

**Submission
No 346**

INQUIRY INTO GREYHOUND RACING IN NSW

Organisation: Betfair Pty Ltd

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BETFAIR PTY LTD

**SUBMISSION TO THE GREYHOUND RACING IN NSW
COMMITTEE**

EXECUTIVE SUMMARY

Betfair welcomes the opportunity to make this submission to the Greyhound Racing in NSW Committee's (**Committee**) inquiry into greyhound racing in New South Wales. As a strong supporter of the New South Wales greyhound industry, Betfair believes it has an important contribution to make to the inquiry.

Betfair is approved by GRNSW to publish greyhound race fields to its global customer base. As part of the approval, Betfair provides GRNSW's stewards and integrity officers with complete access to all relevant betting records, including customer details and also contributes a product fee, which provides funding for the activities undertaken by GRNSW, including prizemoney, bonuses and other returns to industry participants.

We are strongly committed to assisting GRNSW to continue to grow the code by exposing the New South Wales greyhound product to our international customer base of 4 million people and continuing our sponsorship of GRNSW, the Greyhound Breeders, Owners and Trainers Association and various greyhound racing clubs around the state. Since obtaining its Australian licence, Betfair has demonstrated its dedication to the industry by contributing in excess of \$300,000 in sponsorship fees and over \$500,000 in product fee payments, even when such payments were voluntary.

We're of the strong view that recent initiatives of GRNSW are responsible for the uplift in revenue that has been obtained from sponsorship, advertising and product fee payments from the expanding number of wagering operators licensed in Australia.

These initiatives include opening the industry up to accept advertising and sponsorship from sources other than the TAB and adopting a funding model based on the 'gross revenue' of the wagering operator. This model ensures that competition will continue to thrive in the wagering market for NSW greyhound racing and allows all operators, regardless of their business model, to actively engage and promote the New South Wales greyhound racing product. The gross revenue model has also been independently accepted by the Productivity Commission as being in the best long term interests of racing.

The ultimate effect of the work of GRNSW is increased revenue received from new avenues, which has lifted the level of distributions made to the sport's participants - including owners, trainers and breeders - as well as funding investment in animal welfare and training provided to those involved in the industry.

It is vital for the ongoing viability and success of greyhound racing in New South Wales that the industry continues to seek new and varied revenue streams away from the traditional TAB funding model. This is particularly true given that payments to GRNSW from the TAB under the Racing Distribution Agreement have not increased compared to other racing codes, despite the significant proportional uplift in wagering on greyhound racing.

In recent times, Betfair has been able to grow its volumes on NSW greyhound racing and provide a competitive service to its niche customer base. The betting exchange is an innovative product that attracts a different, highly-engaged and valuable segment of customers and does not typically attract standard recreational punters who are well serviced by the totalisators and the bookmakers.

From an integrity perspective, Betfair acknowledges and actively embraces the need to ensure the integrity of greyhound racing in New South Wales. We have invested heavily in technology and human resources to help guard against gambling-related corruption on its platform. One of the strongest weapons for protecting integrity is transparency – both in terms of publicly available information (such as volumes traded at particular prices over time) and the more sensitive information that Betfair makes available to GRNSW and its stewards in accordance with the race fields approvals granted by GRNSW to Betfair.

ABOUT BETFAIR

Betfair operates the world's largest betting exchange. We offer fixed odds betting, much like a bookmaker, but our customers set their own odds and effectively bet against each other. Betfair acts as the counter-party to every transaction. Our customers can only bet with money they have in their account.

Betfair operates in a number of countries. It has more than 4 million customers worldwide, 200,000 of whom are in Australia and New Zealand. Betfair's Australian operations are strictly regulated by the Tasmanian Gaming Commission in accordance with the *Gaming Control Act 1993* (Tas). Betfair is required to adhere to a number of important probity and integrity provisions under this Act, including:

- the prevention of wagering on illegal events;
- permitting the Tasmanian Gaming Commission to override any betting exchange rules it deems to be oppressive or unfair;
- the requirement to verify the identity and age of all customers;
- preventing wagering on any event the Commission considers unfit for betting.

Betfair Australasia is a 50-50 joint venture between Crown Limited (ASX listed) and Betfair Group plc (London Stock Exchange listed). Betfair's Australasian operations are based across two offices in Hobart and Melbourne, with more than 180 employees. The company also has corporate operations in Sydney, Brisbane and Perth.

