



Response to DCMS Call for Evidence on the Review of Gaming Machines and Social Responsibility Measures (the “Review”)

1. Introduction

- 1.1 This response is being submitted on behalf of the Novomatic UK Group (the Group) (novomatic.co.uk), an integrated group of gaming businesses and part of the global Novomatic Group of businesses.
- 1.2 The Group employs some 3,500 people (fte) across the UK and forecasts a combined turnover of £300m in 2017. It includes some of the most respected and long established businesses in the UK land-based gambling industry, involved in the manufacture and supply of gaming machines, through to their operation in Adult Gaming Centres (AGC's), Family Entertainment Centres (FECs) and Bingo premises. It is the largest operator of AGCs in Great Britain.
- 1.3 We welcome the Review and with it the opportunity to engage with Government on issues that are business critical and consumer focussed. We strongly support the Review's objective of ensuring the right balance between socially responsible growth and the protection of consumers and wider communities.
- 1.4 As members of the trade association BACTA, we refer to and support its response to the call for evidence. We do not propose to repeat the detail of those submissions and, for this reason only, have not provided responses to all of the questions posed. However, there are a number of points we wish to emphasise and we ask that these points be read alongside BACTA's submission.
- 1.5 We think it essential that our proposals are considered in context:-
 - a) the number of AGCs and FEC's remains in serious decline: according to Gambling Commission statistics some 36.4% of AGCs disappeared from our high streets in the 5 year period 2011 – 2016¹; FECs have declined by some 12% in the 18 months to September 2016 alone.² AGCs cannot compete with online gambling and the unfair high street competition presented by gaming machines in betting premises (LBOs). Customers have unquestionably migrated from AGCs to LBOs

¹ Gambling Commission Industry Statistics November 2016

² Gambling Commission Industry Statistics April 2013 to March 2016

to play Category B2 gaming machines (FOBTs) - a much harder and faster high stake casino style gaming product in an environment that often offers less supervision. This is despite the supposed "primary purpose" of LBOs being betting;

- b) arcades represent only 3% of the industry GGY, while, for example, GGY for the remote sector sits at 33% and 24% for LBOs. In terms of high street premises arcades account for just 16% while LBOs represent 78% of the total;³
- c) pub businesses have continued to decline and see a major impact on their machine players. They too face competition from Category B2 machines on the high street and online gambling;
- d) the impact of the above on manufacturing, supply and jobs has been severe. Sales of new machines dropped by more than 35% in the 2011-2016 period⁴; and
- e) staff expenditure continues to increase and businesses incur one off costs such as those relating to the introduction of polymer notes and the new £1 coin. Utility costs have increased over the last five years, with particular impact on arcades. None of these costs can be passed on to the customer.

1.6 The Review presents an opportunity to halt and reverse the decline and to correct some anomalies and mistakes in existing legislation. Without those corrections, we will see a continuing drain on business and skills, with leisure spend being driven away from arcades, bingo halls and pubs to other channels, many with much higher stakes and fewer or no restrictions and which make a lower contribution to the wider economy.

2. Q1 – What, if any, changes in maximum stakes and/or prizes across the different categories of gaming machines supports the Government's objective set out in this document? Please provide evidence to support this position.

2.1 We refer to BACTA's submission. In particular, we highlight the need for the following changes:-

- a. Category B3 – new £2.50 maximum stake, without change to the maximum prize of £500.00;
- b. Category C – new £2.00 maximum stake with a maximum prize of £150.00.

2.2 Category B3: B3 machines are core to AGCs. The proposed increase for Category B3 machines would represent an inflationary increase for a machine which is only available to those aged 18 and over in a supervised

³ Gambling Commission Industry Statistics April 2013 to March 2016

⁴ Gambling Commission Industry Statistics November 2016

environment. AGCs are the home of gaming machines - providing a safe and supervised environment for playing while attended by experienced and trained staff. Gaming machines are the reason AGCs exist, but while every other land based gambling sector has seen an increase in machine numbers since 2008/2009, AGCs have seen a drop of over 33%⁵.

