup>6</sup> ACMA Report 1—Australians' digital lives, March 2015. See Appendix B.

<sup>7</sup> Ibid.

<sup>8</sup> ABS 8146.0 - Household Use of Information Technology, Australia, 2001- 2002.

<sup>9</sup> ABS 8146.0 - Household Use of Information Technology, Australia, 2012-2013.



## 5. CONSUMER LED CHANGE IN WAGERING HABITS – A PARADIGM SHIFT BUT NOT OVERALL GROWTH

Wagering providers are responding to the digital connectivity process, and the transformation they reflect is an e-commerce story as well as a racing, sporting or wagering one.

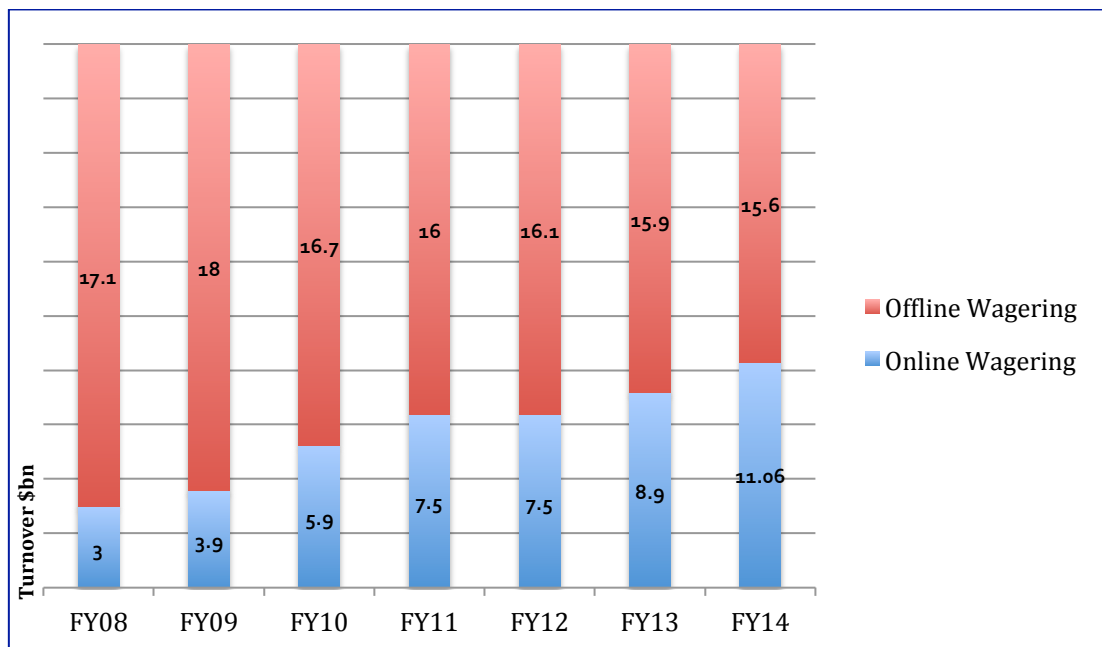
Wagering in Australia is experiencing a paradigm shift that is reflective of what is happening across the wider economy.

### Shift from Land-based to Online

While there has been only moderate growth in wagering turnover from 2007, there has been a material shift in the betting channels where that spend is occurring. Improved technology and better innovation has seen a shift from the more traditional wagering channels (i.e. retail outlets, on-course and phone operator) to online channels such as the internet, smart phones and tablet devices.

The figure below shows total wagering turnover from 2008 to 2014 and the relative contributions of the on-course, retail, phone operator and internet channels. It illustrates the growth in the internet and mobile channel and the decline in the retail and phone channels.

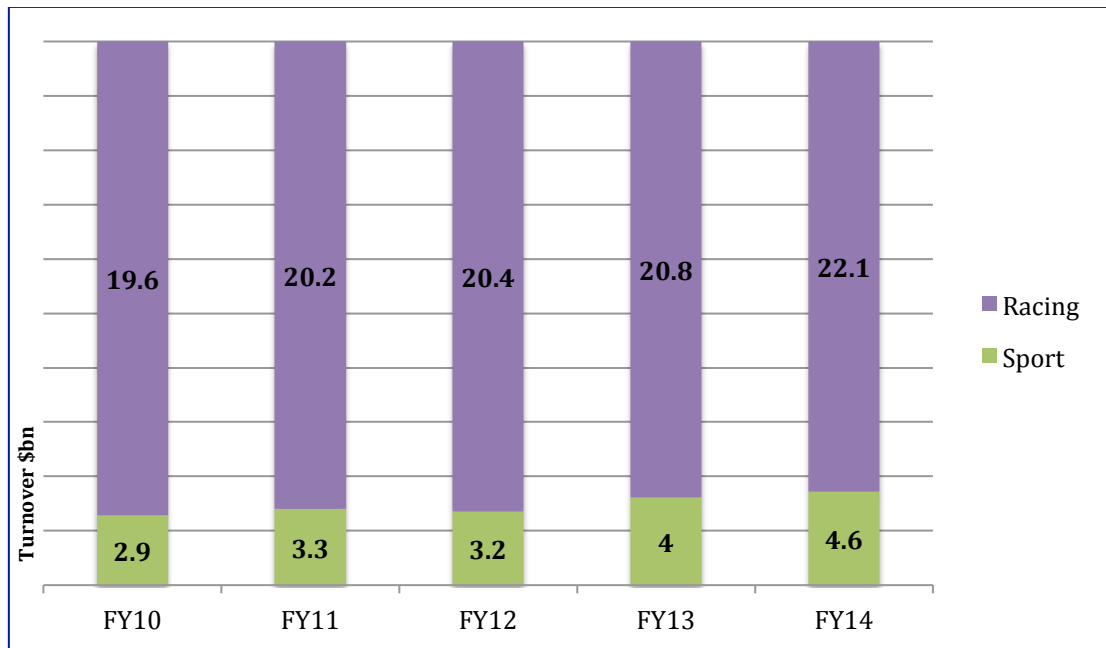
*Australian Wagering Industry Turnover by Channel*



*Change in Consumer Preferences 2008-2014:  
Offline Wagering v Online Wagering in Australia*

### Shift from Racing to Sports Betting

Sports betting growth is newer, especially with younger people. Sporting bodies are not as reliant on wagering revenue, but wagering firms contribute to integrity (both in terms of financial contribution and data), and are responding to rising customer demand for wagering.



*Change in Consumer Preferences 2010 - 2014: Racing v Sport in Australia*

Sports betting has increased in popularity in Australia over the last 5 years in line with global trends. As the figure above shows, racing remains a well-established market in Australian (81.72% of wagering turnover in 2014) at no risk of being engulfed by sports betting (16.29%).

### Shift from Pre-Game to In-Play Betting

H2 Gambling Capital report that the total in-play market globally **grew by 20% in 2014**, in comparison to ante post (pre-game) wagering (i.e. fixed odds selected prior to an event starting) at 8%, and all wagering in total at 14%.<sup>10</sup>

And it's not allowed online in Australia. The IGA bans interactive (ie online) wagering on a sports event after it has started. In-play wagering is not banned totally as such; it is permitted in person, or on the telephone. Australians wanting to wager in-play have been obliged therefore to use these traditional, less convenient means, or have recourse to offshore wagering providers who offer these products.

<sup>10</sup> H2 Gambling Capital - Australian Offshore Interactive Wagering Independent Report: November 2015, page 8. See Appendix A.

This is significant. It means Australian licensed wagering providers cannot offer the product they know will be in demand from customers, and those customers are then going to be looking offshore. This is significant in what is already a very competitive market.

Australia has many advantages: good regulation, a betting culture and a free market economy, all of which continues to support investment in Australian wagering businesses. But (like all e-commerce) it's fiercely competitive: the promiscuity of punters (with many having multiple accounts) means brand loyalty counts for relatively little, and price, convenience, and the type of wagers offered count for a lot (so the uniquely Australian ban on sports in-play wagering online counts against the legitimate industry).

And there are lower barriers to entry in the offshore market: less risk, ready profits (no taxes and product fees, no money spent on responsible gambling or integrity), nor any requirement to meet the regulatory obligations of one (1) Commonwealth Government, eight (8) State and Territory Governments, major sports controlling bodies and each state/territory racing body across the country.

## 6. THE SPORTS BETTING INTEGRITY FRAMEWORK

The integrity of racing and sporting competitions supports their economic and social value (who would pay to watch a rigged match or race?). Licensed Australian wagering providers contribute directly to the integrity of racing and sport:

- Protecting the integrity of racing and sport via information sharing agreements (so helping detect cheating);
- Funds from product fees paid by wagering providers are applied directly to fighting match fixing/sports corruption; and
- Licensed wagering providers have direct responsibilities under anti-money laundering rules.

In light of recent incidents of match-fixing and other corrupt activities, both domestically and internationally, it is imperative to preserve a safe and lawful market for sports betting.

Betting markets must be transparent and subject to appropriate supervision by regulatory authorities, with the assistance of sports controlling bodies and betting agencies, and sanctions imposed if integrity requirements are not implemented.

The transparent account-based online wagering environment facilitates this. Encouraging Australians to bet with Australian licensed wagering providers is one of the most effective ways of keeping Australian sport free of corrupt activities, which in turn minimises any potential for cheating in gambling.

Australian licensed providers have a long-standing commitment to ensuring that their integrity obligations are fulfilled to protect sporting and racing outcomes in Australia.

These obligations include:

- Conducting regular audits of their customer databases to determine if prohibited participants (such as officials, administrators, coaching staff and players) have placed bets;
- Developing industry standards for information exchange with sports, governments and law enforcement agencies about unusual bets and suspicious betting patterns;
- Developing national integrity agreements with sports controlling bodies to ensure binding agreement about the type of bets permitted by the sport and other integrity requirements as specified by that sporting body;
- Entering into similar information sharing agreements in the case of a transgression of rules or suspicious behaviour with racing bodies around Australia; and

- Contributing a direct financial return by way of product fees to respective sporting organisations to fund measures to strengthen the fight against corruption, fraud, match-fixing and the manipulation of sports events.

Any review of the impact of illegal operators must be cognizant of the importance of account based wagering operations of licensed providers to the integrity of sport and racing.

The global nature of the internet means that if an online wagering service or product becomes unviable in Australia, Australian punters are still able to - and do - easily switch to unregulated offshore or illegal SP operators in search of competitive prices and available betting markets contributing to the leakage of gambling revenue offshore.

Sports integrity is a global issue, and it seems self-evident that it can only really be tackled through a combination of effective domestic regulation and international cooperation. Here, the lack of a single Australian regulator has muted Australia's voice and impact. Police cooperation goes some way, and cooperation between sporting bodies helps too. But Australia needs to be able to engage at a national level on integrity and wagering issues. For example, there is a recent *Council of Europe Convention on the Manipulation of Sports Competitions* (done at Macolin 18 November 2014). This provides a comprehensive framework for international sports integrity cooperation, and it would be open to Australia to accede. But to do so would require Australia to designate a competent national authority – a national regulator – to cooperate with other countries.

## 7. ECONOMIC CONTRIBUTION OF E-COMMERCE BUSINESSES

E-commerce businesses, including online wagering providers, add a good deal of value to the economy where they are located. They generate high-value employment, and form strong innovation links with other software and service providers. The skills and techniques they develop to meet customer needs, and to protect, manage and exploit the data they generate is often shared across the economy, either through delivery supply chains, or through the labour market (when staff move from firm to firm taking technical skills with them). If Australia's future prosperity is to include innovative, technology-based service industries, then online wagering is a real asset.

But it's never certain: e-commerce businesses are always footloose, and always face real competition: barriers to entry are low for 'me too' providers, and consumer loyalty almost non-existent. Competitive survival for firms wanting to build a sustainable future involves continual investment in new products and techniques, and in customer engagement. That, in turn, means the regulatory environment needs to be predictable and stable, to sustain longer-term investment. It's important to emphasize that a predictable, stable regulatory framework can embody very high standards.

AWC members have created over 1500 high-value jobs in Australia so far. They are all looking to grow further, and to underpin that they seek a stable regulatory environment, welcoming the fact that such an environment would include very high standards of consumer protection, harm minimisation, and sports and racing integrity contributions.

The economic contribution of AWC members to the Australian economy is discussed in Chapter 11 of this Submission.

## 8. GOVERNMENT REGULATION IN AUSTRALIA

Wagering and gambling are politically and socially controversial, so there's constant scrutiny and debate – arguably leading to more effective oversight than in other e-commerce businesses.

The Australian market is heavily regulated and closely supervised by governments.

### Commonwealth

Special regulation (and restrictions, with criminal penalties) for online provision exist through the IGA.

The need for IGA reform is well recognised, including by:

- 2010 Productivity Commission Inquiry Report into Gambling;
- 2013 Federal Review of the IGA;
- 2014 Interactive Gambling Report commissioned by Gambling Research Australia (**GRA**);
- 2015 Harper Competition Policy Review;
- Racing and Sports Control Bodies; and
- Leading Gambling Researchers and Academics.

The IGA's provisions restricting in-play wagering have come in for attention, because they have distorted the market between onshore and offshore so much.

The IGA no longer reflects advancements in technology, changes in consumer preferences and the global nature of the wagering marketplace.

The 2013 IGA Review Report<sup>11</sup> by the then *Department of Broadband, Communications and the Digital Economy* (**DBCDE**) acknowledged that while the primary objective of the IGA is to reduce harm to problem gamblers and to those at risk of becoming problem gamblers, evidence suggests that it is making only a very minor contribution to this objective. The IGA may in fact be exacerbating the risk of harm because of the high level of usage by Australians of prohibited services that may not have the same protections that Australian licensed online gambling providers could be required to have.<sup>12</sup>

General Commonwealth provisions operate too under corporation, competition and consumer law. The high profile of wagering means regulators, watch the industry closely, including:

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<sup>11</sup> Final Report of the Review of the Interactive Gambling Act 2001.

<sup>12</sup> Final Report of the Review of the Interactive Gambling Act 2001, page 6.

- The Australian Communications and Media Authority (ACMA) is an active regulator and responsible for investigating formal complaints made under the IGA about the provision of prohibited internet gambling content.
- The Australian Competition and Consumer Commission (ACCC) is also an active regulator of the sector. Australian consumer law applies to the online betting sector in the same way that it applies to other industries and sectors. Consumer issues in online trading are listed as an enforcement priority for the ACCC, and as such they closely monitor the online wagering industry for any breaches of consumer law.
- The Australian Transaction Reports and Analysis Centre (AUSTRAC) has a role too. The AWC is committed to supporting the Anti-Money Laundering and Counter Terrorism Financing (**AML/CTF**) regime introduced to strengthen Australia's capacity to deter, detect and combat serious and organised crime, money laundering and terrorism financing. To ensure that AWC members comply with the requirements of the regime, they provide appropriate support at a major cost to their business. The AWC also appreciates the need for Australia's robust and rigorous regime to be one that keeps pace with international trends and developments and supports global efforts to combat AML/CTF activity as well. A key feature of the Australian regime is its risk-based approach.

### State & Territory Governments

State & Territory governments provide fundamental permissions through licensing, regulation of products and the promulgation of licensing conditions (For example, the South Australian Gambling Codes of Practice and the recent Northern Territory rules on the offering of Deferred Settlement Facilities).

The Productivity Commission (2010) reported<sup>13</sup> that 'over the last decade, state and territory governments have put in place an array of regulations and other measures intended to reduce harm to gamblers. Some have been helpful, but some have had little effect, and some have imposed unnecessary burdens on industry'.

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<sup>13</sup> Productivity Commission Report, Gambling, 2010, page 2.



## 9. IMPORTANCE OF CONSUMER PROTECTION AND HARM MINIMISATION

Consumers **choose** to wager online, and on mobile devices. Platform neutrality (including in-play wagering) is essential if this shift is to be accommodated – it certainly can't be stopped.

Consumer protection is important, and must be considered in this context. This should be reflected in appropriately researched and designed:

- Responsible gambling initiatives, making full use of online data and data analytics;
- Harm minimisation processes that exploit the interactive environment to quickly identify problems, and signpost support. Self-exclusion systems and pre-commitment limits are existing examples of this sort of process. There are many others.
- Personal/identity/financial information protection, as with any e-commerce business.

Consumer protection is central to any regulatory framework, and licensed, Australian wagering providers are committed to it.

The consumer protection framework needs to be based on good public information, and a commitment to clearly differentiating Australian providers from offshore ones. Consumers need to be shown the difference and encouraged to make good choices.

Consumer protection includes wagering-specific features related to problem gambling, but also generic e-commerce features related to data protection and identity checking.

Gambling Research Australia's (**GRA**) recent report on interactive gambling<sup>14</sup> provides insight into consumer protection issues involved in interactive gambling by Australians. Among its findings, the report identified that:

- Interactive gambling should not be considered a distinct form of gambling, simply a mode of access; 81% people who use online services also engage in land-based offerings.
- Consumers tend to choose online services based on convenience/ease of access and availability of more competitive product offerings, but many also have concerns about the security and integrity of interactive sites.

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<sup>14</sup> Gambling Research Australia, Interactive Gambling, 2014.

- While most interactive gamblers prefer domestically regulated sites at least one-third are not concerned about using offshore (i.e. unregulated, prohibited) providers.
- Responsible gambling commitments are serious, effective and industry-wide (among Australian participants). The on-line environment promises access to data-driven insights that will target help in future and industry actively collaborates with academic research.

The continuing challenge for industry, regulators and stakeholders is to identify prevention and early intervention strategies that effectively targets those who are vulnerable or in need of assistance without unduly impacting on the legitimate enjoyment of recreational punters who experience no problems, and without undermining the financial viability of the wagering industry.

As such, the AWC has been cooperatively involved with governments around Australia to promote Responsible Gambling Awareness Week.

As part of the AWC responsible gambling strategy, a suite of responsible gambling measures assists customers in making informed decisions about their recreational choices. These measures include the provision of:

- Activity statements to enable customers to review betting activity and history, and to track spending 24/7;
- Voluntary pre-commitment facilities;
- Deposit and loss financial limits;
- Self-exclusion procedures;
- RSG Training of customer service staff; and
- Providing access to problem gambling awareness tools, support services and responsible gambling messages, online and telephone self-help and contact details for counselling services available on websites.

A new industry initiative launched by AWC member Sportsbet recently includes the self-service responsible gambling tool - *Take A Break* - that allows customers to choose when and how long they take a break from wagering.

GRA provides insight into the complexities that exist when exploring the harm minimisation issues involved in interactive gambling by Australians. Among its findings, the report<sup>15</sup> concludes:

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<sup>15</sup> Gambling Research Australia, Interactive Gambling, 2014.

- There is insufficient evidence to conclude that interactive gambling is causing higher levels of problems; interactive gambling problems account for a small proportion of gamblers presenting to help services. Nonetheless, participation in interactive gambling is increasing and it is possible that related problems might increase over time.
- There is an ongoing need for land-based and interactive gambling harm minimisation measures to be implemented in Australia, including measures specifically tailored to the online gambling environment.

## 10. THE OFFSHORE MARKET

This is a story of a shift in market demand, and the ability of offshore providers to respond in ways that are different to those open to Australian licensed providers.

Importantly, and as this submission has shown, total wagering spend per capita is flat (so the market only grows with population). Overall, wagering is changing, not growing.

We also know that the shift to online consumption of services is a powerful one, extending well beyond wagering. In recent years that shift, already under way when the IGA was passed, has been overtaken by the rise of mobile internet services, as smart phones have become near ubiquitous.

Within wagering, the global trends are clear too:

- The rise of sports betting (racing remains important but it's not where the growth lies); and
- The rise of in-play wagering as a preferred product type among consumers, facilitated by mobile internet services.

These are big, global shifts in the demand for, and means of consumption of, wagering products. It is a change in the structure of demand driven by consumers, facilitated by technology. It is not mandated by wagering providers, nor by sports bodies.

The offshore market is proving adept at meeting this demand. Offshore operators enjoy a significant advantage over their onshore competition - offering punters prices and betting types unavailable from licensed providers (especially in-play wagering), so it's a perennially appealing part of the market, especially as punters do not have brand loyalty. The case for legalising in-play wagering arises from this combination.

Experience from licensed providers is that consumers choose offshore providers for reasons of value (especially in racing, where they can get better prices), and choice of product (mainly in other sports, with in-play wagering the main draw-card). The fact that this wagering type is lawful in other developed country markets (and often regulated to good standards) means customers will often see little wrong in engaging with offshore operators, although there is often little basis for customers to make informed choices between operators, leaving them open to exploitation.

### How Easy is it to Access the Offshore Market?

Accessing the offshore market is easy for tech-savvy and engaged Australian wagering consumers.

In addition to normal avenues (including direct wagering operator to customer engagement and word of mouth), there are several websites that help Australian customers identify offshore operators who will offer them markets on Australian racing and sports events, including online in-play wagering.

For example, the website <http://www.australianbookmakers.com> rates and reviews the bookmaking services of Australian licensed onshore bookmakers and offshore operators. They rate bookmakers on criteria including price competitiveness and product availability.