Betfair is a major investor in new technology, producing one of the fastest, most resilient and secure betting platforms available on the internet. The web platform processes more than 5 million transactions on an average day, with 99.9 per cent of those completed in less than a second.

PROTECTING THE INTEGRITY OF GREYHOUND RACING IN NEW SOUTH WALES

One of the most important elements of Betfair's association with GRNSW relates to the integrity management services that we make available on every greyhound race conducted in New South Wales. It is essential for Betfair's long term sustainability and that of the wagering industry generally, that its customers have confidence in the honesty of the markets on which they place bets. Betfair's business interests, therefore, are aligned with those of GRNSW and the broader greyhound racing industry: all need to ensure that the sport is conducted fairly and is free of corruption.

As a strictly account based operator, every bet on Betfair can be tracked to a particular customer. Our advanced software records every detail, down to each click of the mouse. It can trace every dollar in and out of the exchange and all bets can be linked directly to the end customer and their nominated bank account. An account based system that requires the identity of customers to be verified enables betting operators to quickly identify and expose perpetrators and pass on relevant information to authorities.

GRNSW's stewards have real time access (both pre and post-race) to transactions taking place on their events through the Betfair platform and access to customer details if and when required. Betfair has ready-made information that can be passed on to racing and sporting authorities in the case of a transgression of rules or suspicious behaviour. No other wagering operator in Australia has the willingness or ability to track, analyse and share information on wagering activity to the same extent as Betfair.

Importantly, from an integrity perspective, the 'gross revenue' based product fee model allows the demand for low-margin wagering offered by a betting exchange to be satisfied within the Australian regulatory framework. In jurisdictions that have implemented a 'turnover' based product fee, Betfair has been required to significantly increase the price (and therefore decrease the odds) it charges on that product, which has made the Australian licensed and regulated betting exchange significantly less competitive than unregulated offshore operators that are targeting Australian customers. Such operators don't contribute product fees and more importantly don't share betting information – the key plank in fighting corruption in racing. With Australian licensed, regulated operators being placed under onerous conditions by some racing authorities, it can be expected that the offshore and illegal operators will continue to flourish and the opportunities for undetected nefarious activity increased.

There are numerous betting exchanges that operate outside Australia without approval and are offering markets on all codes of racing, including New South Wales greyhounds. The most prominent is Citibet (www.citibet.net) which proudly claims it is "Asia's leading online betting exchange". Our customers are informing us that due to increased fees and restrictions being imposed by Betfair (on codes other than New South Wales greyhounds) they are moving portions of their business to such operators. This is a huge risk for the industry in the loss of race fields fees and further justifies the stance taken by GRNSW on the issue.

FUNDING THE NEW SOUTH WALES GREYHOUND RACING INDUSTRY

Historically, licensed wagering operators in Australia traditionally paid all product fees and taxes to the states where they are licensed. For example, a bookmaker licensed in New South Wales paid taxes and product fees to the NSW Government and GRNSW (and other control bodies) for all bets they accepted, regardless of where the race occurred.

This funding model originated with the advent of the state-based (and owned) TABs. It was widely referred to as the 'Gentleman's Agreement'. In effect, each jurisdiction permitted TABs and bookmakers to accept bets on each other's racing without the requirement to pay product fees.