The long established business model for AGCs (and FECs) is based on excellent and careful customer service provided by staff who are specifically trained in sector specific customer interaction. Arcades are dependent on good customer-facing staff, but increased expenditure through the introduction of, and the recently announced increase in, the Living Wage must be met without being passed on to customers by increasing the cost of playing a game – instead, it goes straight to the bottom line. We estimate that the recently announced increase to the Living Wage to our arcade business alone (on top of the cost of its introduction and the cost of the increase in minimum wage) will be approximately £700k in 2018.

- 2.3 Category C: Pubs have traditionally offered their customers a limited number of Category C machines to play and this has also formed a vital core market for manufacturers and suppliers. The well documented and alarming decrease in pub numbers has not only had a significant impact on pub retailers, but also on our pub supply business. In keeping with the industry norm, we have tended to move that supply business away from a sales model to revenue share arrangements with pubs, which cannot afford the outright purchase of the equipment. These arrangements operate on very tight margins and as such, the 13% decline in our revenue from them since 2012, is very serious - reflecting the real pressure on pubs.

Category C machines also continue to provide entertainment to a crucial number of customers in AGCs and adult only areas of FECs. However, in the period 2011/12 – 2015/16, the number of new Category C machines sold in to all markets fell by over 32%⁶ and, the Group's manufacture and sales of Category C machines reflects the decline⁷. As the graph at Appendix 1 demonstrates, sales plummeted shortly after the introduction of FOBTs to LBOs.

- 2.4 Affecting both Category C and B3 machines, the direct and immediate cost to the Group on the introduction of polymer £5 notes is quantified at approximately £360k, (although this does not take into account labour costs for the change in firmware and note acceptors) with a £1.5m cost to us on the introduction of the new £1 coin. Again, these costs cannot be passed on to our customers by increasing the cost of play and must instead be absorbed in full.

⁵ Gambling Commission Industry Statistics November 2016

⁶ Gambling Commission Industry Statistics November 2016

⁷ See Graph at Appendix 1

- 2.5 Category B2: We remain concerned by the anomaly of the current stakes and prizes for the B2 gaming machine which do not support social responsibility objectives and are doing widespread reputational damage to the industry. These are permitted in casinos and betting premises, but almost entirely provided by the latter, with some 35,000 now in LBOs⁸.

There is now a growing evidence base setting out the need to reduce the stake on B2s in order to protect the young and vulnerable from being harmed or exploited. The recent report published by the eminent academics Professor Peter Collins, Professor Graham Barr and Dr Leanne Scott⁹, concludes that “the Government should, in the interest of protecting the vulnerable and in line with its policy of prioritising mental health issues, impose a substantial reduction on the maximum stake currently permitted when playing FOBTs in betting shops”.

A recent Freedom of Information request to the Gambling Commission has revealed that FOBTs are responsible for a 20% rise in crime at LBOs as addicted gamblers turn violent.

3. Q2 – To what extent have industry measures on gaming machines mitigated harm or improved player protections and mitigated harm to consumers and communities? Please provide evidence to support this position.

- 3.1 Gaming machines can only be sited as permitted by legislation and the Category D, C and B3 gaming machines we operate are low stake machines, which can only be provided in supervised premises. The measures taken by the arcade industry in providing these machines mitigate harm and provide protection to players and the wider community. For example, it places a heavy emphasis on knowing and serving customers in a socially responsible way. The code on underage access that was voluntarily put in place by the arcade sector through Bacta (working with Paul Bellringer of GamCare) in 2000, became a core element of the first version of the LCCP on the introduction of the Gambling Act 2005, in 2007. The LCCP has gone through numerous iterations since then, on each occasion increasing the focus and requirements of Social Responsibility, particularly for land-based retail operators.