Extract:

*Here at the Australian Bookmakers review site we showcase the leading online Australian bookies, telling you what they have to offer the Australian punter. We also review the best of offshore bookies who accept Australian punters and support accounts in Australian Dollars.*

They advise visitors to their site that the law in Australia prohibits licensed Australian bookmakers from offering wagering online in-play. They make recommendations about which offshore operators offer the best online in-play betting options to Australian customers.

Extract:

*To place live sports bets online on sporting events you need to look to an overseas bookmaker. Whilst the Australian legislation here does not allow Australian bookmakers to offer live betting online, you can bet LIVE online with overseas based bookmakers. Suggested offshore bookmakers for Australians for Live Sports Betting are BetVictor, Intertops, Pinnacle Sportsbook and GUTS.com*

An example of a typical review:

Extract:

*Pinnacle Sports are a long established bookmaker operation founded in 1998 and licensed by the Government of Curacao. Pinnacle have the reputation of consistently offering the highest betting odds in the industry. As a consequence they have customers from all over the world betting with them. They also have high betting limits, so cater well for big punters. Their business model is based around getting high turnover and using low margins and in*

*doing so they have cemented themselves as a bookmaker account for every regular punter to have. They also don't shy away from accepting arbitrage betting, like many other bookmakers do. LIVE IN-PLAY BETTING Plenty of live betting available here on a wide range of sports worldwide.*

Similarly, <http://www.aussportsbetting.com/guide/live-in-play-betting/> explains the law and offers suggestions for the most 'reputable' of these offshore operators.

*Live online betting in Australia. At this stage, no major Australian bookmaker offers live online betting to Australian residents, however most international agencies do. After conducting a survey of betting agencies that offer live online betting and AUD accounts, we found 10Bet.com and Stan James to be among the best.*

An examination of some of these websites<sup>16</sup> reveals how easy it is for an Australian punter to wager on sport, including online in-play.

A wagering industry survey of illegal offshore operators offering in-play products on the AFL, NRL, Cricket World Cup and Melbourne Cup in both 2014 and 2015 indicate the targeting of Australian major sporting and racing events by offshore operators.<sup>17</sup>

### How Large is the Offshore Market?

The offshore market is by its nature hard to measure, with participants ranging from the well-established to ephemeral.

Globally, estimates of size and scale of the offshore market, include:

- 2012: Independent KPMG industry report estimated the illegal online gambling market is expected to grow at an average annual rate of 6.3 per cent to \$2.4 Billion in 2021 - 22;
- 2014: International Centre for Sports Security estimated 80% of global sports betting is transacted illegally;
- 2015: H2 Gambling Capital estimated offshore operators have 60% of the global interactive market; up to 80% in regions where governments have been slow to regulate.

But it clearly takes a significant share of the Australian market. Within the Australian context, estimates of size and scale of the offshore market, include:

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<sup>16</sup> See Appendix C, Screen shots - Offshore Operators' Websites.

<sup>17</sup> See Appendix D, Offshore Operators Offering In-Play and Pre-Game Bets to Australians during Major Australian Events 2014 & 2015.

- 2010: Productivity Commission Report estimated \$1 Billion was lost annually to illegal offshore operators;
- 2012: Final Review of the IGA estimated Australia's interactive gambling spend was \$1.6 Billion, with 60% spent with illegal offshore operators;
- In 2014, H2 Gambling Capital estimated in excess of 20% of Australian expenditure on interactive wagering goes to offshore providers:
  - \$400 Million (representing \$4 Billion of economic activity);
  - \$100 Million in lost taxation revenue and product fees.

For this Review, the AWC has again asked H2 Gambling Capital (**H2**) to look at the question of Australian wagering spend going offshore. Their whole report is also submitted to the Review.<sup>18</sup>

H2's analysis, the AWC argues is a careful one, which H2 knows will be the subject of a good deal of scrutiny, with H2's reputation at stake.

The conclusions remain estimates, like all of these measurements, but we consider they are well founded:

- In the current year, interactive gambling is likely to grow 9.5%, taking it to just under A\$2.9 Billion, which will represent 13.7% of the total Australian gambling market. By 2020 it is anticipated that the corresponding figures will be A\$3.9 Billion and 15.3%.
- Just over 50% of interactive gambling spend of the Australian player is expected to take place with offshore operators – mainly due to the lack of availability of in-play betting and gaming. The inability of onshore operators to offer these products has led to an increasing number of offshore suppliers stepping into the void in recent years.
- In the current quarter (Q4 2015) H2's assessment of offshore interactive gambling supply has identified 383 offshore interactive gambling sites operated by 175 operators that are targeting Australian players.
- The number of operators targeting the market is up by 140% in the past three years with the number of sportsbooks increasing at the greatest rate, with over 50 sportsbooks now targeting the Australian market - over 5x the level of three years ago.
- In total the offshore gambling market is believed to have increased from cA\$750 Million gross win in 2008 to A\$1.3 Billion by 2014 and is expected to reach close to A\$1.6bn in the current year and A\$2.2-2.3 Billion by 2020. Of this, sports wagering

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<sup>18</sup> See Appendix A.

accounted for cA\$400 Million in 2014 with in-play expected to account for between A\$200-225 Million of this. In the current year offshore sports wagering gross win is expected to increase to cA\$480 Million as more operators have entered the market with in-play accounting for up to A\$275-300 Million of this.

It is estimated by companies that track betting patterns that 20% of money wagered on the outcome of AFL games and all other forms of exotic betting is placed with the illegal offshore operators.<sup>19</sup>

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<sup>19</sup> See <http://www.theaustralian.com.au/sport/turf-thoroughbreds/racing-police-combine-to-end-illegal-betting-agencies/story-fnajufr-1227500254317?sv=b3f2132fac75593fba9dad8c897165db>



## **11. ANALYSIS: THE IMPACT OF OFFSHORE WAGERING**

The strong and potentially growing market position enjoyed by offshore operators (and clearly described in the H2 report accompanying this submission) is pernicious in its effect on Australian sport, racing, consumers, and the economy as a whole.

Offshore operators:

- Pay no taxes in Australia (AWC members do - last year contributing over \$100 Million in State & Federal taxes & licensing fees);
- Create no jobs in Australia (AWC members do - employing more than 1,500 FTE staff);
- Don't have to comply with consumer protection rules around data protection, anti-money laundering rules, as well as other more general consumer, credit and competition laws;
- May be associated with various forms of organised crime;
- Make no financial contribution to racing codes, nor sporting bodies in Australia. (AWC members do – contributing over \$7 Million in sponsorship of racing and sports last year);
- Are not invested in sports integrity programs (as AWC members are – contributing over \$115 Million last year in product fees and race field fees to racing & sports control bodies);
- Are not required to adhere to quality standards of responsible gambling programs;
- Pay no broadcast rights fees for the right to live stream Victorian races as some AWC members do;
- Make no investment to product innovation, research & development (as AWC members do – contributing over \$30 Million last year); and
- Don't contribute by way of Corporate Social Responsibility obligations. (AWC Members do - supported wide-ranging community and charity events such as 4Tracks4Kids).

**The AWC argues that these reasons are each legitimate public policy goals, and that in the context of the rise of the mobile internet and the power that conveys to consumers, the Review should recommend a national regulatory framework for wagering in Australia. This would accommodate the shifts in demand arising from the mobile internet and the globalisation of sports, while minimising harm and maximising benefit to Australia, individual Australians and Australian sport and racing.**

### **National Regulation**

The AWC argues that national regulation is needed to provide a strong, predictable framework for investment (including job creation), integrity, harm minimisation, and underpin returns to racing and sporting bodies. All of the issues before the Review, including any credible response to offshore wagering, are by definition ones which affect the whole Australian market, and which the AWC argues require continuing regulatory oversight as well as legislative reform.

National regulation should address all of the issues covered by the Review's terms of reference, as well as other issues which affect wagering consumers and producers in Australia.

AWC members accept that no regulation is ever static; their desire for a stable and predictable framework is one where new regulation is evidence based and properly and rationally consulted. Indeed, the AWC argues that new regulation be based on a number of fundamental principles to ensure its effectiveness in protecting all Australians undertaking wagering activities:

- Any measure introduced must be research-based – any harm minimisation measure that is implemented as part of a national standard must be done based on robust research and evidence that it is effective in improving harm minimisation. Responsible gambling is a highly complex policy area and any measures introduced which are not proven to be effective in protecting consumers will only increase the regulatory burden on licensed Australian-based wagering providers (and not unregulated foreign websites) while providing no additional benefit and protection to consumers.
- The regulatory regime must be competitive – care needs to be taken to ensure that any consumer protection or harm minimisation measures do not unnecessarily limit the ability of licensed wagering and sports betting providers to be able to compete with illegal offshore or onshore wagering operators. Any overly burdensome regulatory regime will simply mean that licensed providers will not be able to compete with such illegal wagering operators (either from a price, service or

customer experience perspective). Such constraints will drive more Australians to gamble with illegal wagering operators and provide consumers with the risks the reforms seek to address.

- New measures must not be overly burdensome to implement – any new harm minimisation measure that is to be introduced must be reasonably achievable from an operational and technical perspective. System development is an extremely complex and costly exercise and any measure that is overly burdensome in this respect will have two adverse consequences. Firstly, it will discourage operators who are currently operating illegally offshore from licensing in Australia and legally offering online wagering and sports betting services and secondly, it will put those that are operating legally in Australia at a competitive disadvantage.

Any new national standards must be applied to all forms of wagering in Australia and should acknowledge the benefits of account-based betting from an integrity-management and problem gambling perspective.

Scale matters on the internet to support investment in all these systems in a competitive, global market. Regulatory fragmentation adds directly to costs. Nationally-consistent regulation is needed to provide a strong, predictable framework for investment (including job creation), integrity, harm minimisation, and underpin returns to racing and sporting bodies.

This is not a new idea: this approach supports the Productivity Commission's stance in its Final Report in 2010 that online and telephone wagering, along with all other online gambling activities, should be subject to a consistent regulatory regime and overseen by a specialist body.<sup>20</sup>

The Productivity Commission considered:<sup>21</sup>

*At a minimum, regulation of online gambling needs to be national in scope. However, as Australian online gambling companies participate in global markets (and some Australians will prefer to gamble on offshore sites), Australia has an interest in consistency with international online gambling regimes. ... Where possible, regulation should be aligned with that of similarly liberalised countries such as the UK, ...*

*The current operating framework for providers of online gambling services is the IGA, which is administered by the Australian Communications and Media Authority (ACMA). As such ACMA,*

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<sup>20</sup> Productivity Commission Report, Gambling, 2010 [16.48].

<sup>21</sup> Ibid [15.32-15.34].

*could feasibly serve as a broader regulatory body for the online gaming industry. Equally, it may be that a specially constituted body with a specific expertise in online gambling may be preferable. In either case, the regulatory body would oversee the provision of the harm minimisation measures, and could potentially examine probity measures as well.*

*The regulatory body should be national in scope and supported by federal legislation. That means that wherever there is conflict between the national framework and any state legislation, the Commonwealth would take precedence (as is the case in many other areas). That said, states would retain autonomy in areas not covered by the national regulatory body and, in particular, would retain the ability to ban certain types of online gambling, so long as they met the principles of competitive neutrality. For example, if a state elects to totally prohibit the provision of a particular gambling service (both online and in physical venues) on the grounds that it is associated with excessive risk of harm, it should still be permitted to do so.*

*... the national regulatory regime should also be applied to all remote gambling, including gambling via mobile phone and television. A federal online gambling regulator would be well placed to investigate and regulate practices such as inducements and credit betting, which are common amongst online wagering providers.*

*In order to appropriately respond to the wide variety of online gambling products and practices, the regulating agency should have the capacity to conduct ongoing research into the online gambling industry and the impact it has on Australian consumers. Granting access to the industry data required for this kind of research should be a licensing condition for providers of online gambling products.*

We agree. The time has come. There is a tragic sense of déjà vu around all of this. The Review has a real opportunity to get this sector onto the right regulatory footing.

Such a step would have consequential benefits too.

It would enable Australia to consider requiring all providers operating into Australia to be licensed (as other countries are doing). This would help level the playing field and raise the standard of consumer protection. But it can't be done sensibly without a national regulator to act as the licensing body. The Review should consider this possible approach too.

A national regulator would also be well-placed to work with the Australian Tax Office (**ATO**) to tackle tax avoidance – a significant e-commerce issue generally, and one where international cooperation between national regulators and tax authorities will be essential.

There is also a fundamental economic case for national regulation. Wagering operators face constant competitive pressures. If a thriving, domestic on-line wagering market is to be sustained, then a predictable and coherent national framework for investment is needed to provide for the necessary investment.

There are compelling public policy reasons to make a thriving domestic wagering sector a regulatory objective:

- Wagering connects customers to sport and racing, providing a direct flow of funds through racing fees and sporting product agreements. Australian sport and racing benefits directly and significantly;
- Sporting integrity, and wider efforts to deal with money laundering and the wider rule of law on the internet are directly supported by a licensed onshore wagering sector; and
- It creates high quality employment and innovation. Wagering providers are technology-driven businesses, creating substantial employment. And they're innovative (they have to be to survive), developing new products and tools constantly. The results of that innovation are not confined to wagering: they spill over into the rest of the Australian economy through the labour market, through racing and product fees, and through online and e-commerce partnerships.

H2 report that if nothing changes going forward, the Australian offshore interactive wagering market will remain strong at **over 60%** of all betting activity. By 2020, this will amount to **A\$2.2-2.3 Billion** leaving the country in lost wagering profits, a further **A\$100 Million per annum in tax dollars**, plus significant economic growth opportunities - particularly **job creation, technological investment, and problem gambling prevention** - remaining underdeveloped when compared to the world's other leading gambling nations.<sup>22</sup>

A properly resourced national regulator is best placed to police and enforce laws against the unlicensed, offshore operators who will inevitably continue to attempt to target Australian customers.

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<sup>22</sup> H2 Gambling Capital - Australian Offshore Interactive Wagering Independent Report: November 2015. See Appendix A.

### A Platform Neutral Approach: In-Play Wagering

The AWC also argues that the present ban on the offering of in-play wagering should be removed, to allow Australian licensed operators to offer a product type which is central to consumer demand. Without that, Australia-based offerings will always be partial and pricey, and offshore operators will step in to meet that demand, without making any legitimate contribution to Australia's economy, society and sport.

In its Report, H2 considered that if in-play wagering was regulated, the total market would only increase by 3% by 2020, but the proportion of Australian spend with onshore interactive operators would rise from 49% in 2014 to 78% by 2020.

The AWC argues that banning in-play wagering online while allowing it in other ways is unrealistic, given the changes in consumer choice and behavior we have described.

The DBCDE expressly recognised in its Final IGA Review Report that Australians are betting in-play with unlicensed offshore operators:

*"It is already the case that major online gambling providers based overseas and unlicensed in Australia, are specifically targeting the Australian market. In doing so, they are also taking advantage of the opportunities to provide 'in-the-run' wagering services. This places these services at a distinct advantage over Australian based services, as well as potentially undermining the scope of Australian sports bodies from receiving payment for their products and putting the integrity of Australian sports at risk."*<sup>23</sup>

The DBCDE Final Report recommended the restriction on online in-play should be lifted to achieve platform neutrality.<sup>24</sup>

This recommendation was strongly supported by leading Australian academic Dr Sally Gainsbury who wrote:

*"The DBCDE recommendation to adopt a 'platform neutral' approach that makes no distinction in the way that bets are placed is an important step for consistent gambling policy. Regulation of in-play wagering should be consistent across online operators, via telephone and land-based outlets.*

*This is consistent with the recommendations of the Joint Select Senate Committee on Gambling Reform. The recommendation to permit in-play betting on the final outcome of sports events and on exotic bets (that is pre-defined events within an event) is appropriate given that these types of bets are currently permitted over the*

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<sup>23</sup> Department's Final Report on the review of the IGA, pages 112-113.

<sup>24</sup> Department's Final Report on the review of the IGA, page 128.



*telephone and at physical venues. Given the substantial in-play betting market held by offshore operators, legalising this form of betting in Australia is essential in encouraging operators to become regulated within Australia. This regulatory change is also important to enable legal wagering sites to compete with offshore operators and operators that have land-based venues.”<sup>25</sup>*

This recommendation is also in line with the preferences of the major sporting codes. In relation to in-play betting with illegal offshore websites, CEO of Cricket Australia, James Sutherland said:

*“It’s very significant. The first thing for us is all about integrity. It’s all about making sure that the public’s faith in the game, the confidence in the game about it being a fair contest is the absolute priority and that’s what we are focused on. When you talk about in-play betting, one of things that perhaps isn’t so well understood is that people can bet in-play in Australia, but they do it offshore. So it follows that if it is something that people are able to do here in Australia, then we should create some sort of framework around it to make it protected and protect it from those who want to get to the game in a way that be inappropriate or reduce that faith in the fair contest. That’s where COMPPS has come to a position of supporting in-play betting and working down that path with government and others to get the end result.”<sup>26</sup>*

The AFL’s general counsel, Andrew Dillon, in August 2015 told *The Australian*:

*“In line with other professional sporting codes in Australia, the AFL has product fee and information sharing agreements with Australian betting agencies to ensure we have transparency regarding bets placed on our sport.*

*Only by working with the agencies are we able to protect the integrity of our sport. Offshore betting by Australian punters is a real concern for sport integrity because the betting cannot be scrutinised. The best way to counter the use of offshore illegal betting by Australians is to allow Australian registered and regulated agencies the right to compete fully with the offshore agencies, and that includes by permitting in-play betting online.”<sup>27</sup>*

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<sup>25</sup> Submission by Dr Gainsbury from the Centre for Gambling Education and Research, Southern Cross University to the Department in response to the Department’s Interim Report on the review of the IGA dated 25 June 2012, pages 25-26.

<sup>26</sup> James Sutherland, CEO Cricket Australia, 12 June 2012.

<sup>27</sup> <http://www.theaustralian.com.au/sport/turf-thoroughbreds/racing-police-combine-to-end-illegal-betting-agencies/story-fnajufr-1227500254317?sv=b3f2132fac75593fba9dad8c897165db>

The Harper Competition Policy Review, highlighting the AWC's arguments in relation to the anti-competitive nature of the IGA, agreed that gambling regulations should be included in a new round of regulation reviews to ensure that unnecessary restrictions on competition are removed.<sup>28</sup>

Regulation should be platform neutral, so consumers and providers can interact in different ways as technology and social behaviour evolve, subject to appropriate controls and protection.

Genuinely platform-neutral regulation should apply to all wagering, including telephone and retail channels, with the same standards of consumer protection, money laundering controls, advertising and credit controls applying to wagering services throughout Australia. Only national regulation can achieve this.

And of course in-play wagering should be controlled. Integrity concerns have been raised around the ease with which so-called micro-betting might be abused and other concerns surround the potentially 'repetitive' nature of in-play wagering. Wagering operators' experience in other regulated markets is that the integrity issue is manageable, and the concern about harmful wagering patterns is just wrong. But both issues deserve to be managed, and wagering operators would seek appropriate regulation to do so.

Such regulation should firstly include a recognition that sports controlling bodies should continue (as they do now for non online in-play wagering) to have control over what types of bets may be offered in-play, reflecting the circumstances of each sport.

Secondly, wagering operators should continue (as they do now) to monitor betting patterns for both integrity and harm minimisation reasons, and act promptly on anomalous or concerning behaviour. This is as things are now, but worth emphasizing.

Finally, the national regulator should have a step-in power, to restrict bet types if there is evidence of integrity or customer protection issues not being addressed. This is analogous to arrangements already in place in Victoria.

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<sup>28</sup> The Competition Policy Review, Final Report, March 2015, pages 43, 150.



## 12. OTHER ISSUES

But there are other issues too, which arise in public debate, and which need to be considered, and where the Review should make recommendations, if its conclusions on its main Terms of Reference are to be effective.

### Advertising

Advertising is a classic externality, in that it is seen by many people who are not its intended audience. Good advertising gets noticed; the wagering industry advertises because there is fierce competition between wagering providers.

There are divergent considerations here: wagering advertising helps promote sport, and supports free-to-air media. It informs consumers of the identity of licensed Australian-based wagering service providers through which they can participate in wagering in a highly controlled and consumer protected environment while avoiding the significant dangers which exist from wagering with illegal offshore operators. That's good. But it's intrusive for others, and can be visually unappealing in some contexts.

Wagering providers should be free to advertise their services, and the support that provides for sport, racing, broadcasting and consumers is surely beneficial. But wagering providers are the first to agree that advertising should always conform to accepted social standards, and not promote harmful behavior, or make implicit promises that undermine those standards.

That's why the proposed Australian Association of National Advertisers (**AANA**) national code <sup>29</sup> is important in establishing those standards within an accepted and effective complaint and enforcement framework. The proposed code would – and should – establish standards that are broadly consistent with wider advertising standards. And, of course, the resulting standards should be open to review with experience.