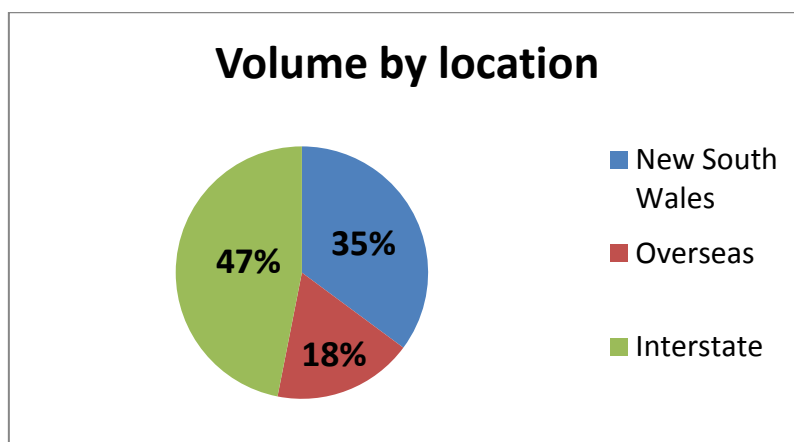
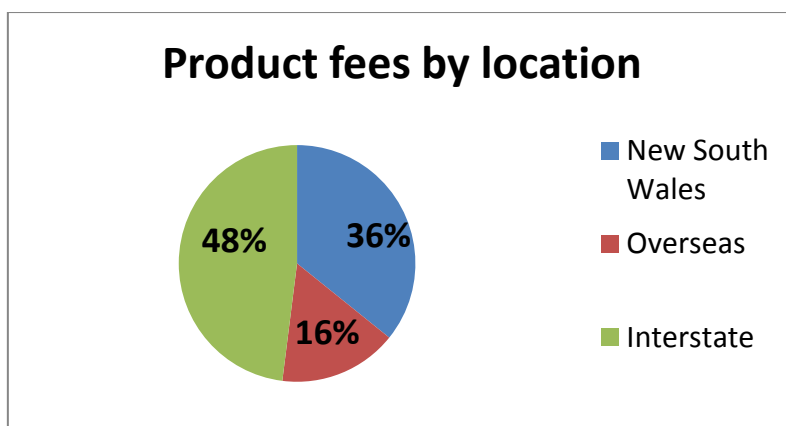
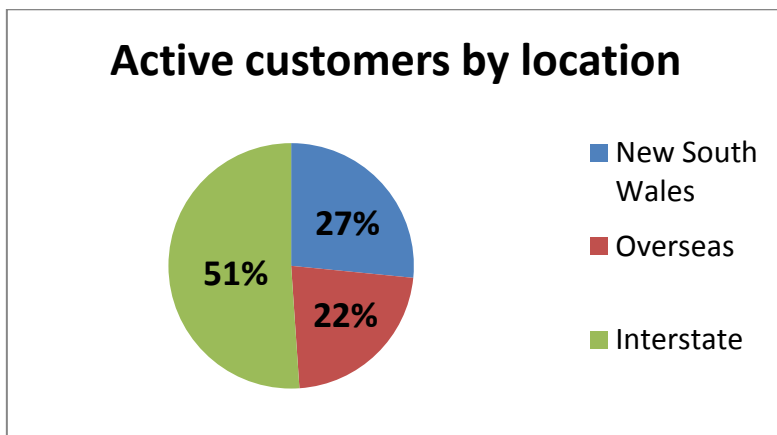
Throughout Australia, this funding model has been replaced by the introduction of race fields legislation. Wagering operators still pay licence fees and taxes in the state in which they are licensed, but the race fields legislation means they now have to contribute product fees directly to the racing bodies that control the product from which they are sourcing revenue. This means that any wagering operator that accepts bets on New South Wales greyhound racing, regardless of where in Australia they are licensed, is required to pay a fee to GRNSW.

Betfair supports this funding model. It's an arrangement that allows the racing industries in each state to properly reap the rewards of their own products and gives racing bodies a strong incentive to provide a better quality product as can be seen by the ongoing strength of the New South Wales greyhound racing product against its interstate competitors.

As Betfair has a national and international presence it is in a unique position to provide access to New South Wales greyhound racing to a far-reaching group of customers. In fact the overwhelming majority of customers betting on the sport are located interstate or overseas, as evidenced by the charts below which are based on the 12 months to 30 September 2013. Those international customers are showing a willingness to engage in the New South Wales greyhound racing product, no doubt being driven by the market-leading access to form and vision through the website www.thedogs.com.au which is controlled and operated by GRNSW. The provision of this vital information by GRNSW is no doubt encouraging our international customers to interact with the NSW product, rather than its competitors which do not make available the full array of this information.

New South Wales based customers make up only 27% of the total customers that have bet on New South Wales greyhound racing across all geographical areas. However, the figure of real importance to the New South Wales greyhound racing industry is that 22% of Betfair's active customers are from overseas. These figures clearly evidence Betfair's ability to bring a broader audience to greyhound racing in New South Wales and assist GRNSW in seeking new and broadened revenue streams from its product. In a time where racing is losing ground to sports betting, working with global operators such as Betfair puts GRNSW in a position to further grow its revenues from wagering.

However, Betfair’s customers, primarily those from overseas, will simply not continue to gamble on racing jurisdictions where that product is too expensive. These customers will simply shift their activity to more competitively priced options (such as sports and overseas racing) in order to continue to engage with Betfair’s innovative and unique product. As such, we see it vital for the continued expansion of revenue streams available to the New South Wales greyhound industry that a competitive product fee continues to be levied.