- 3.2 As Sir Christopher Kelly KCB noted at the recent BACTA convention,¹⁰ staff training and support is critical when dealing with issues of problem gambling. The training we deliver to our staff – from senior managers to those engaging direct with customers on the arcade floor – is detailed, bespoke and continuous. It includes specific focus on customer interaction, problem gambling and self-exclusion and on the importance of record keeping. As a result, arcade staff are noticeably more comfortable

⁸ Gambling Commission Industry Statistics April 2013 to March 2016

⁹ “Report on results of research into the likely effects of substantially reducing the maximum permitted stake of £100.00 per 20-second spin on Category B2 electronic gambling machines in UK betting shops” – November 2016, Professor Peter Collins, Professor Graham Barr and Dr Leanne Scott

¹⁰ 24th November 2017

in engaging with customers about whom they have concerns than they were in 2007 when the Gambling Act 2005 was introduced. At the same Bacta conference Dirk Hansen, Chief Executive of GamCare, was pleased to note the significant increase in calls that the charity now receives from members of the public who have been directed to GamCare by staff at gambling premises, as part of an interaction at a stage earlier than self-exclusion.

- 3.3 Through Bacta and a separate commercial provider, the arcade sector has put in place a multi operator self-exclusion scheme (at considerable expense to the sector itself), allowing customers to self-exclude from a number of premises at the same time, without entering a single site. Sarah Harrison, Chief Executive of the Gambling Commission, recently commended the industry on the introduction of the scheme and on its efforts in keeping underage children out of adult only arcades¹¹.
- 3.4 As with other land based premises and, as a Social Responsibility measure under the LCCP, arcades must carry out site specific local risk assessments, taking into account the risks posed by the premises and its locality to the licensing objectives enshrined in legislation. The risk assessments follow a detailed review of the local area and are revised and updated on relevant changes.
- 3.5 We provided the Gambling Commission with Annual Assurance Statements this year for each company within the Group. These detailed the measures we take and the control systems we have to ensure, evaluate and improve our compliance and the upholding of the licensing objectives, from manufacture and supply, to the retail customer-facing part of the business, to the engagement of the board. We also took part in a Group-wide corporate evaluation carried out by the Gambling Commission during that time.
- 3.6 We have heard it said that the LCCP requirements only form the start of operators' obligations on Social Responsibility. While we agree that it is essential to strive for continuous improvement – which we do – this statement seems to ignore the breadth and depth of the LCCP obligations. They are founded on the concept of Social Responsibility and the Licensing Objectives and fulfilling the letter and the spirit of the responsibilities set out in the provisions is a significant achievement.
- 3.7 We note the suggestion in the Call for Evidence that LBOs are subject to higher levels of regulation than those that apply to AGCs (para 1.26). With respect, that is not the case. AGCs are and always have been subject to high levels of supervision and interaction with customers and are known for this model. Many AGCs have developed long standing relationships with customers and provide key community social environments.

¹¹ BACTA Convention 24th November 2016

3.8 The only relevant LCCP provisions that apply to LBOs but which do not apply to AGCs, relate to the relatively recently introduced £50 regulations on B2 gaming machines¹². These have been shown to be ineffective. The regulations allow players to stake up to £100.00 a spin and simply introduce a £50.00 staking threshold above which players are required to identify themselves to staff or sign up to a loyalty card. Players can still stake up to £100.00 and it would seem that bookmakers are in fact using this change as an opportunity, where anyone signs up for a card, to further market products to them using the contact information.

4. Q5 – What has been the impact of Social Responsibility Measures since 2013, especially on vulnerable consumers and communities with high levels of deprivation? Please provide evidence to support this position.

4.1 Please see 2 above.

5. Q6 – Is there anything further that should be considered to improve Social Responsibility Measures across the industry? Please provide evidence to support this position.

5.1 Operators of LBOs are permitted to offer Category B2 games on gaming machines (or “terminals” as the machine is called when offering a selection of games). Many offer B3 games on the same terminal as B2 games and this is usually in a format that allows a player to start play on a B3 game (usually a slot style game) and then easily and without any significant pause, move to the much higher staking and increased volatility offered by the B2 game – with their winnings if they so choose. We do not believe that players understand they are transitioning from a B3 to a B2 game. Only minimal screen messaging appears as part of this transition process. We do not believe that even this minimal messaging is understood properly by players – not least given that RGT research and feedback demonstrates that players do not properly understand the concept of Return to Player (RTP) functionality. This seems to suggest that the same lack of understanding also applies to the transition between B3 & B2 games described above and to the inherent changes to stake size, volatility and ultimate RTP.