The AWC argues that the Review should let this process take its course. It is self-regulation, and self-regulation is a term that is often used pejoratively. But this process involves the AANA, the wider broadcasting and advertising industries, and an independent complaint and enforcement mechanism through the Advertising Standards Board that is demonstrably effective.

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<sup>29</sup> The AANA Discussion Paper on the proposed *AANA Wagering Advertising & Marketing Communication Code* (the Code) is available at <http://aana.com.au/self-regulation/code-development/> and attached as Appendix E.

### Identifying Australian wagering operators

Related to advertising is the fundamental question of helping customers readily identify licensed Australian wagering providers. At present there are no restrictions on unlicensed offshore operators using Australian symbols, imagery, Australian voices, and accepting bets in Australian dollars. The AWC considers that the Review should consider whether there should be a symbol or logo which could be restricted to licensed Australian operators, and which would allow customers to make a quick, informed choice to use licensed operators.

### Internet & payment blocking

Some argue that it should be possible and desirable to use payment blocking, internet protocol address blocking or internet filtering systems to simply shut unlicensed offshore operators out of the Australian market.

Each of these technical options is possible. But most of them are unlikely to be successful, either because they are trivially easy to evade (IP address blocking), or disproportionately intrusive (internet filtering, which would also impose large costs on ISPs).

The one approach that has attracted attention is payment blocking, where there have been experiences where some banks have chosen not to process gambling and wagering payments. Banks use a coding system to identify merchant payment classes, and these classes could, in principle, be restricted.

The AWC considers that this would be an intrusive step, and one that would in principle apply to all gambling and wagering payments, not just to payments to suppliers, which is regarded as undesirable. Evasion would be easy, and compliance with Australia's international obligations would need to be considered (as would the benefits of collaboration with overseas jurisdictions).

These conclusions are supported by an expert opinion from The Centre for Internet Safety (**CIS**) hosted within the Law Faculty at the University of Canberra, which considered that:

*“financial and ISP blocking restrictions of online gambling services are inefficient, easily circumventable and drive consumers towards the black market as evidenced in markets where such measures have been introduced. Making parallels with other online issues (from intellectual property rights through to online child exploitation) the use of financial transaction and IP blocking has not been successful in curbing illegal use.”*<sup>30</sup>

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<sup>30</sup> The Centre for Internet Safety (CIS), IP and Financial Transaction Blocking in the context of Online Wagering, April 2015. See Appendix F.

The CIS report concludes by suggesting that:

*“consumer protection may be better preserved through attractive and internationally competitive regulation which keeps consumers away from the black market”.*

A national regulator would be best placed to consider whether these ideas could, and should be implemented effectively and proportionately.

### **International cooperation**

International cooperation is an important issue.

Australia’s international obligations (including prospective obligations under the recently-signed Trans Pacific Partnership Agreement) limit Australia’s ability to unilaterally restrict e-commerce delivery into Australia without appropriate public policy reasons and a non-discriminatory framework.

At the same time, there are opportunities for regulatory cooperation that would allow global wagering regulation to be advanced. At present, the lack of a national regulator stops Australia from taking up these opportunities.

The AWC sees these as further reasons to put national regulation in place. The existing work of the National Integrity in Sport Unit (which has been surprisingly effective in setting an international example) would be another dimension that could be advanced by national regulation. Sports integrity is a fundamental value for all Australian sport and racing, and integrity issues arise in the context of global wagering markets, often poorly policed. International cooperation to close these ‘ungoverned spaces’ on the internet can only be in Australia’s interest, and can only be achieved by engagement at national level. This is also one of the areas where further research is needed.

### **National self-exclusion scheme**

One idea we hope the Review will endorse is a national self-exclusion scheme, allowing customers to opt out of betting for periods of time, or permanently, with that request immediately honoured by all wagering providers, including retail providers.

AWC members would welcome this initiative, and recognise that they and other wagering providers would need to fund such a scheme, but not manage it. That should be a task overseen by a national regulator.

### Rules on ‘credit’

Technically, wagering providers who let customers settle their accounts periodically aren’t offering credit in the legal sense. But periodic, deferred settlement looks and feels like credit for customers, and that’s the sense in which the AWC is using the term here.

AWC members will provide more detailed information from a commercial perspective. In considering this issue, it also makes sense to exclude high net-worth customers from the discussion. For these customers, credit ‘risk’ is not an issue, and their arrangements are much a matter of mutual convenience. For the rest of this discussion, the AWC is talking about ordinary Australian customers, who may want to be able to settle their accounts regularly, in arrears if that is the position the account is in.

‘Credit’ of this sort is already regulated. Some state and territory jurisdictions have introduced rules or are consulting on them (especially the Northern Territory, where most AWC members are licensed, and South Australia). The Northern Territory has recently introduced a mandatory code on the provision of deferred settlement facilities, with compliance being a condition of license.<sup>31</sup> AWC members welcome this step. Wagering providers accept that credit should not be offered unsolicited, and that it should be accompanied by normal credit checks (which protect both parties).

It is worth noting that wagering providers report that the vast majority of accounts are run on a deposit basis (ie do not involve ‘credit’ arrangements). Again, the vast majority of accounts where deferred settlement is agreed are well conducted. And the normal level of ‘credit’ is very low – this is an arrangement of convenience for customers.

AWC members accept that a future regulator should continue to monitor ‘credit’ arrangements of this sort, to ensure a high and consistent standard of consumer protection, uniformly applied across the Australian market. If the case for tighter regulation were to emerge, it would be accepted. This is another area where a program of future research would help better understand the market and consumer behaviour, and inform future regulatory policy.

### Restriction of bets

Some bettors are concerned that their proposed wagers are declined, or restricted. The fact is that Australian licensed wagering providers accept bets from almost all consumers. Australian Consumer Law provides general protection. Australian providers employ risk

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<sup>31</sup> Mandatory Code of Practice for the Provision of Deferred Settlement Facilities for Northern Territory Licensed Sports Bookmakers 2015. See Appendix G.

assessment personnel and tools to determine maximum betting limits, and monitor betting patterns and behaviour. As a result of those processes, Australian operators do on occasion decline or restrict a bet for risk management purposes or for sports integrity reasons. This represents only a small fraction of total bets.

It's important to remember that wagering operators risk their own capital in every market, and should be allowed to manage that risk as they see fit consistent with consumer protection law. Online wagering is not a monopoly, and not a public service. There must be a willing buyer and willing seller in each transaction.

It's also important to allow wagering operators to manage integrity issues, including anomalous betting patterns, in association with sports controlling bodies. This may include declining bets, or limiting them. Wagering operators are expected to know their customers, verify their identity, and manage integrity and money-laundering rules. It would be perverse to expect that operators then forgo the opportunity to use that and other knowledge to manage risk in their businesses. Wagering is, after all, not gaming: many bettors win over time, and wagering operators' risk are, by definition, a mirror of their customers' risks. Risk management is a central feature of wagering.

In practice, licensed wagering providers say those being restricted are a very small number of professional gamblers. Racing NSW has rules to mandate minimum bets being accepted. Racing NSW are best placed to comment, but AWC members note that these rules have been very hard to implement, monitor and enforce.

### 13. CONCLUSIONS AND RECOMMENDATIONS

The AWC argues that the Review should conclude that:

- Online wagering is here to stay. Only well-run, well-regulated Australian businesses will meet this demand in ways that maximise benefit and minimise harm to society, the economy and racing and Australian sport;
- Consumers choose to wager online, and on mobile devices. Platform neutrality (including in-play wagering) is essential if this shift is to be accommodated – it certainly can't be stopped;
- National regulation is needed to provide a strong, predictable framework for investment (including job creation), integrity, harm minimisation, and underpin returns to racing and sporting bodies;
- Consumer protection is central to any regulatory framework, and licensed, Australian wagering operators are committed to it. The consumer protection framework needs to be based on good public information, and a commitment to clearly differentiating Australian operators from offshore ones. Consumers need to be shown the difference and encouraged to make good choices. Consumer protection includes wagering-specific features related to problem gambling, but also generic e-commerce features related to data protection, identity checking, money laundering rules, and consumer remedies.

What would that mean? The AWC urges the Review to recommend:

- A national framework for licensing and regulating wagering services. A regulatory body should be established to license operators, and set and enforce national consumer protection rules and problem gambling standards. It should also oversee a national self-exclusion scheme. It should have the ability to engage with regulators around the world to advance Australian interests, and close some of the ungoverned spaces in this part of the internet;
- Legislative support for uniform rules on consumer protection (using existing consumer law wherever possible). This should include rules around the provision of credit facilities.
- A national framework for harm minimisation and problem gambling programs, standards and services;

- Recognition that the proposed AANA code on advertising should be supported, and reviewed after a period if necessary;
- An end to the prohibition on in-play wagering delivered online (with appropriate protections and rules for so-called micro-betting);
- Provision for a certified trademark or logo identifying licensed Australian providers, to underpin consumer education and information;
- A national self-exclusion scheme, funded by industry but run by government; and
- A national research program on wagering issues and behaviour, to inform debate and policy.

## LIST OF APPENDICES

- Appendix A: H2 Gambling Capital - Australian Offshore Interactive Wagering Independent Report: November 2015.
- Appendix B: ACMA Report 1—Australians’ digital lives, March 2015.
- Appendix C: Screen Shots - Offshore Operators’ Websites.
- Appendix D: Offshore Operators Offering In-Play and Pre-Game Bets to Australians during Major Australian Events 2014 & 2015.
- Appendix E: The AANA Discussion Paper on the proposed *AANA Wagering Advertising & Marketing Communication Code*.
- Appendix F: Centre for Internet Safety Centre for Internet Safety 2015 – IP and Financial Transaction Blocking in the Context of Online Wagering.
- Appendix G: Mandatory Code of Practice for the Provision of Deferred Settlement Facilities for Northern Territory Licensed Sports Bookmakers 2015.





## **Australian Offshore Interactive Wagering Independent Report**

**November 2015**

Prepared for: **Australian Wagering Council**  
Prepared by: **H2 Gambling Capital**

**Premium business  
solutions**



 [h2gc.com](http://h2gc.com)

## Executive Summary

**H2 Gambling Capital (H2)** – the leading authority regarding market intelligence on the global gambling industry – has prepared this independent report in response to the *Impact of Illegal Offshore Wagering* review initiated by the **Commonwealth Government of Australia**. It has been submitted to help provide an **impartial** perspective during the review process, in advance of its intended reporting deadline of 18 December 2015.

Over the last few years, it is fair to say the global gambling industry has seen a **paradigm shift** characterised by land-based to interactive wagering; from racing (horse and dogs) to sports (predominantly football); from PC/desktop use to mobile; and from pre-match wagering to in-play. The Australian market is no different.

Our assessment leads us to conclude that, if nothing changes going forward, the Australian offshore interactive market will remain strong at **over 60%** of all gambling activity. By 2020, this will amount to **A\$2.2-2.3bn** leaving the country in lost profits, of which **A\$900m** will be from wagering, plus a further **A\$100m per annum in lost tax dollars**, and significant economic growth opportunities – particularly **job creation**, **technological investment**, and **problem gambling prevention** – remaining underdeveloped when compared to the world's other leading gambling nations.

Put simply, there is **imbalance** in the market at the moment between Australia's onshore and offshore operators. The Internet, while it **can never be fully policed**, if properly regulated, can move Australia closer towards **market equilibrium** – with the government, licensed operators, and consumers all benefiting.

We draw 14 'top line' conclusions in particular:

### H2 Independent Report – 14 Conclusions

1. *Sports wagering is nearly half of all interactive gambling globally, and mobile use in the sector is set to double by 2018. Interactive is still only 9% of all gambling worldwide however, but growing at 8x the rate of the land-based sector.*
2. *In-play wagering is growing at 19% of all wagering, and could reach 50% by the end of the decade (excluding racing). It is now considered the essential component for interactive business growth.*
3. *Europe is by far the dominant region online with nearly half the world's interactive market. The Nordic countries are the most progressive with interactive wagering levels in excess of 30%.*
4. *Offshore operators enjoy a significant advantage over their onshore competitors – evidenced by not having to pay local taxes, licensing or product fees; adhere to quality standards or investigative procedures; nor contribute towards responsible gambling initiatives, local jobs or economic growth. The trend is moving away from grey however with nearly two-thirds of interactive wagering to take place on white markets by 2020.*
5. *The most mature interactive nations have 'something for everyone' market equilibrium – where the government has player security and taxation; the operators have market protection and profit; and the consumer enjoys choice, value for money and player protection.*

6. *Australia is the No 1 gambling nation in the world (based on spend per head), but does not enjoy market equilibrium, with a plethora of offshore operators exploiting a unique 'grey area' within current regulations, most exposed by the arrival of in-play wagering.*
7. *Australia has one of the biggest grey markets in the world. Numerous commercial offshore operators illegally target the country, but it still remains legal for Australian citizens to use them.*
8. *'You can't police the Internet' – however a range of blocking measures could be introduced in Australia to help restore market equilibrium – a ban on offshore operator advertising; IP/financial blacklisting; imposing penalties; higher standards of player protection; legalising in-play and other new product verticals; outlawing offshore wagering.*
9. *Interactive wagering is much more sensitive to tax take than other product verticals. A maximum 'sweet spot' exists which in Australia is probably in the region of, but no more than, 15% of gross win equivalent.*
10. *Two types of benchmarking market exist – those attempting to control interactive offshore wagering through restrictive measures, and those successfully controlling it via regulation. No two markets are the same, but there are lessons Australia can draw on from both camps. Parallel regulatory developments in the US are also of consideration.*
11. *Australia, alongside the UK and Canada, make up the three nations worldwide pioneering new approaches to Responsible Gambling (RG) within the sector. RG "is now firmly on the radar of every Tier 1 CEO". Problem gambling remains highest among land-based, not interactive, players.*
12. *The current offshore interactive gambling market is made up of over 5x the number of sportsbooks than three years ago. It is worth A\$1.3bn, of which sports wagering is cA\$400m, with in-play between A\$200–225m of this. Under the status quo, the total market will reach A\$2.2–2.3bn by 2020 with A\$900m of this wagering, of which A\$600m will be from in-play. The equivalent of A\$100m tax dollars will be lost per annum, and over 60% of all interactive gambling will stay offshore.*
13. *If in-play wagering was regulated, the total market would only increase by 3% by 2020, but the proportion of Australian spend with onshore interactive operators would rise from 49% in 2014 to 78% by 2020.*
14. *The majority of operators want to operate in a fairer market with the UK regulatory model considered the "gold standard". They believe increased competition will drive innovation, with the 'recreational punter' and in-play wagering the main focus going forward.*

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## Context for this Report

This is an independent report provided in response to the *Impact of Illegal Offshore Wagering* review initiated by the **Commonwealth Government of Australia** on 7 September 2015.

It has been prepared by **H2 Gambling Capital (H2)** – the leading authority regarding market intelligence on the global gambling industry – to help provide an **impartial** perspective during the review process, in advance of its intended reporting deadline of 18 December 2015.

The review's Terms of Reference provide for a thorough examination of the practice of providing offshore wagering services to customers in Australia under the *Interactive Gambling Act 2001* and are to contain recommendations for mitigating illegal offshore wagering including, but not limited to, improved government controls; industry codes and standards; and information to customers to enhance self-responsibility. Four specific terms for the review are highlighted in particular:

- "1. the economic impacts of illegal offshore wagering and associated financial transactions on legitimate Australian wagering businesses, including size of the illegal industry, growth, organisation and interrelationships with other criminal industries and networks;*
- 2. international regulatory regimes or other measures that could be applied in the Australian context;*
- 3. what other technological and legislative options are available to mitigate the costs of illegal offshore wagering; and*
- 4. the efficacy of approaches to protect the consumer – including warnings, information resources, public information campaigns and any other measures, regulatory or otherwise, that could mitigate the risk of negative social impacts on consumers."*

Source: Commonwealth Government of Australia, 2015

We believe our analysis herein helps inform all four of the above, by offering a mixture of both **quantitative** financial and benchmarked data, as well as up-to-date **qualitative** opinion from the market, under 7 main themes:

### H2 Independent Report – 7 Themes

1. Global overview of the interactive market – in particular highlighting the growth of **sports wagering** (now 48% of all interactive wagering within the sector), and the use of **mobile** (doubling over the next 5 years);
2. Taxation – commentary on how the sector currently **handles taxation on the Internet**, including the setting of optimum levels for interactive wagering (and its subsequent impact on consumer retention);
3. **Benchmarked markets** – best practice examples of wider regulation within the sector worldwide, including description on how the advent of new innovations like in-play wagering have been dealt with, particularly within the UK and Europe;
4. Current Australian offshore market – informed **qualitative** data, and **quantitative** opinion, on the economics and size of the market and how it is currently regarded by non-Australian regulated operators (including a clear explanation of how offshore provision works within the space);
5. **In-play** – commentary on how in-play works currently, and has grown within the sector in recent years;
6. **Problem gambling** – analysis of the sector’s current approach to problem gambling; whether new forms of activity such as in-play wagering make it worse or not; and key RG (Responsible Gambling) programmes and developments underway to safeguard players in the future;
7. Offshore blocking measures – commentary and benchmarking examples from other countries on the difficulties in **policing the Internet**.

We hope our material is of value to all parties involved in the review, and as part of any subsequent government policy formulation that may or may not follow.

## H2 Credentials

**H2** is widely recognised as the leading authority regarding independent market intelligence on the global gambling industry. Its team has been researching and tracking the value of the sector in real time since 2000.

The intelligence generated by H2’s unique industry forecasting model has become by far the most quoted source regarding the sector amongst corporates, banks, analysts, governments, regulators and the trade media. Its team has worked with nearly 500 clients globally with specific legislative work undertaken most recently within the Netherlands, the Czech Republic, Sweden, the US (the states of New York, Pennsylvania and California), Greece, Norway, Belgium, France and China. In the media, the company regularly provides data and information to many leading outlets including the BBC, Reuters, Bloomberg, *The Economist*, *The Financial Times*, *The New York Times* and *The Wall Street Journal*.

The H2 databank itself covers approximately 120 world markets, with over 2m data points and 1,450 postings per year, and 5-year projections out to 2020. Forecasts are for land-based, interactive and mobile channels and cover both onshore and offshore numbers. As a result, the vast majority of the sector’s current Tier 1 operators/suppliers; its regulators; and many of the world’s leading banks/financial institutions currently take out the **H2 Subscription**. In parallel, the **H2 Premium** advisory service offers access to the more dedicated time of the H2

team and its network of senior associates located all over the world, and this service is regularly used today as part of government policy formulation in the sector.

In terms of its reporting, H2 utilises ‘**gross win**’ (i.e. turnover less prizes, but including any bonuses played) rather than the turnover/sales measure to value the gambling sector. This is due to the fact that across different product verticals, geographies and market channels payout rates are all different. Therefore, gross win provides a much more consistent measure for comparison across the sector. Furthermore, it also provides a much better reflection of operators’ top line revenue as opposed to turnover, which can include the same money that has been recycled a number of times in many of the product verticals.

Finally, it should also be noted that in order to be included in H2’s analysis any activity must be licensed either in the same jurisdiction as the player is located (**‘White Market’**) or in a different market (**‘Grey Market’**). We do not cover any activity that is completely unregulated or illegal (**‘Black Market’**).

*Note: The unique H2 model collates and compiles data via key **primary sources** that include:*

- ✓ Actual published primary/secondary market and organisation data;
- ✓ Knowledge/assessment of the supply side by product vertical;
- ✓ H2’s own in house tracking of activity;
- ✓ Generic information pooled under NDA;
- ✓ Regular contact with private organisations/investors, including subscriber feedback;
- ✓ Knowledge/opinion of third parties – including providers and other industry analysts.

*Market forecasts are based on a number of key **secondary drivers** including:*

- ✓ Maturity of product;
  - ✓ Expected product development;
  - ✓ GDP/broadband/mobile growth;
  - ✓ Benchmark markets;
  - ✓ Incorporating the impact of past and expected legislation.
- 

#### H2 Disclaimer

Whilst great care has been taken in the preparation of this publication H2 Gambling Capital accepts no liability for the accuracy or completeness of all data and information provided, and no warranty is given as to its correctness or forecast estimates herein.