THE RIGHT FUNDING MODEL FOR GEYHOUND RACING IN NEW SOUTH WALES

GRNSW is presently the only racing body in New South Wales that charges its race fields fees on the basis of “gross revenue”. For the present approval period, the fee for using GRNSW race field information is set at 15% of an operator’s gross revenue, with a minimum payment floor of 0.75% of the operator’s “wagering turnover”. This hybrid model means that GRNSW is able to share in the upside of increased revenues being derived by wagering operators whilst ensuring that even if a bookmaker was to encounter a losing period, that a minimum fee would still be paid.

We consider that GRNSW has evidenced a depth of understanding of its customers by implementing a “gross revenue” model and we commend GRNSW for taking this step in spite of a deal of external pressure.

Brent Hogan, the CEO of GRNSW, has recognised that there are financial benefits to GRNSW is adopting a “gross revenue” model. When questioned in 2012 as to why GRNSW had not followed the lead of certain other racing jurisdictions and implemented a turnover model, Mr Hogan stated:

I have been asked on several occasions over the weekend would we have received a higher return if we charged wagering operators on the basis of 1.5% of turnover as opposed to 10% of their gross margin, effectively their winnings on a particular race. The simple answer to that is no. In the three and half years that race fields has been in place \$2.9 billion has been bet on NSW greyhound races with all wagering operators combined producing a gross margin of \$446m. The maths is simple, 1.5% of \$2.9bn is \$1 million less than 10% of \$446m.

As can be seen, a 1.5% of turnover fee will actually result in less money flowing back to the racing industry than under both the gross revenue and a hybrid model. This comparison doesn’t even consider the competitive responses which are likely to arise if a turnover fee is established for the long term. For example, following the High Court decision Betfair has implemented a “turnover charge” on those customers who “trade” in jurisdictions that have imposed a turnover based race fields fees (including for NSW thoroughbreds and harness). This has resulted in reducing Betfair’s overall turnover and therefore the fees payable to those racing jurisdictions.

Similarly, other wagering operators have increased their margins in order to offset the higher product fees. This has been achieved by refusing to service low margin and winning customers in order to achieve a higher margin. The result of these competitive actions is that the Australian regulated industry is not servicing an important segment of punters. That segment is being forced to find alternative options – including betting offshore and with illegal SPs. This is clearly detrimental to the industry from a product fee perspective but also more importantly from an integrity perspective as no records are being shared by such illegal operators with racing authorities.

INDEPENDENT VIEWS

The Productivity Commission, after receiving 422 submissions, including submissions from numerous parties involved in the racing industry and holding open consultations, recommended that a gross revenue model is in the best long term interests of the racing industry. In its 2010 report into *Gambling in Australia*, the Commission stated:

Turnover-based fees will tend to either drive low margin operators out of business, or compel them to change their business models and increase their prices to punters. In short, turnover-based products fees (if applied universally) discourage price competition between firms. In contrast, product fees based on gross revenue are consistent with a variety of business models and are more likely to promote competition in the wagering industry.

Similarly, the 2011 Victorian Thoroughbred Wagering Review, chaired by Mr Peter Yates and prepared by PricewaterhouseCoopers, concluded that:

In considering the Turnover and Gross Revenue approaches, we considered that the Turnover model would most likely impact on the competition of the wagering industry and impact on wagering providers ability to compete with other products such as sports betting. Therefore we consider that the Gross Revenue approach would provide the best outcome for the racing industry and its customers...

Despite the decision of the board of Racing Victoria Limited to move to a Turnover model in 2011, its former CEO Rob Hines has recently stated:

We still believe that the best result for racing, for thoroughbred racing nationally, is a gross revenue model.

The claims that the lost turnover from low margin operators will simply flow to the totalisators so that racing will be no worse off ignores the price sensitivity of customers. Turnover based fees do not reflect an approach consistent with evolving consumer movement away from high margin totalisator products towards lower margin fixed odds products – primarily in relation to sports, but also in relation to racing as is evident from the expanded product offering on NSW greyhounds by various corporate bookmakers.

CONCLUSION

Betfair welcomes the Committee's Inquiry into the NSW greyhound racing industry. We would welcome any opportunity to meet with you to discuss our submission and how Betfair can assist GRNSW continue to build a sustainable and prosperous industry going forward.