A Natcen evaluation concluded that those B2 players accessing multiple content (B2 and B3) within a single session of play suffered the highest losses (median of £10 per session). This again is a unique feature of B2 machines and has the potential to exacerbate losses within a single session of play when compared to stand alone B3 machines or any other gaming machine for that matter.

We are however surprised at the apparent lack of more research on this specific B3-B2 progression and its effect on, and understanding by, players. While we believe that improved messaging on machines during such transition would help consumers, it is our view that greater

¹² The Gaming Machine (Circumstance of Use) (Amendment) Regulations 2015 SI 121/2015

measures are required to properly protect the consumer. The way B3 and B2 games play and the volatility and current stakes are so vastly different, that we believe that, at least pending such research, B2 games should only be made available on specific, dedicated terminals. Given the volatility and heightened player emotions associated with B2 games, the risks to players and the vulnerable is significant enough to warrant their separation.

It would be much better for players in LBOs and for the vulnerable, for terminals within LBOs to be separate and be distinct between the two categories of games. In other words, a terminal providing B3 games only and another terminal providing B2 games only. Our understanding is also that the algorithms used on hybrid B3/B2 machines create a lot of lower value wins on B3 content which, in effect, then encourages the player to trade up and lose money more quickly on the faster B2 game.

While not widespread, the same issue does not arise for Category C and B3 games on a terminal, as these are a much softer form of gambling which does not allow games to effectively “morph” from one category of game to another.

6. Q8 – Any other relevant issues, supported by evidence that you would like to raise as part of this review but that has not been covered by questions 1 – 7

- 6.1 We support the need to begin thinking about moves to permit cashless payments on gaming machines. The move away from cash payments in most other retail experiences is happening at an alarming pace and a generation of potential customers will be lost without changes. We need to start thinking about this now. Already, payments for drinks and food in pubs is regularly made by cashless means – the change that might previously have been used to play a machine is disappearing. Plainly any cashless payment systems would have to be effected in a social responsible way, but this challenge is not insurmountable and not a reason to ignore the inevitable. We note that payments for the National lottery, (which accounts for 25% of GGY¹³ and can be played by those as young as 16) can be made by cashless means without issue – as indeed can payments for alcohol and tobacco.
- 6.2 Looking to the future, we are keen to ensure a vibrant future for gaming machines as part of the rich diversity of Britain’s cultural and leisure industry. Government and industry must embrace the opportunities provided by technology to develop the sector, the British economy and also further enhance the Government and regulator’s core objectives of:
- putting consumers at the heart of regulation;
 - becoming the most consumer focused regulator in the world;

¹³ Gambling Commission Industry Statistics April 2013 to March 2016

- accessing better information on consumers and their playing behaviours;
- enhancing social responsibility; and
- ensuring that stakeholders invest more in responsible gambling.

In particular, we are keen to explore with the Department how new technology allows for new developments in account based play. Novomatic has developed a biometrics system, which, through fingerprint recognition, is a technological solution to a socially responsible and consumer centric approach. The benefits of using such a system with account based play are numerous and would enable:

- a pre-registration process, which by definition, would require age verification;
- a technical solution to self-exclusion management;
- players to pre-set limits on frequency of session play, time per session and/or spend staked in any one session;
- player monitoring and intervention. Operators would have access to player log activity on such machines, allowing for staff intervention should certain pre-determined play patterns be identified as leading to harmful play; and
- concerns to be addressed around money laundering as there would not be the current regime of higher stakes player anonymity.

There would also be the scope through this technology to consider a more flexible approach to stakes and prizes, to reflect KYC improvements.

To note, this kind of new technology would not be for existing categories of low stake / low prize gaming machines as players' rights to anonymity must be respected at these levels of play and it would in any case be complex to retro-fit this kind of solution on existing machines. However, we anticipate that such technological developments could be established within the current machine categorisation through the creation of a further sub category of "Cat B" machines.

We would welcome the opportunity to discuss with the Department how it can build a progressive gaming environment that operates in the interests of consumers and embraces the latest developments in gaming machine technology.

Conclusion

The Group recognises the fundamental importance of the Licensing Objectives and Social Responsibility in considering the issues raised by this Review. We commend the proposals in this response as socially responsible, realistic and rooted in the licensing objectives.