## Section 1: Global Interactive Wagering – Overview

### Evolution of Interactive Wagering Globally

*Sports wagering nearly half of all interactive gambling, and mobile use set to double by 2018. Interactive still only 9% of all gambling worldwide, but growing at 8x the rate of the land-based sector.*

1. **'Interactive wagering'** commonly refers to betting on the outcome of an external outcome or fact, principally sporting fixtures, but can also now include popular events such as the results of reality TV shows, political and/or celebrity activities. It is widely considered (and regulated as) a **'game of skill'** in the gambling sector (as opposed to a 'game of chance').
2. Traditionally, wagering took the form of **'fixed odds'** betting – with bets placed either through pari-mutuel pools (literal translation 'mutual betting' – also known as the Tote), in which all bets of a particular type are placed together in a pool and the odds calculated by sharing the pool among all the winning bets after the event; or via bookmakers using odds offered at the time the bet is placed.
3. In some countries, wagering has also been offered as an extension to an existing **lottery draw** game – principally via straight win, lose or draw result combinations – the most noteworthy recent example being China, where the China Sports Lottery experimented with the 'one off' introduction of a specialist draw game linked to the FIFA World Cup 2014. This resulted in an 83% rise in ticket sales over the month of the tournament (source: China Sports Lottery, 2014).
4. As wagering moved from trackside to retail outlets and then to over the telephone, its global popularity grew and proper regulation and licensing of the sector's incumbent and emerging bookmakers followed. However, as the world increasingly moved online (or interactive) over the last 20 years, the proper policing and licensing of wagering activity within traditional government and/or state boundaries began to provide the sector with some significant challenges, and today **many varying approaches** to regulation have developed across different markets all over the world.
5. From the consumer's point of view, the Internet has provided the platform for an explosion in **new wagering innovations**, all designed to service increased player demand – most recently:
  - **Betting exchanges** – a wagering system that allows consumers to both back and lay bets at the odds of their own choosing. Similar to a stock exchange, a bettor can either back a team (hoping it will win) or lay a team (hoping it will lose, effectively also acting in the role of bookmaker).
  - **Spreads** – where a consumer's payout is based on the accuracy of the wager, rather than a simple win/lose outcome. A spread is a range of outcomes and the bet is whether the outcome will be above or below the spread offered.
  - **In-play** – the new phenomenon of wagering, where the odds on offer from the bookmaker change constantly during a game according to the state of the match and the events taking place previously. This new format has also markedly increased the types of bet now on offer from bookmakers – with odds no longer just for straight win, lose or draw, but on anything from first goal scorer to the number of penalties or

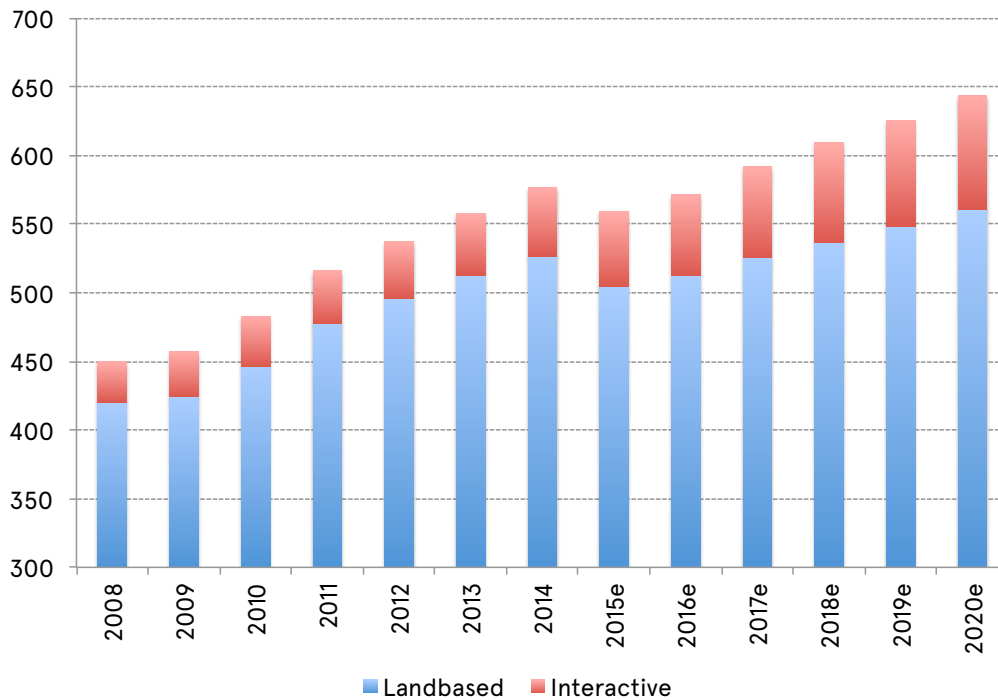


highest number of tackles. The total in-play market **grew to 19% in 2014**, in comparison to ante post wagering (i.e. fixed odds selected prior to an event starting) at 8%, and all wagering in total at 14%.

- **Virtual sports** – computer generated action with near real life graphics and sounds simulating real sports events or races, and the results decided via the draw of random numbers. Those currently available in the sector are produced as mini-versions of sports events, all lasting between 1-5 minutes in duration. In Italy, virtual sports are now over 20% of all sports betting, and in the UK, the vertical has grown to become the No 1 form of gambling conducted more than 2x week in-store (source: Gambling Commission, 2014).
  - **Daily fantasy sports** – where participants act as owners of a team, with its players picked based on statistics generated by the real life performance of individual professional athletes. Fantasy teams compete against other fantasy owners within leagues or tournaments. Play is now offered on a daily basis within the US in particular, with the number of active players up from 33.5m in 2013 to 42m in 2014 (source: Fantasy Sports Trade Association, 2015).
  - **eSports** – ‘electronic’ sports where play takes the form of professionally run multi-player video game competitions, again within leagues or tournaments. The most common video game genres are real-time strategy, fighting, first-person shooter, and multiplayer online battle arenas. Consumers either physically attend or stream competitive matches, leagues and championships, and gamble on their outcome.
6. As a consequence of all the above, and as more and more live sport is shown on TV or streamed via digital platforms, the global interactive wagering market is growing fast and is already significant in terms of its size and maturity. Although rooted in the mid-to late 1990s, its stability in industry terms spans a solid 15-20 years of benchmarked performance.
  7. According to H2’s own analysis, global interactive gambling has developed from **A\$19.5bn** of gross win or **5.1%** of the total market in 2005, to be expected to reach **A\$54.6bn**, or **9.8%** in the current year. This means that the interactive section of the industry has grown at **8x the rate of the land-based sector** over this period, with no signs of this trend to slow down.
  8. Consumers have embraced technology throughout their lives with the gambling sector being no different. In parallel to this operators have been able to utilise technology to provide more sophisticated product propositions, such as betting exchanges and in-play wagering that are much more compelling to today’s consumer.
  9. It has been the **wagering sector** of the gambling industry that has seen much of the shift onto the interactive channel with **34.7%** of its total global gross win expected to be interactive in the current year which corresponding rates of 7.2% and 2.9% for gaming and lotteries respectively.
  10. Not only did a relative lack of development in terms of the overall market size of wagering create the demand but also the transactional, ‘on-the-go’ nature of the experience has meant that interactive platforms in general, and more recently mobile platforms specifically, have proven to be ideal for the vertical.
  11. During 2014, according to H2’s own analysis (see Fig 1), global gambling gross win reached **A\$577bn**, up 3.4% on the prior year and at a **CAGR of 4.2%** during the six year period from **2008 to 2014**. In the current year from data modeled thus far, we expect that the total

size of the global market will **fall 3.1%** to **A\$559bn**, due to the contraction of Macau's casino and China's lottery markets which have both become important parts of the global sector during the past decade.

**Fig 1: Global Gambling Gross Win by Market Channel (A\$bn)**

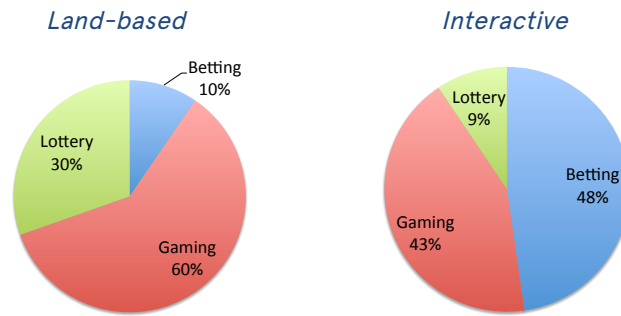


(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Land-based	420.3	424.4	446.2	477.9	495.9	512.8	526.5	504.5	512.6	525.6	536.8	548.6	560.8
Interactive	29.6	33.0	36.7	38.0	41.5	45.1	50.5	54.6	59.2	66.3	72.5	76.7	82.6
<b>Grand Total</b>	<b>449.9</b>	<b>457.4</b>	<b>482.9</b>	<b>515.9</b>	<b>537.4</b>	<b>557.9</b>	<b>577.0</b>	<b>559.2</b>	<b>571.8</b>	<b>591.9</b>	<b>609.3</b>	<b>625.3</b>	<b>643.5</b>
% Interactive	6.6%	7.2%	7.6%	7.4%	7.7%	8.1%	8.8%	9.8%	10.3%	11.2%	11.9%	12.3%	12.8%

Source: H2 Gambling Capital, November 2015

12. Going forward H2 expects the total value of the sector to grow at a **CAGR of 2.8%** during the five-year period from **2015 to 2020** taking its total gross win to **A\$644bn** by the latter. This represents just under 0.5% of global GDP or an average of approximately A\$108 per adult.
13. During 2014, the total global gambling market consisted of A\$74bn (10%) wagering (mainly horse racing and sports), A\$338bn (60%) gaming (casino, gaming machines, bingo etc) and A\$165bn (30%) lottery (draws, instant tickets, numbers games). Online however, sports wagering is the **fastest growing market segment** within all gambling worldwide, and now dominates at nearly **half of all interactive gambling (48%)** (see Fig 2):

Fig 2: Global Gambling Gross Win by Major Product Vertical 2014



*Land-based Global Gambling Gross Win*

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	45.9	43.9	44.4	44.9	45.4	46.4	50.3	48.7	50.2	51.9	53.9	56.1	58.8
Gaming	248.8	246.5	265.2	287.2	300.6	312.4	316.2	296.3	300.4	308.5	314.6	320.9	327.1
Lottery	125.6	134.0	136.7	145.8	150.0	154.0	159.9	159.5	162.1	165.2	168.3	171.6	175.0
<b>Land Total</b>	<b>420.3</b>	<b>424.4</b>	<b>446.2</b>	<b>477.9</b>	<b>495.9</b>	<b>512.8</b>	<b>526.5</b>	<b>504.5</b>	<b>512.6</b>	<b>525.6</b>	<b>536.8</b>	<b>548.6</b>	<b>560.8</b>
% Betting	10.9%	10.3%	10.0%	9.4%	9.1%	9.0%	9.6%	9.7%	9.8%	9.9%	10.0%	10.2%	10.5%

*Interactive Global Gambling Gross Win*

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	14.2	15.1	16.7	17.9	19.7	21.6	24.1	25.9	28.0	29.8	32.4	33.8	36.6
Gaming	13.4	15.5	17.5	17.3	18.6	19.7	21.6	23.1	25.0	29.3	31.9	33.8	35.8
Lottery	2.0	2.4	2.5	2.8	3.2	3.8	4.8	5.6	6.2	7.3	8.2	9.1	10.2
<b>Interactive Total</b>	<b>29.6</b>	<b>33.0</b>	<b>36.7</b>	<b>38.0</b>	<b>41.5</b>	<b>45.1</b>	<b>50.5</b>	<b>54.6</b>	<b>59.2</b>	<b>66.3</b>	<b>72.5</b>	<b>76.7</b>	<b>82.6</b>
% Betting	47.9%	45.9%	45.5%	47.0%	47.5%	47.9%	47.7%	47.4%	47.3%	44.9%	44.7%	44.1%	44.3%

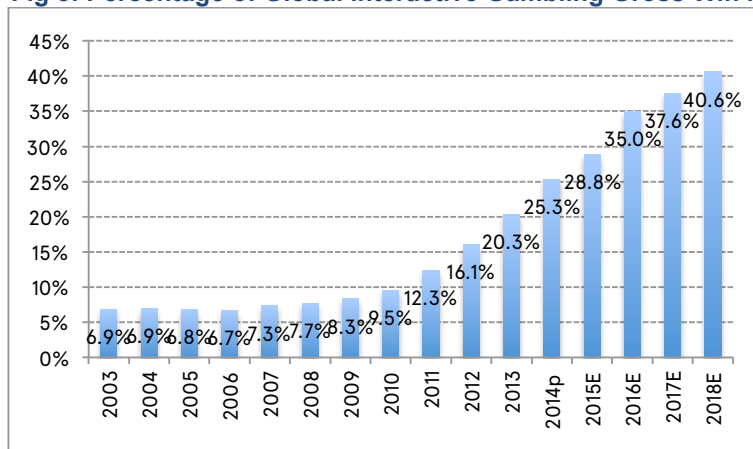
*All Global Gambling Gross Win*

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	45.9	43.9	44.4	44.9	45.4	46.4	50.3	48.7	50.2	51.9	53.9	56.1	58.8
Gaming	60.1	59.1	61.1	62.8	65.1	68.0	74.4	74.6	78.2	81.7	86.3	89.9	95.5
Lottery	262.1	262.0	282.6	304.6	319.1	332.1	337.9	319.4	325.3	337.8	346.5	354.6	362.9
<b>All Total</b>	<b>127.6</b>	<b>136.3</b>	<b>139.2</b>	<b>148.6</b>	<b>153.2</b>	<b>157.8</b>	<b>164.7</b>	<b>165.1</b>	<b>168.3</b>	<b>172.5</b>	<b>176.5</b>	<b>180.8</b>	<b>185.1</b>
% Betting	13.4%	12.9%	12.7%	12.2%	12.1%	12.2%	12.9%	13.3%	13.7%	13.8%	14.2%	14.4%	14.8%

Source: H2 Gambling Capital, November 2015

14. At **A\$24.1bn gross win** in 2014, the size of the global interactive sports wagering market is significant. The above figures also translate to just under a third of the global wagering market taking place via interactive channels as opposed to just over 6% for gaming and 3% in the case of lotteries. A fifth of this is accounted for by mobile, with this figure itself **set to double** from 20% in 2013 to **41% by 2018** (see Fig 3):

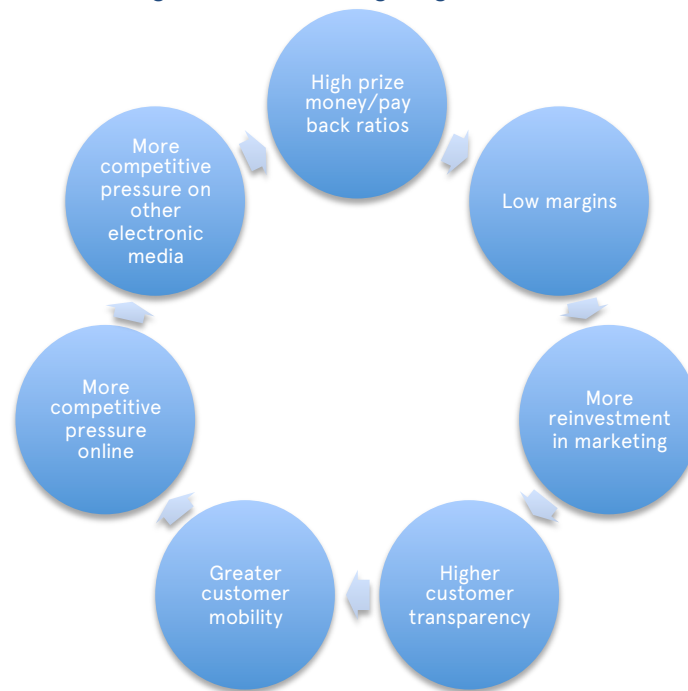
Fig 3: Percentage of Global Interactive Gambling Gross Win Mobile



Source: H2 Gambling Capital, November 2015

15. When you also consider recent research that suggests a purported 8 out of 10 of the world's sports bets are placed on the black market (source: International Centre for Sport Security, 2014), the true interactive wagering market size might actually be nearer **5x this amount** (or A\$120.5bn). Indeed, for specific sports events it may be enormous – the American Gaming Association estimating recently that the amount wagered illegally on Superbowl 2015 was US\$95bn or **38x** that bet legally within the sportsbooks of Nevada (source: American Gaming Association, 2015).
16. Of the interactive betting market's gross win, H2 assessment suggests that in 2014 racing (horses and dogs) accounted for cA\$13.7bn gross win (**57%**) with other sports accounting for the remaining A\$10.4bn (43%) between them. Although its absolute market size continues to grow, increasingly racing is losing share to other sports – especially football (soccer) – with parity of market size expected to be reached in 2020 when both sub-sectors are expected to generate a gross win of cA\$18.3bn.
17. Finally, as part of our introduction, it is also worth commenting on some of the major differences that exist between land-based and interactive wagering, and which necessitate significant variations in their fiscal policy. In short, the interactive channel has been a key area of growth for the gambling sector in recent years as has been the case across the global economy in general. Consumers spend an increasing amount of their time and money online so it is only natural that they will seek to purchase and play all aspects of gambling products online. The channel has also brought **power to the consumer** as now prices can be easily compared between providers and innovation, technology and cross-border supply have all contributed to an evolution of service that has ensured that the sector has been able to keep pace with the increasing sophistication of consumers' tastes and preferences.
18. This has led to some significant differences in operator approach, namely:  
  
**Land-based – is mainly product/provider led**
  - *Land-based operators primarily compete within national or state territories.*
  - *Players usually visit their wagering premises.*
  - *As a result, there is less competition than in the interactive space, making price less sensitive.*
  - *The environment, ambiance and community within land-based outlets are components that can never be replicated within interactive wagering.*  
**Interactive – is totally consumer led**
  - *Interactive operators are part of a highly competitive international environment where price is much more elastic.*
  - *Players have greater control because purchasing decisions are not limited by location or time.*
  - *This is compounded by vast opportunity, with better offers, bonuses and promotions all 'just one click away'.*
19. As a result, the **interactive business model** is significantly different to its land-based equivalent and is operated principally on lower margins, with greater sensitivity in particular over marketing costs (see Fig 4):

Fig 4: Interactive Wagering Business Model



Source: H2 Gambling Capital, November 2015

## Growth Areas Currently

*In-play wagering is growing at 19% of all wagering, and could reach 50% by the end of the decade (excluding racing). It is now considered the essential component for interactive business growth.*

20. At the time of the review, we identified **9 specific growth areas** for interactive wagering going forward:

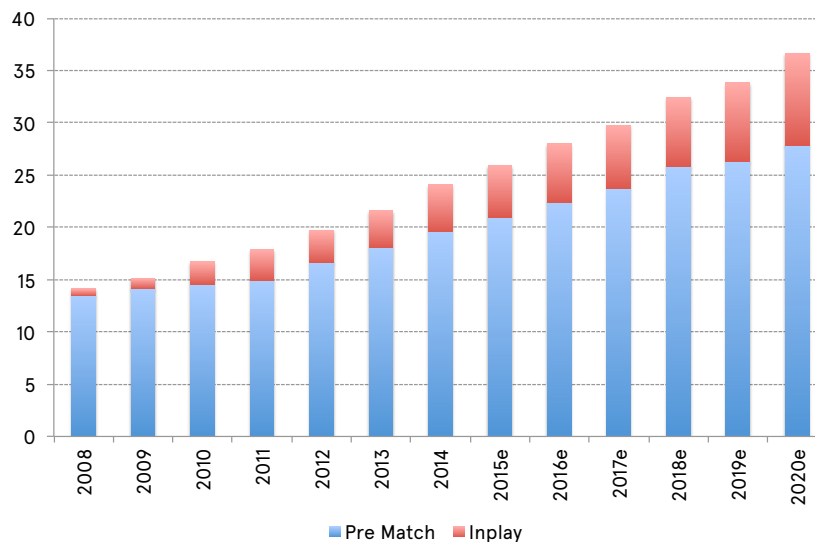
### Global Interactive Wagering - 9 Growth Areas in 2015

1. **Grey growth** – the strongest interactive growth is projected to come mainly from an increase in activity within grey (offshore) markets;
2. **Slow regulatory evolution** – a maturing picture, as more and more regulators begin to play catch up, and move towards fully licensed land-based and interactive markets;
3. **Fast pace of technology** – new innovations, driven by ever more specialist and smaller, fleet-of-foot technology suppliers entering the sector;
4. **Personalisation and social wagering** – a customised experience increasingly dictating the future, with real time tracking of consumer behaviour and data learning capability defining the way consumers are offered a wagering service, increasingly integrating with, and through, existing social networks;
5. **Mobile-driven omnichannel service** – mobile use doubling over the next 5 years, but also the same consistent wagering service offered across all devices a consumer interacts with – mobile, tablet, PC, TV, watch, in-stadium console, gaming machine etc;

6. **Lottery integration** – wagering increasingly combining and cross-selling with traditional lottery draw games, particularly as the latter begin to play catch up and move their ticket sales online;
7. **In-play sports wagering** – becoming the essential component for interactive wagering business growth, represented by access to more and more live sport, and also the continued emergence of always on, 'unreal' sport – i.e. virtual sports, daily fantasy sports, eSports;
8. **Operator domination** – the big operators getting bigger, with more market expansion increasingly as a result of in-sector JV partnerships and/or M&A activity – retaining success through liquidity, adaptability and flexibility;
9. **Growing up responsibly** – the sector maturing, with high standards of responsible gambling increasingly being demanded by regulators and firmly on the radar of all operator CEOs.

21. Specifically in relation to in-play, H2 has assessed the size of the global market to be **cA\$4.5bn** of gross win, or just under **19%** of the total value of the interactive gambling market. In the current year it is expected that in-play will reach cA\$5bn of gross win and going forward it is expected that its gross win will increase to cA\$8.4bn by 2020, a **CAGR over 11%** during the next five years (see Fig 5).
22. Given that in-play accounts for virtually no wagering on racing, H2's analysis implies that it currently accounts for c43-44% of the gross win generated via betting on other sports and that this rate will continue to increase **toward 50%** by the end of the decade, therefore, emphasising its growing popularity amongst consumer and importance to operators.

**Fig 5: Global Interactive Betting Gross Win: Pre Match vs In-play (A\$bn)**



(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Pre Match	13.5	14.1	14.5	15.0	16.6	18.1	19.6	20.9	22.4	23.7	25.8	26.3	27.8
In-play	0.7	1.0	2.2	2.9	3.1	3.5	4.5	5.0	5.6	6.1	6.6	7.5	8.8
Interactive Total	14.2	15.1	16.7	17.9	19.7	21.6	24.1	25.9	28.0	29.8	32.4	33.8	36.6
% In-play	4.8%	6.6%	13.0%	16.4%	15.6%	16.4%	18.6%	19.2%	19.9%	20.3%	20.4%	22.2%	24.0%

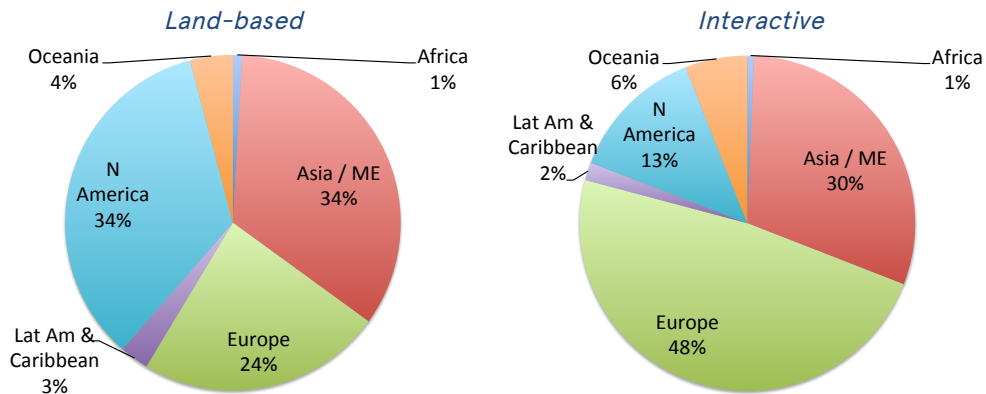
Source: H2 Gambling Capital, November 2015

## Regional Variations

*Europe by far the dominant region online with nearly half the world's interactive market. The Nordic countries the most progressive with interactive wagering levels in excess of 30%.*

23. The varying pace of regulating interactive wagering globally has led to significant regional variations in overall market size. Europe remains **by far the dominant** interactive region (49%), and boasts the most regulated and diverse gambling market in the world, particularly in the areas of sports betting and interactive wagering (see Fig 6):

**Fig 6: Global Gambling Interactive Gross Win by Region 2014**



### Land-based Global Gambling Gross Win

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Africa	3.4	3.7	3.8	4.0	4.2	4.6	4.7	5.0	5.2	5.4	5.6	5.8	6.0
Asia / ME	96.4	101.3	121.3	144.8	156.6	173.2	179.6	152.9	157.0	163.5	168.9	175.1	181.7
Europe	128.1	125.9	124.6	126.4	126.0	123.6	124.3	125.2	127.3	129.1	131.0	132.4	133.9
Lat Am & Caribbean	9.2	10.2	11.3	12.2	13.2	13.6	14.7	15.4	15.9	16.6	17.3	17.8	18.4
N America	163.6	162.9	165.3	169.7	174.5	176.4	181.5	184.3	185.2	188.7	191.5	194.5	197.5
Oceania	19.5	20.3	19.9	20.7	21.3	21.4	21.7	21.7	22.0	22.3	22.7	23.0	23.4
<b>Land Total</b>	<b>420.3</b>	<b>424.4</b>	<b>446.2</b>	<b>477.9</b>	<b>495.9</b>	<b>512.8</b>	<b>526.5</b>	<b>504.5</b>	<b>512.6</b>	<b>525.6</b>	<b>536.9</b>	<b>548.6</b>	<b>560.9</b>

### Interactive Global Gambling Gross Win

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Africa	0.1	0.2	0.2	0.2	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Asia / ME	9.6	10.2	10.8	11.7	12.8	13.9	15.3	16.7	17.8	18.9	20.1	21.2	22.6
Europe	11.3	13.5	15.5	17.3	19.4	21.3	24.3	26.4	29.2	31.5	34.4	36.0	38.8
Lat Am & Caribbean	0.3	0.4	0.4	0.5	0.6	0.7	0.9	1.0	1.1	1.1	1.3	1.3	1.5
N America	6.9	7.2	7.9	6.2	6.1	6.3	6.6	7.0	7.1	10.6	12.3	13.4	14.9
Oceania	1.4	1.6	1.9	2.1	2.4	2.7	3.0	3.3	3.6	3.8	4.0	4.2	4.4
<b>Interactive Total</b>	<b>29.6</b>	<b>33.0</b>	<b>36.7</b>	<b>38.0</b>	<b>41.5</b>	<b>45.1</b>	<b>50.5</b>	<b>54.6</b>	<b>59.1</b>	<b>66.3</b>	<b>72.4</b>	<b>76.7</b>	<b>82.6</b>

### All Global Gambling Gross Win

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Africa	3.6	3.8	4.0	4.2	4.5	4.8	5.0	5.4	5.6	5.8	6.1	6.3	6.5
Asia / ME	106.0	111.5	132.2	156.5	169.4	187.2	194.9	169.6	174.8	182.4	188.9	196.3	204.2
Europe	139.4	139.4	140.1	143.8	145.4	144.9	148.6	151.6	156.5	160.6	165.3	168.4	172.7
Lat Am & Caribbean	9.5	10.6	11.7	12.7	13.8	14.3	15.6	16.3	17.0	17.7	18.5	19.1	19.8
N America	170.5	170.1	173.2	175.9	180.6	182.7	188.1	191.3	192.3	199.3	203.8	207.9	212.4
Oceania	20.9	21.9	21.8	22.8	23.7	24.0	24.7	25.0	25.6	26.1	26.7	27.2	27.8
<b>All Total</b>	<b>449.9</b>	<b>457.4</b>	<b>482.9</b>	<b>515.9</b>	<b>537.4</b>	<b>557.9</b>	<b>577.0</b>	<b>559.2</b>	<b>571.8</b>	<b>591.9</b>	<b>609.3</b>	<b>625.3</b>	<b>643.5</b>

Source: H2 Gambling Capital, November 2015

24. Across Europe interactive wagering accounts for A\$24.3bn – or **48%** of total gross win – in 2014, with the rate in excess of 30% across the Nordics, and 26% in the UK. There is room for growth – particularly in the Americas where the pace of change (largely due to prohibition in the US reinforced by the introduction of the *Unlawful Internet Gaming Enforcement Act 2006*), lags well behind that seen in Europe and Asia (the two dominant sports betting regions – albeit the latter is mostly grey).
25. Oceania is expected to continue to be the fourth largest region at A\$25bn with Australia generating the majority of this. Indeed the total value of Australia's gambling market is the **sixth largest** behind only the United States, China (Including the SARs Hong Kong/Macau), Japan, Italy and the United Kingdom.
26. By other measures the Australian market ranks higher. By percentage of GDP represented by gambling gross win it **ranks fourth** at c1.4%, and in terms of the average amount of gross win generated per adult, then Australia ranks **number one** at A\$1,245 in 2014.

## The Balance between Onshore and Offshore

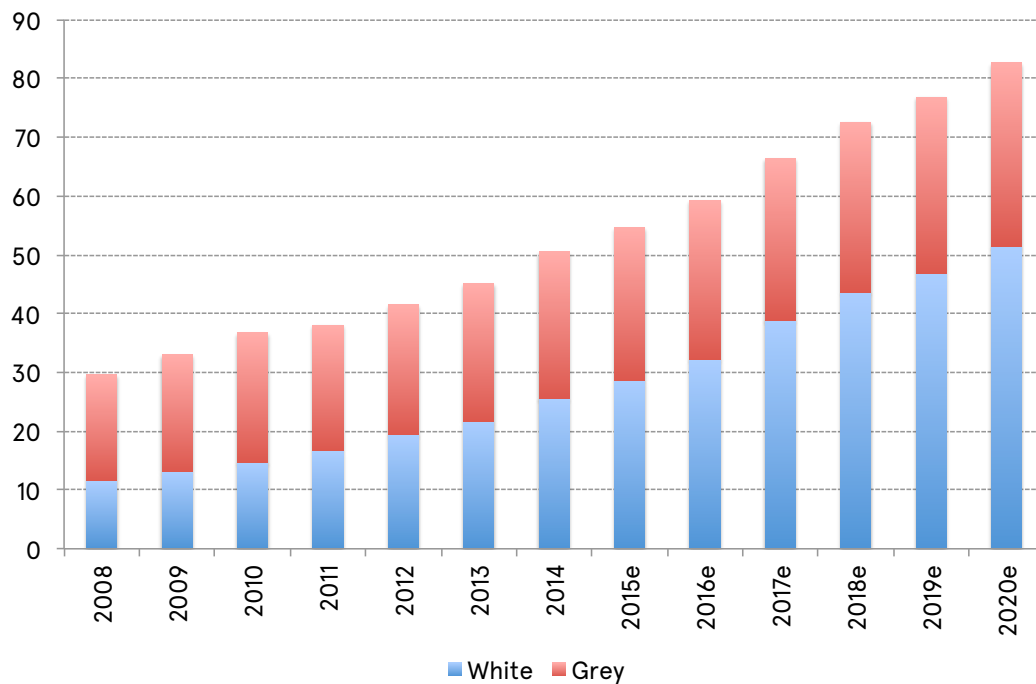
*Offshore operators enjoy a significant advantage over their onshore competitors – evidenced by not having to pay local taxes, licensing or product fees; adhere to quality standards or investigative procedures; nor contribute towards responsible gambling initiatives, local jobs or economic growth. The trend is moving away from grey however with nearly two-thirds of interactive wagering to take place on white markets by 2020.*

*The most mature interactive nations have 'something for everyone' market equilibrium – where the government has player security and taxation; the operators have market protection and profit; and the consumer enjoys choice, value for money and player protection.*

27. A particular quirk of interactive wagering has been the emergence of the '**grey**' or '**offshore**' market over the last 15-20 years, where the player bets online with a bookmaker that is not licensed in the country within which s/he is located. Largely because of the slow pace of regulatory change in responding to this consumer shift worldwide, this growth has been significant in recent years with grey markets profiting from **over 60%** of all global interactive wagering.
28. Latterly however, there has been a clear movement away from the majority of interactive activity taking place on offshore grey sites, to the establishment of properly onshore regulated white markets where players are fully protected and the operators pay tax. In 2008, less than 40% of global interactive gambling gross win was conducted under a scenario where the operator was fully licensed in the same jurisdiction as the player. Last year represented the point at which the size of interactive white markets **surpassed that of the grey markets** for the first time, and it is expected that by 2020 over **62%** of the value of the global interactive gambling market will take place within 'white markets' (see Fig 7):



Fig 7: Global Interactive Gambling Gross Win by Regulatory Status (A\$bn)



(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
White	11.6	13.1	14.7	16.7	19.4	21.7	25.5	28.7	32.2	38.8	43.6	46.8	51.4
Grey	18.0	19.9	22.0	21.3	22.1	23.4	25.0	26.0	27.0	27.5	28.8	30.0	31.3
<b>Interactive Total</b>	<b>29.6</b>	<b>33.0</b>	<b>36.7</b>	<b>38.0</b>	<b>41.5</b>	<b>45.1</b>	<b>50.5</b>	<b>54.6</b>	<b>59.2</b>	<b>66.3</b>	<b>72.5</b>	<b>76.7</b>	<b>82.6</b>
% White	39.1%	39.7%	40.0%	44.0%	46.6%	48.0%	50.5%	52.5%	54.4%	58.5%	60.2%	61.0%	62.1%

Source: H2 Gambling Capital, November 2015

29. Because of this regulatory gap, considerable economic advantages to operating an offshore sportsbook have emerged. In short, offshore operators:

- × *Pay no taxes;*
- × *Pay no licensing fees;*
- × *Pay no product fees;*
- × *Contribute no prize money to sport;*
- × *Contribute no funds to sport running costs – facilities, grass roots and/or elite programmes;*
- × *Contribute no funds to preserving sports integrity;*
- × *Contribute no funds to promoting responsible gambling.*

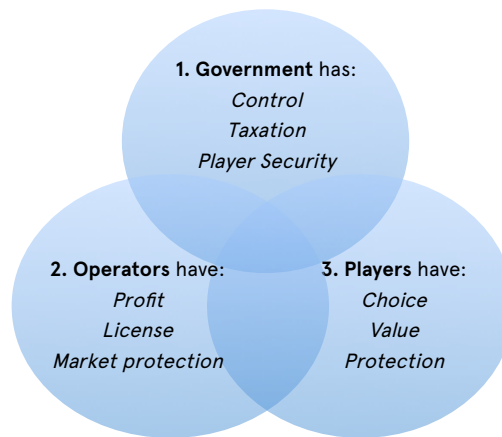
and also:

- × *Generate straight profit;*
- × *Do not have to create or sustain jobs, and pay associated taxes, nor invest in technology within their targeted country;*
- × *Do not have to adhere to that country's licensing requirements, operating standards and/or codes of practice (including advertising controls and responsible gambling measures);*
- × *Do not have to adhere to that country's regulatory practices (e.g. can offer products not permitted domestically and/or the same products cheaper);*
- × *Avoid regulatory audit and submitting wagering transaction data to the authorities for scrutiny;*
- × *Are harder to track if criminal or anti-money laundering proceedings are enacted;*
- × *Operate with less risk.*

30. **No two markets are the same** and around the world, some territories have been fully opened up, others have been developed but remain closed and limited to a local monopoly, with another cohort placing restrictions on who may, or may not, enter the market:
- **Europe** still remains the 'centre of the world' for fully regulated interactive gambling. 13 countries have issued licenses for interactive gambling, and a further 18 countries are reviewing their current regimes. The level of taxation is a key sticking point however, and in the UK, the new 15% POCT (Point of Consumption Tax) introduced in December 2014 is having some effect in driving less established operators elsewhere.
  - In **Africa**, gambling is gaining momentum, though mainly driven by a growth in land-based operations, as well as in sports betting – in Kenya, Nigeria, Tanzania and Uganda. African markets are generally underdeveloped (South Africa excepted – which regulates interactive sports betting with some licenses available for private operators), though mobile penetration is increasing.
  - In **Asia**, the trend in 2015 has been towards more blanket prohibitions on large black (and grey) market operations – particularly in Singapore and Macau. In general terms, Asia is in deep with the anti-corruption and anti-money laundering crackdown – and the current offshore focus is shifting to the Philippines, South Korea, and even Russia. Interactive regulation is more likely longer term across the region, but not before land-based regimes have fully developed and matured. China has become the most progressive global market in accepting commerce via mobile, and Japan has been actively considering a more liberal opening up of its wagering market. India has also begun to consider the real possibility of properly regulated sports betting however progress is slow, and there are also current barriers for direct foreign investment.
  - In **Latin America**, there is will to develop in a similar way to Europe – led by Mexico – and driven by a consensus to control offshore competition and generate revenue from licence fees and taxation. In total, 7 major Latin American countries are currently reviewing their respective interactive gambling legislation, however progress again is slower than originally anticipated.
  - In **North America**, the US grey market is huge and the focus remains on the 5<sup>th</sup> US state after Nevada, Delaware, Oregon and Montana to fully open up its territory for properly regulated legal sports wagering. The professional sports leagues have joined the lobby to force the pace of change with the NBA openly calling for proper consideration of the topic, and the NFL, MLB and NHL all partnering with new Daily Fantasy Sports (DFS) operators – themselves filling the void left (because of a loophole in the *Unlawful Internet Gaming Enforcement Act 2006* legislation that currently bans interactive sports wagering) to service arguably latent US consumer demand for interactive wagering (albeit a new push has emerged in recent weeks to regulate DFS within Nevada).
31. In considering all the above, H2 has concluded that, in general terms:
- ✓ The gambling industry is maturing with an **increasing number of locally regulated markets** – government driven, to generate revenue through gambling taxes and the sale of licences;
  - ✓ Physical and digital channels continue to **converge** – with licenses being issued to land-based operators, for both land-based and interactive products;

- ✓ The most sophisticated nations are now reaching a stable growth environment of anywhere **between three to six** established major Tier 1 operators across all gambling forms;
- ✓ Local **monopolies/incumbents** have generally done well in all regulated markets independent of the level of the taxation rate set and restrictions on market entry; and
- ✓ The most mature interactive gambling nations have '**something for everyone**' **market equilibrium** – where they balance government tax take with new commercial opportunity, plus reflect dynamic market conditions where technology advancements and pace of change – particularly interactive – can benefit all parties and attract new players, without disenfranchising core consumer groups (see Fig 8):

Fig 8: '**Something for Everyone**' – The Gambling Industry's Optimum Market Equilibrium



Source: H2 Gambling Capital, November 2015

## Australian Offshore Interactive Wagering in Comparison

*Australia is the No 1 gambling nation in the world (spend per head), but does not enjoy market equilibrium, with a plethora of offshore operators exploiting a unique 'grey area' within current regulations most exposed by the arrival of in-play wagering.*

32. Based on spend per head (**A\$1,245 pa** in 2014), Australia is still the **No 1 gambling nation** in the world. It is hardly surprising therefore, that there has been a clear increase in the number of sites actively targeting the Australian market from offshore in recent years.
33. The key difference between the Australian interactive wagering market and the rest of the world, is that the current *Interactive Gambling Act (IGA) 2001* allows for sports wagering through licensed operators as long as the betting occurs prior to the sports event starting – the premise being that wagering this way an individual is not gambling 'interactively'. Since the IGA has come into force however, the arrival of in-play wagering in particular has exposed a unique 'grey area' within the current regulations. Under the IGA, in-play betting is outlawed on online platforms, including mobile phones. Australian consumers, however, can bet on the outcome of an event after it has begun, but only via the telephone or in person.
34. Australia is **one of the only countries in the world** where such a level of prohibition exists. Yet while some incumbent licensed bookmakers have tried to put in place innovative

solutions that can service this new demand for interactive in-play – such as partial cash out, or allowing Australian consumers to keep their smart phone microphone on while wagering online – the reality is that the IGA ruling has made offshore providers that much more attractive and easier for Australian consumers to bet with, than their licensed and highly regulated onshore contemporaries.

35. It is worth noting here that, in general, interactive sportsbook sites tend to be larger operations (gaming sites by comparison dwarf sportsbook sites and are more often than not one owner multiple brands or 'skins'). This is especially the case in the offshore Australian market where the main offshore sportsbook operators are fairly sophisticated operations that were **not there before** the new demand for **in-play wagering** emerged. Indeed, there are now an estimated **5x the number of offshore sites in the 3 years since in-play** has really taken hold. This in some way goes to the common held theory that offshore operators will look to fill any gap in a market that exists, and from there manoeuvre their way in further as they build brand, online chatter and re-invest in underground online marketing.
36. Not only is this an unfortunate consequence of the current IGA legislation, but it also means that financially, Australia's offshore operators benefit from significantly higher profit margins allowing them to offer that **much more competitive** odds, bonuses and eventual payouts. Clearly, today, this is far from 'market equilibrium'.
-

## Section 2: Australian Interactive Wagering – Regulation

### Current Legislative Framework

*Australia has one of the biggest grey markets in the world. Numerous offshore operators illegally target the country, but it is still legal for Australian citizens to use them.*

37. Historically, regulation of Australian gambling has sat primarily within **state and territory governments**, however the current Commonwealth Government has since its 2013 election been committed to **a more national approach** to gambling policy, to investigating methods of strengthening the enforcement of the *Interactive Gambling Act 2001*, and so ensuring Australians are protected from illegal interactive gambling operators.
38. We summarise the main characteristics and evolution of the current legislative framework below:

#### Market Dynamics

- Online, only **sports wagering** and **lotteries** are legal. Operators must be licensed in the state where the service is being used and the state in which they are based.
- TAB outlets offer fixed odds land-based wagering nationwide – Tabcorp in 3 states, Tatts (the state lotteries monopoly) in 4, and Western Australia TAB in 1.
- Betfair operates the only betting exchange nationally.
- Commercial offshore operators target the market illegally but it is not an offence for Australian citizens to use them, which in turn creates a sizeable grey market.
- In-play wagering is prohibited, however some operators offer it through a telephone betting loophole.

#### Government Policy

- Gambling is traditionally the responsibility of the states that regulate and collect tax.
- New technologies and growing public concern prompted the Commonwealth Government to step in during the late 1990s.
- Proceedings:
  - 1999: PM John Howard advised the states to stop the further expansion of internet gambling.
  - 2000: The Commonwealth Government passed a moratorium on interactive gambling for 1 year.
  - 2001: The Commonwealth passed the ***Interactive Gambling Act 2001*** to ban interactive gambling (other than the exemptions listed above) and advertising across all states.
- Major Inquiries:
  - 1998: The Institute of Criminology led a national conference on the future of interactive gambling and concluded that the Commonwealth Government could try to prohibit interactive gambling but this could be problematic, especially regarding inter-state cooperation. The desirable approach would be to launch a nationwide regulatory system with common legislated standards, tax rates and operating conditions.
  - 1999: The Productivity Commission released a report on the performance of the Australian gambling industry and concluded the best way to solve the problems of a rapidly expanding interactive gaming market was to liberalise and regulate. Key findings: 80% gamble; large problem gambling population; liberalisation and regulation would promote consumer protection, minimize criminal activity, reduce risks of problem gambling.

- 2000: A Senate Select Committee released a report on interactive gambling and concluded that prohibition would be ineffective and liberalisation of the industry through a uniform national regulatory framework would be the best approach.
- 2001 – The NOIE (National Office for the Information Economy) Inquiry assessed the feasibility of banning interactive gambling and concluded that a ban would not be sustainable either from a social policy, skills development or technical standpoint.

#### Legality

- Interactive gambling and interactive gambling advertising is prohibited across Australia since 2001 with exceptions for interactive lotteries and sports wagering.
- It is illegal for an interactive gambling company to offer additional interactive gambling products to Australian citizens, but it is not illegal for Australian citizens to gamble online.
- Interactive sports wagering is legal if offered by a licensed operator. The state regulatory body controls licensing and operators must apply for licenses for each state.
- In-play wagering is prohibited as it is deemed interactive by the IGA 2001, however some major operators – most notably William Hill Australia – currently operate an in-play product by using a system classified as telephone wagering. In July 2015 this was referred to the Australian Federal Police (AFP) by the Australian Communication and Media Authority (ACMA), however four months later in November, the AFP announced, *"in line with the AFP's case categorisation and prioritisation model, this matter was not accepted by the AFP for further investigation"*.
- Interactive lottery sales are also legal and subject to licensing at state level.

#### Taxation, License Fees and Product Fees

- Licensed operators pay **direct and indirect** federal and state/territory taxes in the form of GST, payroll tax, income tax and fringe benefit tax.
- Licensed operators must also pay a licence fee, again at state/territory level.
- Australian licensed operators are also required to pay product fees to racing and sports bodies for the right to offer bets on their markets.

#### Regulatory Bodies

- The **Australian Communication and Media Authority (ACMA)** is responsible for regulating interactive gambling and providing the industry code. The high profile of wagering means regulators monitor the onshore industry closely. The offshore market does not receive the same level of scrutiny currently.
- Each state has its own regulatory body:
  - Australian Capital Territory – ACT Gambling and Racing Commission.
  - New South Wales – New South Wales Office of Liquor, Gaming and Racing.
  - Northern Territory – Licensing Commission.
  - Queensland – Office of Liquor and Gaming Regulation.
  - South Australia – Independent Gambling Authority.
  - Tasmania – Tasmanian Gaming Commission.
  - Victoria – Victorian Commission for Gambling and Liquor Regulation.
  - Western Australia – Department of Racing, Gaming and Liquor.
- The Australian Transaction Reports and Analysis Centre (AUSTRAC) is responsible for the investigation and enforcement of anti-money laundering and terrorist financing.
- The Australian Association of National Advertiser (AANA) works alongside the Advertising Standards Bureau to maintain a self-regulatory framework governing the advertising conduct of operators.

#### Federal Legislation

- *Interactive Gambling Act 2001* (last amended March 2015).

## Towards Market Equilibrium – Key Considerations

*'You can't police the Internet' – however a range of blocking measures could be introduced in Australia to help restore market equilibrium – a ban on offshore operator advertising; IP/financial blacklisting; imposing penalties; higher standards of player protection; legalising in-play and other new product verticals; outlawing offshore wagering.*

39. Good regulation focuses on the **overall aims and objectives** of a legislative framework rather than seeking to control what is offered at the micro level. The United Kingdom is generally viewed as a leader in the regulation of the gambling industry currently. In the UK, the Gambling Commission (regulator) has three overarching licensing objectives, namely to ensure gambling is: crime free; fair and open, and children/vulnerable people are protected.
40. Consumers across the board, but especially in an entertainment industry such as gambling consumers, are fickle. Changes in tastes and preferences can lead to spending moving at the drop of a hat into new areas that were previously not thought of.
41. There are plenty of examples recently just in sports wagering – the Internet, mobile, in-play, virtual sports, betting exchanges, daily fantasy sports – all have caught some or all regulators off-guard. It is guaranteed that there will only be more innovation both in product and how it is accessed by consumers going forward. The introduction of technology and the acceleration of its development has only gone to heighten the pace of innovation.
42. **Innovation** has been the most important driver of growth in the sector over the last 5-10 years. Without it the consumer becomes bored and will move into other products and services quite quickly. Since the widespread adoption of the Internet, **power has shifted to the consumer** and there is the possibility that offshore non-tax paying and potentially less well-regulated entities will fill the void should onshore operators be prevented from offering a new variation of a product or participating via a channel.
43. In the current day and age it is **almost impossible to close down an offshore gambling sector**. Therefore, rather than 'sticks' aimed at prevention, the 'carrot' of a broad and fair onshore licensing system is preferable in order to enable operators to service customer demand for the latest products. This should be flexible in order that operators are not just able to offer bets based on today's tastes and technology but those of the future too.
44. It is clear from established onshore-regulated interactive gambling schemes that as long as the product is competitive and the value on offer is similar, consumers **prefer to transact within an onshore-regulated scheme** due to the additional protection and peace of mind that this ensures them.
45. The above said, if we accept that **'something for everyone' market equilibrium** (see Fig 9) is the optimum industry model for interactive gambling, and that the Australian interactive wagering sector is not yet currently in equilibrium (because of the abnormally high number of existing offshore operators), then there are a number of key considerations (based on experience in other markets) that could be addressed as part of any potential future regulatory change.
46. Key Australian market considerations going forward then are:
  - **Range of product verticals:** The more product verticals permitted, the more attractive the market for onshore operators due to economies of scale and cross-sell opportunities (e.g. game and platform neutral in-play);



- **Advertising ban on unlicensed operators:** Advertising is essential for licensed operators to develop. Blocking unlicensed operators from advertising is one of the most effective means to control an offshore market, though it may be difficult to limit it effectively online;
  - **Blocking (IP, financial, blacklist):** Makes an onshore licence that much more valuable, however there will be methods for offshore operators to bypass this – ‘you can’t police the Internet’;
  - **Penalties for unlicensed operators:** Punitive measures including fines may deter some grey operators, but regulation needs to be enforceable in the offshore jurisdiction concerned;
  - **Responsible gambling/player protection:** Increasingly important politically, a legal and protected environment will draw in certain players whilst protecting minors and the vulnerable;
  - **Outlawing offshore wagering:** Making it a straight criminal offence for Australian citizens to wager on offshore websites.
47. The economic benefits of a regulated market over an illegal market are not just financial. Other key factors that also need noting are:
- ✓ **Security:** There exists for Australian citizens a legal place to play safely, in a straightforward manner, and securely (in terms of data protection and cash pay out);
  - ✓ **Jobs:** An upturn in employment opportunity, with the potential to replace offshore employment with onshore Australian jobs – the majority within indirect sectors e.g. marketing (as onshore regulated activity leads to more use of the mainstream media), payments and geo-location;
  - ✓ **Economic growth:** Enhanced cross-channel marketing opportunities for associated non-wagering sector operators, brands and sectors.

## Taxation

*Interactive wagering is much more sensitive to tax take than other product verticals. A maximum ‘sweet spot’ exists which in Australia is probably in the region of, but no more than, 15% of gross win equivalent.*

48. For a regulatory framework to be generally innovation-friendly, taxation levels (GST and current state/territory wagering taxation), product range and liquidity are all factors that are critical in ensuring that the potential of any onshore-regulated interactive market is fully realised.
49. Australia already predominantly taxes the sector with respect to gross win. This enables operators not to have to bear unnecessary risks and offer the best possible value to the player. Lower rates of taxation will always lead to operators being able to invest more in the product and marketing, leading to a larger market size and better rates of capture within the onshore market. As with any good or service, a better price generally leads to a greater level of demand.
50. Our modeling based on H2’s prior tax take assessments (including within the US, Belgium, Greece, Netherlands, Norway, Sweden and the United Kingdom) and general economic theory – most notably the Laffer Curve – is that that there is a ‘sweet spot’ for a taxation



rate at which the headline take is sufficiently high so as to optimise a broader position once secondary fiscal, economic and player protection/value benefits have been taken into consideration.

51. Given the sensitivity of the interactive wagering market to value, an optimal taxation burden of **in the region, but no more than, 15% of gross win equivalent** is, in our opinion, Australia's maximum 'sweet spot'. At this level the tax take may be close to its ceiling whilst ensuring the highest proportion of players are still attracted to those operators licensed onshore.

## Similar Benchmarked Markets

*Two camps exist – those attempting to control interactive offshore wagering through restrictive measures, and those successfully controlling it via regulation. No two markets are the same, but there are lessons Australia can draw on from both camps. Parallel regulatory developments in the US are also of consideration.*

52. In considering the optimum way forward in Australia, it is interesting to consider lessons learnt from similar nations around the world that have addressed, or are currently addressing, a **high level of offshore interactive market activity**.
53. Most eye raising currently of these is **the US**, and the international alliance just announced between Clubs Australia and the American Gaming Association (AGA), in which both parties are collaborating to promote the risks of illicit gambling websites, and work on measures to prevent their spread. The parallels are strong, particularly as the partnership also forms part of the AGA's **Stop Illegal Gambling – Play it Safe** initiative, which focuses on four key areas of illegal gambling: illegal sports betting, black market machines, Internet sweepstakes cafes, and illegal online betting. H2 believes a formal review of the US offshore interactive market is not far behind the current one underway in Australia – and that the countries have much to gauge from each other.
54. Other nations of consideration split into **two camps**:
- Those that have **attempted to control interactive offshore wagering through enforcing restrictive measures** such as payment blocking and blacklists. Whilst illegal, citizens of these countries can still access, and wager on, offshore sites as operators can easily side step the majority of prohibitive techniques used by the authorities.
  - Those that have **successfully controlled interactive offshore wagering through the process of regulation**. All the markets listed here have created fair and competitive environments for licensed operators that, in turn, attract their citizens away from their unlicensed offshore competitors, and so wager on sites that provide good consumer protection and contribute tax revenues to the state.

**Fig 9: Markets Attempting To Control Interactive Offshore Wagering Via Restrictive Measures**

Market	Total Interactive Gross Win 2014 (€m)	% Interactive Onshore 2014	% of Total Market Interactive	Products	Key Aspects of the Interactive Market
Russia	€315	0%	21%	None	<ul style="list-style-type: none"> <li>Interactive gambling banned in 2006.</li> <li>Illegal operators face harsh penalties if convicted of offering gambling to Russian citizens.</li> <li>Four remote designated zones were set up in 2009 in which certain forms of gambling were permitted. In 2011 authorities were granted the power to fine users of interactive gambling sites outside of these zones.</li> <li>A blacklist of blocked ISPs (containing over 600 gambling sites) has been active since 2006.</li> <li>A payment blocking bill has been introduced to block all payments to gambling sites through Russian banks.</li> <li>2014 offshore gross win €315m.</li> </ul>
Romania	€57	0%	8.3%	All interactive products are legal	<ul style="list-style-type: none"> <li>Originally prohibited by the Gambling Act 2009.</li> <li>Fully regulated since 2015 following the passing of GEO 92/2014.</li> <li>All operators must have a Romanian license and be based in a EU country to transact with Romanian citizens.</li> <li>Whilst provisional interactive licenses are being awarded the gambling authority continues to block sites via a blacklist of blocked ISPs (currently containing 288 sites). The list includes certain operators who have conformed with the requirements for a licence such as paying back taxes at a rate of 20% GGR.</li> <li>Online gamblers are taxed on their winnings at varying rates up to 25% when gambling on licensed sites.</li> </ul>
China	€3,653	0%	5.6%	None	<ul style="list-style-type: none"> <li>Prohibited since 1979 under the Criminal Law of the People's Republic of China.</li> <li>The Ministry of Public Security and the National Police Authority issue severe punishments for the operation of online gaming sites aimed at Chinese citizens.</li> <li>A network of Internet cafes, snooker halls and private premises illegally offer access to online gaming and are subject to frequent raids.</li> <li>Prison sentences of at least 5 years and large fines are regularly administered to those convicted of organising or using online gambling sites.</li> </ul>

Market	Total Interactive Gross Win 2014 (€m)	% Interactive Onshore 2014	% of Total Market Interactive	Products	Key Aspects of the Interactive Market
Singapore	€273	43%	4.3%	Lottery and sports betting only	<ul style="list-style-type: none"> <li>Officially prohibited since 2015 by the Remote Gambling Act 2014 although operators can apply to be given an exemption.</li> <li>A blacklist of blocked ISPs is enforced by the Ministry of Home Affairs.</li> <li>Payment blocking provisions are in place that target interactive gambling transactions.</li> <li>Operating illegal gambling sites is punishable by fines of up to €326,000.</li> <li>Engaging in illegal gambling is punishable by imprisonment of up to six months.</li> </ul>

Source: H2 Gaming Capital, November 2015

**Fig 10: Markets Successfully Controlling Interactive Offshore Wagering Via Regulation**

Market	Total Interactive Gross Win 2014 (€m)	% Interactive Onshore 2014	Interactive Onshore Market Gross Win % Growth (2008-2014)	% of Total Market interactive	Products	Key Aspects of the Interactive Market
United Kingdom	€4,982	34%	85%	29%	All interactive products are legal – including in-play	<ul style="list-style-type: none"> <li>Largest interactive market in the world by gross win.</li> <li>Fully regulated since 2007 following the passing of the Gambling Act 2005.</li> <li>All operators must have a UK licence to transact or advertise in the market since 2014.</li> <li>Majority of operators are based offshore.</li> <li>Approximately 400 licences have been issued to date.</li> <li>Operators are taxed at the point of consumption at a rate of 15% of GW.</li> <li>Betting and casino games make up over 60% of interactive market.</li> <li>A consultation was launched into the issues around in-play betting in 2008, the results of which allowed the Gambling Commission to conclude the activity does not require any additional controls.</li> </ul>

Market	Total Interactive Gross Win 2014 (€m)	% Interactive Onshore 2014	Interactive Onshore Market Gross Win % Growth (2008–2014)	% of Total Market interactive	Products	Key Aspects of the Interactive Market
Ireland	€652	1.1%	N/A	39%	All interactive products are legal – including in-play	<ul style="list-style-type: none"> <li>Fully regulated since 2015 following the passing of the Gambling Act 2015.</li> <li>All operators must have an Irish licence. Two types are available: remote bookmakers licence for gaming, and remote intermediary for betting.</li> <li>The % of revenue generated onshore is projected to increase to 43% by 2016.</li> <li>RBM's are taxed at 1% of turnover/RBIs taxed at 15% of betting duty.</li> <li>27 operators currently licenced.</li> </ul>
Denmark	€423	88%	294%	38%	All interactive products are legal – including in-play	<ul style="list-style-type: none"> <li>Fully regulated since 2012 following the Gambling Act 2012.</li> <li>All operators must have a Danish licence to transact with Danish citizens.</li> <li>There are 9 regulated operators to date.</li> <li>Operators subject to 20% tax on GGR.</li> <li>CJEU ruled interactive tax rates should be set to encourage players to play on regulated sites, irrespective of land-based tax rates.</li> </ul>
Italy	€930	78%	219%	5.2%	All interactive products are legal – including in-play	<ul style="list-style-type: none"> <li>Regulated since 2014.</li> <li>Progressive legalisation of the market started with betting in 2007 and completed with betting exchanges in 2014.</li> <li>All operators must have an Italian licence and be based in a EU country to transact with Italian citizens.</li> <li>Betting taxed at max 5%, gaming taxed at 20% GGW.</li> <li>In-play betting was legalised in October 2014 providing the results can be verified by the regulator.</li> </ul>

Source: H2 Gaming Capital, November 2015

## Importance of Responsible Gambling

*Australia, alongside the UK and Canada, make up the three nations worldwide pioneering new approaches to Responsible Gambling (RG) within the sector. RG "is now firmly on the radar of every Tier 1 CEO". Problem gambling remains highest among land-based, not interactive, players.*

55. Australia, alongside the UK and Canada, make up the three nations worldwide **pioneering** new approaches to Responsible Gambling (RG) within the sector globally. Recent research by H2 has shown that amongst the leading interactive operators RG *"is now firmly on the radar of every Tier 1 CEO"* (source: H2 Gaming Capital, 2015). As operators and suppliers increasingly focus their corporate strategies on regulated markets, H2 believes that responsible gambling initiatives will **continue to gain traction**.
56. Interactive wagering has a significant advantage over land-based gambling in that key RG preventative measures can be more easily targeted at the individual player. Common initiatives now online include age verification, deposit limits, self-assessment/exclusion tests, protection software, and 'one click away' access to support networks (including entry to a national self-exclusion register).
57. In statistical terms, the rate of problem gambling worldwide varies from **0.3% of the adult population in Sweden to 5.3% in Hong Kong**. Estimates in Australia are produced on a state-by-state basis. We have noted however that the Australian Productivity Commission has attempted to combine these rates and estimate that the rate of problem gambling in Australia is somewhere **between 1.4% and 2.1%** of adults (source: Gambling Commission, 2011).
58. According to the latest British Gambling Prevalence Survey 2010, problem gambling prevalence remains **highest among land-based players** – the top 3 being those who play **poker** at a pub/club (12.8%); those who play **casino slot machine** style games (9.1%); and those who play **fixed odds betting terminals** (8.8%) (source: Gambling Commission, 2011).
59. As well as the main operators, the leading industry suppliers are also increasingly focused on RG and are investing in business intelligence to better understand gambling behaviours, in addition to measures to identify problem gambling from the onset. The RG drive for them over the next 2-3 years is in **technology** and the constructive use of **customer data**.
60. Most importantly, RG is now something no longer to be undertaken because of regulatory requirements and/or external political influence, but because it is a key part of an operator's competitive strategy for longer-term business growth and sustainability – where the belief is better customer protection will lead to longer-term brand loyalty, and hence customer retention.
61. Finally, most of the bigger operators are very progressive at the moment with data, transparency and customer protection much higher on their agendas than ever before – particularly when it comes to interactive wagering.

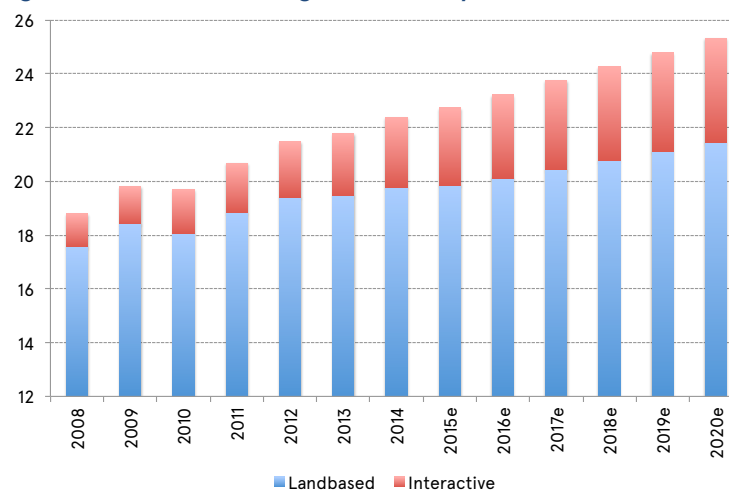
## Section 3: Australian Interactive Wagering – Quantitative Data

### Market Size 2008-2020 – Status Quo

*The current offshore interactive gambling market is made up of over 5x the number of sportsbooks than three years ago. It is worth A\$1.3bn, of which sports wagering is cA\$400m, with in-play between A\$200-225m of this. Under the status quo, the total market will reach A\$2.2-2.3bn by 2020 with A\$900m of this wagering, of which A\$600m will be from in-play. The equivalent of A\$100m tax dollars will be lost per annum, and over 60% of all interactive gambling will stay offshore.*

62. First of all, it is worth highlighting that in certain sectors of the Australian gambling market there is **currently conflicting data** regarding the true size of the market. Nowhere is this more the case than in the onshore wagering market where H2 refers to four different categories of sources of information, namely: the various state and territorial gaming and/or wagering boards; the Australian Racing Board; Australian Gambling Statistics (prepared by the Queensland Government Statistician's Office); and the results of the publicly listed companies.
63. Although the former three sources provide the basis for our historical analysis of the Australian gambling market, it is the recent reports of the companies (in most cases to H1 calendar year 2015) that provide the best insight as to the current state of the market.
64. In parallel to the assessment of the onshore-regulated market, H2 has also tracked the evolution of the offshore interactive gambling market, which targets Australian players.
65. H2 has undertaken a quarterly audit of all of the operators that either (a) actively target or (b) passively accept Australian players by the major product verticals for the past decade. Over this timeframe we have developed a good sense of the scale of the offshore interactive gambling market not just in Australia, but also across the world.

**Fig 11: Australian Gambling Gross Win by Market Channel (A\$bn)**

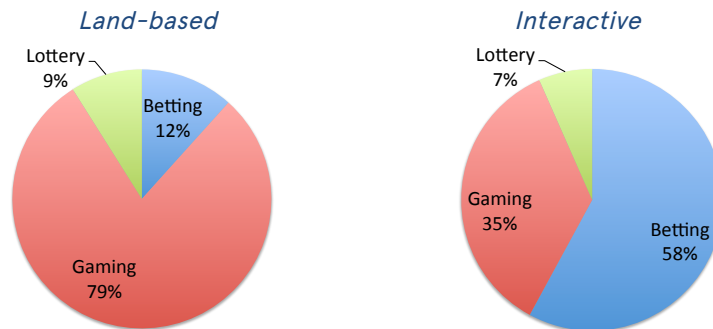


(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Land-based	17.6	18.4	18.1	18.8	19.4	19.5	19.8	19.9	20.1	20.4	20.8	21.1	21.4
Interactive	1.2	1.4	1.6	1.8	2.1	2.3	2.6	2.9	3.1	3.3	3.5	3.7	3.9
<b>Grand Total</b>	<b>18.8</b>	<b>19.8</b>	<b>19.7</b>	<b>20.7</b>	<b>21.5</b>	<b>21.8</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>	<b>23.7</b>	<b>24.3</b>	<b>24.8</b>	<b>25.3</b>
% Interactive	6.5%	7.0%	8.3%	8.9%	9.6%	10.6%	11.7%	12.7%	13.3%	13.9%	14.4%	14.8%	15.3%

Source: H2 Gambling Capital, November 2015

66. During 2014, H2 has assessed the size of the Australian gambling market in terms of gross win to be **A\$22.4bn – 2.8% ahead** of its 2013 level. In the current year, H2 is expecting the market to grow a further 1.8% to A\$22.7bn and then, assuming a continuation of the current regulatory framework, to **A\$25.3bn by 2020**, the latter representing a **CAGR of 2.2%** over the coming five years (see Fig 11).
67. In terms of split by product vertical, the Australian gambling gross win in 2014 was distributed **A\$3.8bn (17%) wagering**, A\$16.6bn (74%) gaming and A\$1.9bn (9%) lotteries. Interactive gambling generated A\$2.6bn in gross win, 14% ahead of the 2013 level. In 2014 interactive gross win accounted for 11.7% of the Australian player total, up from 10.6% during 2013 (see Fig 12):

**Fig 12: Australian Gambling Gross Win by Major Product Vertical 2014**



#### Land-based Global Gambling Gross Win

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	2.3	2.3	2.3	2.6	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.4
Gaming	13.6	14.2	14.0	14.6	15.3	15.3	15.7	15.8	16.1	16.4	16.7	17.0	17.4
Lottery	1.7	1.9	1.7	1.6	1.8	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7
<b>Land Total</b>	<b>17.6</b>	<b>18.4</b>	<b>18.1</b>	<b>18.8</b>	<b>19.4</b>	<b>19.5</b>	<b>19.8</b>	<b>19.9</b>	<b>20.1</b>	<b>20.4</b>	<b>20.8</b>	<b>21.1</b>	<b>21.4</b>
% Betting	12.9%	12.5%	12.7%	13.6%	11.8%	11.5%	11.7%	11.5%	11.3%	11.3%	11.2%	11.1%	11.0%

#### Interactive Global Gambling Gross Win

A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	0.5	0.7	0.8	1.0	1.1	1.3	1.5	1.7	1.8	1.9	2.0	2.1	2.3
Gaming	0.6	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.1	1.2	1.2	1.3	1.3
Lottery	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
<b>Interactive Total</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>1.8</b>	<b>2.1</b>	<b>2.3</b>	<b>2.6</b>	<b>2.9</b>	<b>3.1</b>	<b>3.3</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>
% Betting	43.4%	47.6%	51.3%	53.5%	54.6%	55.8%	57.9%	59.6%	58.0%	57.6%	57.8%	58.3%	58.9%

#### All Global Gambling Gross Win

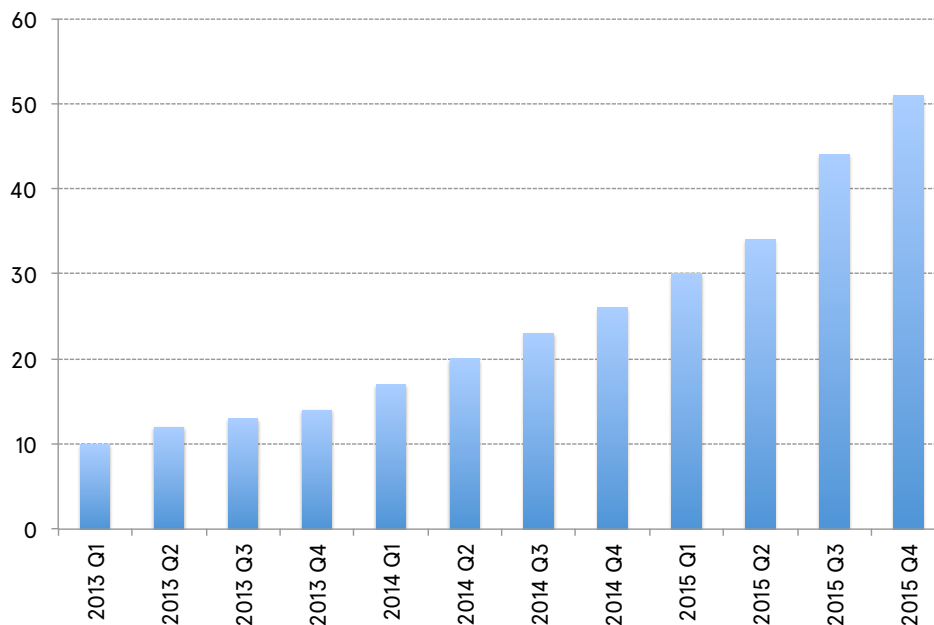
A\$bn	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Betting	2.8	3.0	3.1	3.6	3.4	3.5	3.8	4.0	4.1	4.2	4.3	4.5	4.6
Gaming	14.1	14.8	14.7	15.4	16.1	16.1	16.6	16.8	17.2	17.6	18.0	18.3	18.7
Lottery	1.8	2.0	1.9	1.8	2.0	2.1	1.9	1.9	1.9	1.9	1.9	2.0	2.0
<b>All Total</b>	<b>18.8</b>	<b>19.8</b>	<b>19.7</b>	<b>20.7</b>	<b>21.5</b>	<b>21.8</b>	<b>22.4</b>	<b>22.7</b>	<b>23.2</b>	<b>23.7</b>	<b>24.3</b>	<b>24.8</b>	<b>25.3</b>
% Betting	14.9%	15.0%	15.9%	17.2%	15.9%	16.2%	17.1%	17.5%	17.6%	17.7%	17.9%	18.1%	18.3%

Source: H2 Gambling Capital, November 2015

68. Australia's highly developed land-based gaming sector means that the proportion of gross win that interactive gambling would be expected to account for would be lower than Nordic and Western European benchmarks, though H2 would still expect the channel to account for in the region of 15-20% of total gambling gross win to place the market on a par with similar ones. Clearly the limited opportunity for onshore product vertical innovation may be cited as a key reason for this.

69. In the current year, it is expected that interactive gambling will increase a further 9.5%, taking it to just under A\$2.9bn, which will represent **13.7% of the total Australian market**. By 2020 it is anticipated that the corresponding figures will be A\$3.9bn and 15.3%.
70. Just over 50% of interactive gambling spend of the Australian player is expected to take place with offshore operators – mainly due to the lack of availability of in-play betting and gaming. The inability of onshore operators to offer these products has led to an increasing number of offshore suppliers stepping into the void in recent years.
71. In the current quarter (Q4 2015) H2's assessment of offshore interactive gambling supply has identified **383 offshore interactive gambling sites** operated by **175 operators** that are targeting Australian players (see Fig 13):

**Fig 13: Number of Offshore Sportsbooks Targeting the Australian Market**



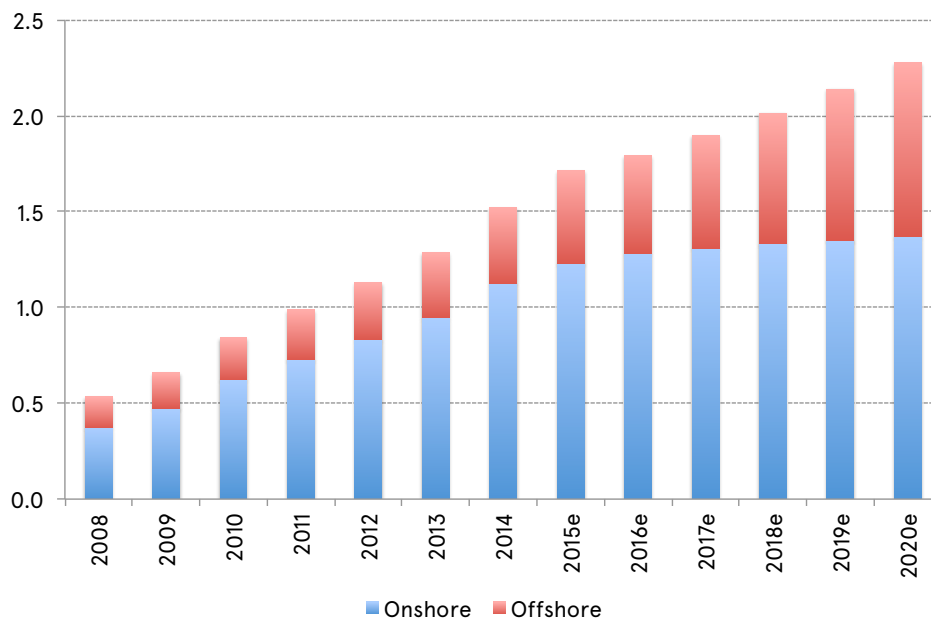
	13 Q1	13 Q2	13 Q3	13 Q4	14 Q1	14 Q2	14 Q3	14 Q4	15 Q1	15 Q2	15 Q3	15 Q4
Sportsbooks	10	12	13	14	17	20	23	26	30	34	44	51
Gaming	149	147	147	156	168	170	179	192	211	236	305	332
Total	159	159	160	170	185	190	202	218	241	270	349	383
Operator Numbers	73	75	77	79	81	91	97	104	114	125	160	175
Ave Sites per Operator	2.18	2.12	2.08	2.15	2.28	2.09	2.08	2.10	2.11	2.16	2.18	2.19

Source: H2 Gambling Capital, November 2015

72. The number of operators targeting the market is **up by 140%** in the past three years with the number of sportsbooks increasing at the greatest rate, with over 50 sportsbooks now targeting the Australian market – **over 5x the level of three years ago** – when it was believed a pre-match only onshore market was sufficient to cater for demand.
73. In total the offshore gambling market is believed to have increased from cA\$750m gross win in 2008 to **A\$1.3bn** by 2014 and is expected to reach close to A\$1.6bn in the current year and **A\$2.2-2.3bn by 2020**. Of this sports wagering accounted for **cA\$400m** in 2014 with in-play expected to account for between **A\$200-225m** of this. In the current year offshore sports wagering gross win is expected to increase to cA\$480m as more operators have entered the market with in-play accounting for up to A\$275-300m of this (see Fig 14):



Fig 14: Australian Interactive Betting Gross Win by Regulatory Status (A\$bn)

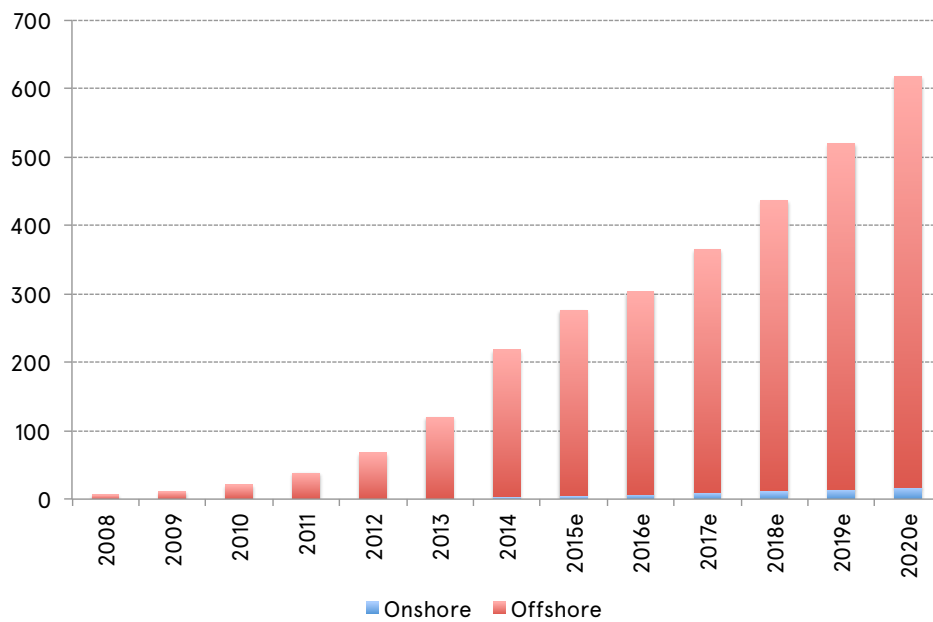


(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Onshore	0.37	0.47	0.62	0.73	0.83	0.95	1.13	1.23	1.28	1.31	1.33	1.35	1.37
Offshore	0.16	0.18	0.22	0.26	0.30	0.34	0.40	0.48	0.51	0.59	0.68	0.79	0.91
Interactive Total	0.53	0.66	0.84	0.99	1.13	1.29	1.52	1.71	1.79	1.90	2.01	2.14	2.28
% Onshore	69.5%	72.1%	74.0%	73.7%	73.7%	73.5%	74.0%	71.9%	71.7%	69.0%	66.2%	63.2%	60.1%

Source: H2 Gambling Capital, November 2015

74. It is recognised that a few onshore licensed operators have been offering in-play wagering under current regulations, which permit it via voiceover telephone rather than interactive means. Data that H2 has seen suggests that onshore voiceover telephone in-play wagering is currently the equivalent of c1% of non-racing sports betting - i.e. it will generate just under A\$5m in the current year, which is in turn is less than 2% of the size of the offshore in-play wagering market (see Fig 15).
75. Given the majority of offshore sports betting activity is non-racing, the onshore channelling rate for non-racing sports betting is c50%, which represents **one of the lowest onshore channelling rates of any regulated interactive gambling market**. Generally channelling rates for onshore-regulated interactive markets in Europe such as Denmark, France, Italy and Spain are in the 70-90% range depending on the taxation and broader regulatory regime.

Fig 15: Australian Interactive In-play Gross Win by Regulatory Status (A\$bn)



(A\$m)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Onshore	0.0	0.0	0.0	0.0	0.0	0.0	3.1	4.8	7.3	9.7	12.2	14.8	17.4
Offshore	6.5	11.3	20.8	38.1	67.6	119.5	214.9	271.2	295.4	354.3	423.7	505.3	600.5
Interactive Total	6.5	11.3	20.8	38.1	67.6	119.5	218.1	276.0	302.8	364.0	435.9	520.0	617.9
% Onshore	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.4%	1.7%	2.4%	2.7%	2.8%	2.8%	2.8%

Source: H2 Gambling Capital, November 2015

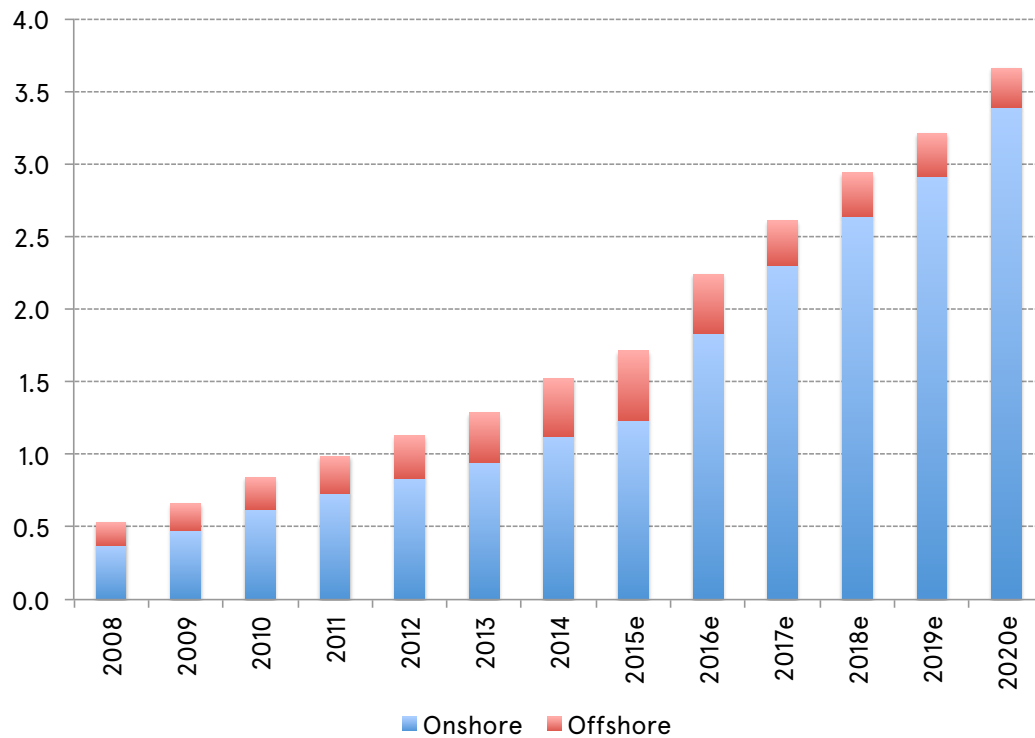
76. This clearly demonstrates the importance of providing an environment where operators are able to offer not just the product vertical but up-to-date formats of that vertical in order to attract players to transact with operators licensed within the onshore scheme.
77. Going forward H2's forecasts for the Australian market under the current status quo suggest that the situation will only escalate as: (a) player demand for in-play products continues to grow; (b) more operators target the Australian market from offshore to take advantage of this; and (c) information is circulated amongst more players via platforms such as online fora in respect of the ability to bet in-play freely with offshore operators.
78. Therefore, should the current regulatory regime remain intact it would be expected that the gross win generated by the offshore interactive sports betting market will increase to over **A\$900m by 2020** with **ca\$600m** of this being accounted for by in-play. By then the offshore market would account for just **over 60% of the total amount** spent by Australians on non-racing sports betting as the level of leakages continues to grow.
79. Clearly with this scale of leakage from Australia's onshore interactive wagering market, not only are **ca\$100m tax dollars per annum are being lost** but there is little or no protection in place for the growing number of Australian players that are forced to transact with offshore bookmakers as a means to access truly interactive in-play wagering products.
80. It should be noted that this is merely the headline sports wagering activity that is being lost and excludes any additional gaming that is cross-sold to Australian players once they are on offshore sites. H2's experience would suggest that this in itself could represent anything **up to 50% on top of this**.

## Market Size 2008–2020 – Regulated In-Play

*If in-play wagering was regulated, the total market would only increase by 3% by 2020, but the proportion of Australian spend with onshore interactive operators would rise from 49% in 2014 to 78% by 2020.*

81. H2 has run our industry model in order to determine the impact on the Australian interactive wagering market if **onshore licensed in-play wagering was legalised**. The aim of this being to demonstrate the 'pull effect' created by offering the products that consumers want within the protection of an onshore scheme.
82. We have made the following assumptions:
- Current taxation levels are applied – i.e. GST at 1/11th of the net win (player losses) and the various rates of taxation, usually calculated with respect to gross win, levied by the individual state and territorial governments;
  - A start date for the onshore in-play wagering scheme of 1 January 2016 (*note: we realise that this is unrealistic but it enables five full years of forecasts*).
83. H2's analysis has built up the current position of the Australian interactive wagering market as a starting point and then considered the performance of a number of markets in Europe.
84. Firstly, we considered the **United Kingdom** as a benchmark regarding the potential of in-play wagering for Australia. Culturally the United Kingdom and Australian betting markets are often quoted as being fairly similar. Australians are generally viewed as having a higher propensity to gambling, however the language, many of the same leading operators, and an interest in many of the same sports, concludes us to believe that the level of adoption of in-play wagering would be fairly similar – subject to the specific variables as regards the sports bet on, which we have sought to take into account as part of our analysis.
85. The United Kingdom has recently experienced a regulatory shift but this has merely involved the taxation onshore of operators that have always been free to target the market under existing regulation at the point of consumption. We have looked across Europe as well, therefore, to the transition from an offshore 'grey market' to an onshore 'Dot Country' regulated 'White Market' as an example of how a newly regulated scheme attracts the consumer onshore.
86. Although there are a myriad of markets, **France** was selected as the best model as (a) it already had a large onshore interactive horse race betting market pre-deregulation; and (b) only poker of the various gaming products had been legalised in the onshore market. That said, it should be noted that France in itself could be seen as having some limitations due to the relative high turnover-based tax of 8.5%, which has meant that the current size of the market is believed by many to not be as high as it potentially could be leaving more offshore operators in the market than would otherwise be the case.
87. In other markets, the impact of regulating interactive sports wagering has been clouded more due to the opening up of all of the interactive gaming market, including the much larger casino vertical at the same, or a similar time.
88. Based on the above approach, our analysis concluded that total gross win generated by Australian interactive wagering would be **cA\$2.24bn** if in-play was fully embraced into an onshore regulated scheme **in 2016** as opposed to the **cA\$1.79bn** we are currently forecasting for the market in the absence of such a scheme (see Fig 16):

**Fig 16: Australian Interactive Betting Gross Win by Regulatory Status Following Full Regulation of In-play (A\$bn)**



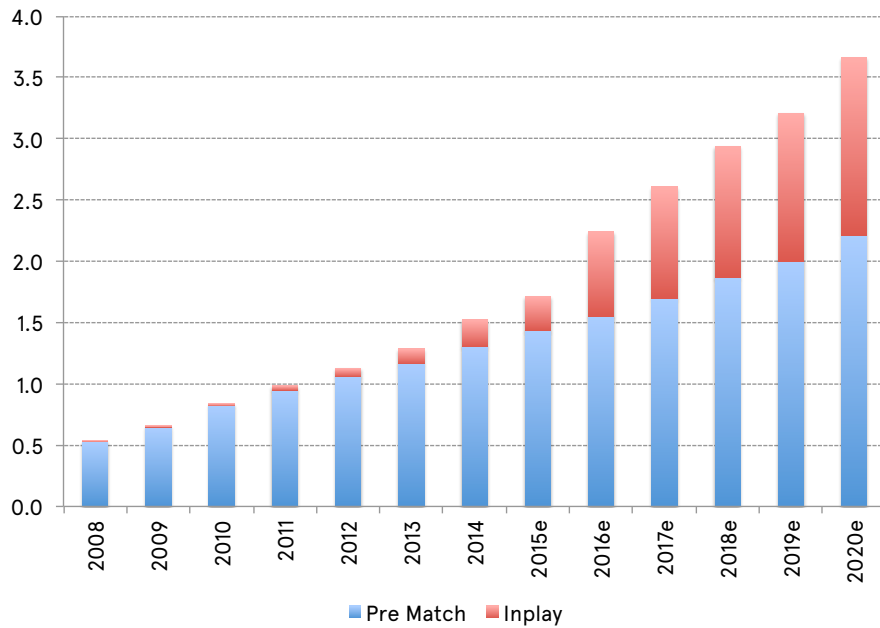
(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Onshore	0.37	0.47	0.62	0.73	0.83	0.95	1.13	1.23	1.83	2.30	2.64	2.91	3.39
Offshore	0.16	0.18	0.22	0.26	0.30	0.34	0.40	0.48	0.41	0.30	0.30	0.30	0.27
<b>Total Betting</b>	<b>0.53</b>	<b>0.66</b>	<b>0.84</b>	<b>0.99</b>	<b>1.13</b>	<b>1.29</b>	<b>1.52</b>	<b>1.71</b>	<b>2.24</b>	<b>2.61</b>	<b>2.94</b>	<b>3.21</b>	<b>3.66</b>
% Onshore	69.5%	72.1%	74.0%	73.7%	73.7%	73.5%	74.0%	71.9%	81.8%	88.3%	89.8%	90.7%	92.6%

Source: H2 Gambling Capital, November 2015

89. Furthermore, rather than just under 72% of Australians' interactive gross win being captured within an onshore scheme in 2016 the corresponding rate if onshore interactive in-play were to be fully permitted would be **c82%** (see Fig 16) meaning the onshore market would generate a gross win of **cA\$1.83bn** of which **cA\$500m** would be in-play.

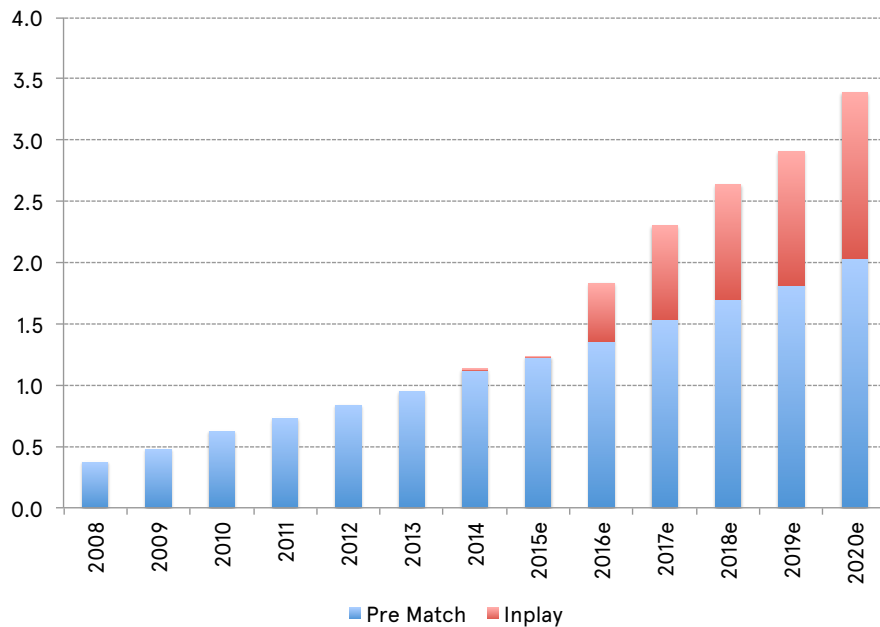
90. Going forward the benefit of enabling onshore operators to offer in-play wagering products will then only continue to grow with the total gross win expected to generate cA\$3.66bn by 2020 (see Fig 17). Of this **c93%** would be expected to be captured within the onshore scheme meaning the onshore market would be **cA\$3.39bn** of this, with **in-play in turn accounting for c40%** (see Fig 18).

Fig 17: Australian Interactive Betting All Gross Win Following Full Regulation of In-play (A\$bn)



Source: H2 Gambling Capital, November 2015

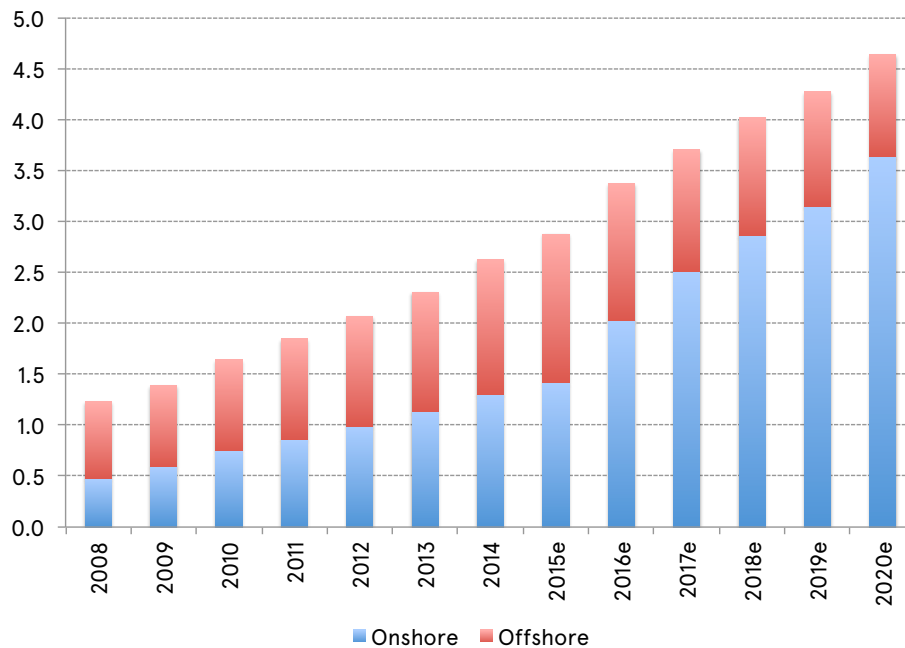
Fig 18: Australian Interactive Betting Onshore Gross Win Following Full Regulation of In-play (A\$bn)



Source: H2 Gambling Capital, November 2015

91. Given a market of this kind of magnitude, it would be expected that the taxation paid by the onshore interactive wagering sector would increase **from cA\$300m today to cA\$400m** and then grow to as much as **A\$775m by the end of the decade**, whilst ensuring that the vast majority of Australians are fully protected when participating in the sector.
92. Furthermore, it would be anticipated that there would be some reduction in offshore interactive gaming as some sports wagering operators would leave the market and there would be far less offshore interactive sports wagering customers to cross-sell into gaming. However, it should be noted that offshore interactive gaming would be expected to continue to thrive as the majority of offshore operators are specialists in gaming.
93. Overall the **increase in total size** of the Australian player gambling market associated with the regulation would be **3%** - i.e. the total gross win generated via Australian players would be A\$26.1bn rather than A\$25.3bn by 2020. The total impact of regulating onshore interactive in-play wagering would be to increase the proportion of Australian total interactive gambling spend with onshore operators **from 49% in 2014** to c60% in 2016, with this rate growing to **c78% by 2020** (see Fig 19). Without the fully regulation of interactive in-play, wagering dollars will continue to leak offshore.

**Fig 19: Australian Interactive All Gambling Gross Win by Regulatory Status Following Full Regulation of In-play (A\$bn)**



(A\$bn)	2008	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e	2018e	2019e	2020e
Onshore	0.48	0.59	0.75	0.86	0.99	1.14	1.30	1.41	2.03	2.51	2.86	3.14	3.64
Offshore	0.75	0.79	0.89	0.99	1.07	1.17	1.33	1.46	1.35	1.19	1.16	1.13	1.00
<b>Total Gambling</b>	<b>1.23</b>	<b>1.39</b>	<b>1.64</b>	<b>1.85</b>	<b>2.07</b>	<b>2.30</b>	<b>2.63</b>	<b>2.88</b>	<b>3.38</b>	<b>3.71</b>	<b>4.02</b>	<b>4.27</b>	<b>4.64</b>
% Onshore	38.8%	42.9%	45.7%	46.6%	48.0%	49.3%	49.5%	49.2%	60.1%	67.8%	71.2%	73.6%	78.4%

Source: H2 Gambling Capital, November 2015

## Section 4: Australian Interactive Wagering – Qualitative Opinion

*The majority of operators want to operate in a fairer market with the UK regulatory model considered the “gold standard”. They believe increased competition will drive innovation, with the ‘recreational punter’ and in-play wagering the main focus going forward.*

94. All the principal Australian onshore and offshore interactive wagering operators were canvassed at the same time as running our data model, to seek – from an independent perspective – their up-to-date **attitudes and opinions** on the review. Anonymity was guaranteed and the following contacted:

Onshore Operators		Offshore Operators
AWC Members	Non-AWC Members	
Bet 365	Beteasy	10Bet
Betfair	Crownbet	12Bet
Sportsbet	Ladbrokes Australia	Betfred
Unibet	Palmerbet	BetVictor
William Hill Australia	Tabcorp	ComeOn
(including	Tatts	Marathonbet
TomWaterhouse.com	Topbetta	Matchbook
and Centrebet)		Pinnacle Sports
		SBO Bet
		Titan Bet

95. Predictably, there was **limited response** from the offshore operator sample despite repeated attempts to solicit input via email and follow-ups, web search, and social media (Twitter and LinkedIn) connection.
96. Onshore, however, replies were more comprehensive with a **60% response rate** returned. Their main opinions below:

### On the Review

- All operators concurred that the review was timely and welcomed the Commonwealth Government’s action.
- Some observed “*Australia should set the benchmark globally in regulation*” and also noted that several reviews have been completed with “*good recommendations*”, yet little progress in terms of reform has been made and “*none of the recommendations have been implemented*”. These include the 2010 Productivity Committee report on gambling and 2013 review undertaken by the Department of Broadband, Communications and the Digital Economy.
- Both of these reviews found that “*the current regulations have little affect, limiting the provision of illegal online gaming services by overseas operators*”.

### On Sports Integrity

- The operators interviewed acknowledged that to operate in the Australian market they have had to enter into product fee and integrity agreements with the major Australian racing and sporting bodies.
- These agreements require the operators to pay a product fee to the relevant body and comply with integrity related and other obligations.

### On the Importance of the Australian Market

- The majority of operators view the Australian market as vital to their business. *"Australia is a very important market for our business". "On a scale of 1-10 it's a 9". In the future all operators do not envisage this situation to change, "I would rank it 10/10 in importance for our business".*
- However they would all like to operate in a fairer market: *"the current situation with on and offshore operators providing wagering services with different regulatory restrictions will prevent Australian business growth".* It was also noted that *"offshore operators are not regulated to Australian standards, so for punters are of significant risk due to inadequate protection".*
- Australian onshore operators offer as full a market of wagering options to punters as permissible, but due to the Australian legislation are unable to offer the in-play. Their services are provided by a range of channels including: *"telephone, desk, IOS, Android and a range of native App based applications".*

### On Regulation

- Australian Onshore Operators currently satisfy a myriad of state/territory, federal government and numerous industry bodies' legislative requirements. These laws contain restrictions on various aspects of the gambling industry conducted by the wagering operator. These include restrictions applied to advertising, the provision of services to minors and other harm minimization practices. *"We operate nationally, so we comply with Federal, State and Territory legislation, ASIC, ATO, AUSTRAC, as well as more than 20 different racing bodies in Australia".*
- The general consensus is *"we respect and adhere to all the requirements, but operate in an environment where many of our competitors are not required to due to their operational base".*
- The different levels of legislation, lack consistency between state, territory and federal requirements and the *"ever-changing reporting landscape"* is increasing the time operators spend *"adapting their reports to the various bodies including the sporting codes and clubs".*

### On Onshore vs Offshore

- The current operational environment supports a range of benefits for companies operating offshore, selling into the Australian market. *"There are massive gaps in the market, and offshore operators are enjoying favourable conditions".*
- It was strongly suggested advertising standards need to be explored as part of this proposed review. At present operators must adhere to the gambling legislation of each state/territory (including the conditions of a race fields approval); the range of advertising codes that apply to a particular media, as well as the Association of Australian National Advertisers (AANA) Code which applies to all advertising; as well as the advertising restrictions defined in Australian Consumer Law.

### On Benchmark Markets

- The United Kingdom regulatory model is considered the *"gold standard"* and *"fair and reasonable to all onshore and offshore operators"*. Two other Northern Hemisphere jurisdictions cited were the Denmark and France.
- The UK was seen as an *"open market that included in-play betting"* and *"provided a viable domestic market with the price the customers seek in a responsible manner"*.

### On Responsible Gambling

- There was consensus that the Australian market should draw on international successes to better protect consumers. Both Denmark's *"behavioural profiling"*, and the United Kingdom's *"robust research into problem gambling"* should be considered.
- A *"National Self Exclusion Database"* shared across all wagering operators is cited as a key aspect to the ongoing management of wagering in Australia. It is also suggested



that “*mandatory pre-commitment*” be considered as well and changing the length of time for age verification for new account holders.

- Further, nationally there should be more ongoing funded research “*Queensland’s ongoing studies capturing 30,000 respondents is where we need to go nationally*”. Only then will “*Australia as a whole have the data to make informed policy and legislation for our industry*”.

#### On Future Trends and Innovations

- While the respondents were cautious not to provide ‘*commercial and in confidence*’ product information, the following potential trends and innovations for the Australian interactive wagering market were cited.
  - All spoke of the ‘*recreational punter*’ as the focus for wagering product development and innovation going forward.
  - The 6 key points made:
    1. Increased competition will drive innovation;
    2. In-Play wagering online;
    3. Smaller operators entering the market with greater flexibility to meet customer requirements;
    4. New deposit and withdrawal products, enabling punters to cash out and enjoy greater choice in wagering;
    5. An increased bet size for telephone wagering;
    6. Better traction for Australian interactive tournaments.
-

## Conclusions

97. Over the last few years, it is fair to say the global gambling industry has seen a **paradigm shift** characterised by land-based to interactive wagering; from racing (horse and dogs) to sports (predominantly football); from PC/desktop use to mobile; and from pre-match wagering to in-play. The Australian market is no different.
98. Our assessment leads us to conclude that, if nothing changes going forward, the Australian offshore interactive wagering market will remain strong at **over 60%** of all activity. By 2018, this will amount to **A\$2.2-2.3bn** leaving the country in lost wagering profits, a further **A\$100m tax dollars per annum**, plus significant economic growth opportunities – particularly **job creation, technological investment, and problem gambling prevention** – remaining underdeveloped when compared to the world's other leading gambling nations.
99. Put simply, there is **imbalance** in the market at the moment between Australia's onshore and offshore operators. The Internet, while it **can never be fully policed**, if properly regulated, can move Australia closer towards **market equilibrium** – with the government, licensed operators, and consumers all benefiting.
100. While there are a number of independent evidence-based findings with our report herein, we would pull out 14 in particular as our 'top line' conclusions to feed into the Commonwealth Government's *Impact of Illegal Offshore Wagering* review at this time:

### H2 Independent Report – 14 Conclusions

1. *Sports wagering is nearly half of all interactive gambling globally, and mobile use in the sector is set to double by 2018. Interactive is still only 9% of all gambling worldwide however, but growing at 8x the rate of the land-based sector.*
2. *In-play wagering is growing at 19% of all wagering, and could reach 50% by the end of the decade (excluding racing). It is now considered the essential component for interactive business growth.*
3. *Europe is by far the dominant region online with nearly half the world's interactive market. The Nordic countries are the most progressive with interactive wagering levels in excess of 30%.*
4. *Offshore operators enjoy a significant advantage over their onshore competitors – evidenced by not having to pay local taxes, licensing or product fees; adhere to quality standards or investigative procedures; nor contribute towards responsible gambling initiatives, local jobs or economic growth. The trend is moving away from grey however with nearly two-thirds of interactive wagering to take place on white markets by 2020.*
5. *The most mature interactive nations have 'something for everyone' market equilibrium – where the government has player security and taxation; the operators have market protection and profit; and the consumer enjoys choice, value for money and player protection.*

6. *Australia is the No 1 gambling nation in the world (based on spend per head), but does not enjoy market equilibrium, with a plethora of offshore operators exploiting a unique 'grey area' within current regulations, most exposed by the arrival of in-play wagering.*
7. *Australia has one of the biggest grey markets in the world. Numerous commercial offshore operators illegally target the country, but it still remains legal for Australian citizens to use them.*
8. *'You can't police the Internet' – however a range of blocking measures could be introduced in Australia to help restore market equilibrium – a ban on offshore operator advertising; IP/financial blacklisting; imposing penalties; higher standards of player protection; legalising in-play and other new product verticals; outlawing offshore wagering.*
9. *Interactive wagering is much more sensitive to tax take than other product verticals. A maximum 'sweet spot' exists which in Australia is probably in the region of, but no more than, 15% of gross win equivalent.*
10. *Two types of benchmarking market exist – those attempting to control interactive offshore wagering through restrictive measures, and those successfully controlling it via regulation. No two markets are the same, but there are lessons Australia can draw on from both camps. Parallel regulatory developments in the US are also of consideration.*
11. *Australia, alongside the UK and Canada, make up the three nations worldwide pioneering new approaches to Responsible Gambling (RG) within the sector. RG "is now firmly on the radar of every Tier 1 CEO". Problem gambling remains highest among land-based, not interactive, players.*
12. *The current offshore interactive gambling market is made up of over 5x the number of sportsbooks than three years ago. It is worth A\$1.3bn, of which sports wagering is cA\$400m, with in-play between A\$200–225m of this. Under the status quo, the total market will reach A\$2.2–2.3bn by 2020 with A\$900m of this wagering, of which A\$600m will be from in-play. The equivalent of A\$100m tax dollars will be lost per annum, and over 60% of all interactive gambling will stay offshore.*
13. *If in-play wagering was regulated, the total market would only increase by 3% by 2020, but the proportion of Australian spend with onshore interactive operators would rise from 49% in 2014 to 78% by 2020.*
14. *The majority of operators want to operate in a fairer market with the UK regulatory model considered the "gold standard". They believe increased competition will drive innovation, with the 'recreational punter' and in-play wagering the main focus going forward.*

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