

# chapter twelve

## On-line Gambling

12.1 We have used the term on-line gambling to refer to gambling services that use a telephone connection. This includes services that are accessed via the internet, interactive television and mobile phones. Much of the current focus tends to be directed at gambling on the internet and increasingly via interactive television. The terms that others have used to describe the same activities include internet gambling, virtual gambling, interactive gambling and so on, as well as on-line gambling.

12.2 Generally on-line gambling is characterised in two ways: on-line betting and on-line gaming. Betting, pools and (some) lotteries which receive entries on-line but where the event, draw or competition occurs off-line are referred to as on-line betting. The gambling event actually takes place and the result is independently verifiable i.e. the on-line system does not generate the result, it is used simply as a conduit for communicating information. The internet is often an alternative to other means of entry such as the post or telephone. On-line gaming is used to refer to gambling services conducted purely on-line which rely upon some kind of random number generator. It may appear as virtual casinos, (some) lotteries and electronic gaming machines.

### Regulation

12.3 As the Gaming Board has stated, gambling legislation – apart from that setting up the National Lottery – is all over a quarter of a century old and was enacted at a time when the power of the internet could not have been imagined. The legislation therefore impinges on on-line gambling in ways which were unintended and are erratic.<sup>1</sup>

12.4 The current legislation is thought to apply as follows:

- casino, bingo and machine gaming. It is illegal to set up on-line sites in Great Britain. Operators licensed by the Gaming Board to offer casino gaming, bingo and gaming machines must do so on licensed and registered premises. In particular, the persons taking part in the gaming must be on the premises at the time gaming takes place. The Gaming Board have advised that no licence could be obtained by an operator wishing to offer on-line gaming services and that to set up such a site would be illegal.
- betting. A bookmaker may accept bets on-line. Some bookmakers have chosen to operate offshore to avoid paying general betting duty, rather than because there is any legal difficulty in operating

on-shore. Since bookmakers are able to take bets via the telephone, it is accepted that they can take bets on-line.

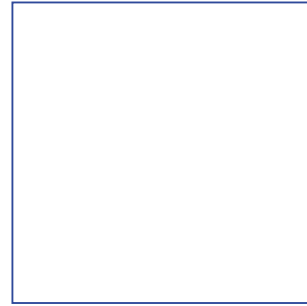
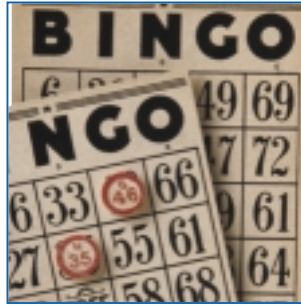
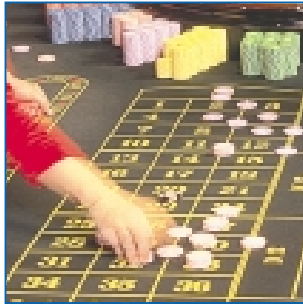
- lotteries. Tickets for lotteries can be sold almost anywhere other than the street, however they cannot be sold by machine. The Gaming Board has approved two applications to run lotteries on the internet, having satisfied itself in those cases that the sale of tickets would be effected by sales staff and not machine
- pool competitions. Football pools accept entries by post and can therefore also use e-mail.
- National Lottery. The National Lottery Act allows the sale of tickets from an attended machine.
- punters. Although operators are restricted by current legislation, no regulation prevents players accessing gaming or betting sites anywhere in the world. Nor is it illegal for overseas operators to offer on-line gambling to British residents (though there are restrictions on advertising).

### Punters

12.5 The data available suggest that to date, only a tiny percentage of people have gambled on-line. The Prevalence Survey found that less than 0.5% of respondents had gambled over the internet.<sup>2</sup> Similar percentages have been reported overseas. Australian data suggest that in 1998-99 about 0.6 per cent of adults, nearly 90,000 Australians, gambled on the internet.<sup>3</sup> It has also been reported that of the 90 million web users in the United States, some 5% have gambled on-line.<sup>4</sup>

12.6 Identifying the type of person likely to gamble on-line is highly speculative. The betting industry told us that the profiles of telephone punters and betting shop punters are different so it would not be surprising if a typical on-line gambler also differed from his off-line counterparts. The profile of an on-line gambler may be similar to that of a current e-commerce customer which is in turn based on analysis of internet users. The typical e-commerce consumer in the UK is said to be a 34 year old male, in social class ABC1, who lives in the South East and has at least one degree.<sup>5</sup> Industry analysts have commented on the ability of interactive television to reach novice punters, such as women, younger people and ABC1s who would not normally enter a betting shop.<sup>6</sup>

1- Gaming Board for Great Britain (2000) 109 2- Sproston, Erens & Orford (2000) 11 3- Senate Select Committee on Information Technologies (2000) 13  
4- Sutherland, J. (16 April 2001) 5- Retail E-Commerce Task Force (2000) 6 6- Broadband Media (9 April 2001) 5



12.7 There are varying estimates of the current number of people with on-line access via a PC, mobile phone or digital television, or likely to have access in the next few years. About 34% of households in the UK have internet access and around 30% of households have digital television, though only 10% of these use it for internet access and 15% for e-mail.<sup>7</sup> Current mobile phone penetration exceeds 70% though most phones are not internet enabled.<sup>8,9</sup>

12.8 Forecasts of the growth in on-line users are highly speculative but suggest that by 2005 mobile phone penetration could exceed 80% (and most of these phones will be able to access the internet) and penetration of digital TV could reach over 60%. In addition, individuals are already able to access the internet from their workplace and public locations, such as internet cafes and libraries and this is likely to become more commonplace. The availability of on-line services is likely to increase rapidly over the next five years such that anyone who wishes to access them should have no trouble in doing so.

#### Number of users

12.9 There are limited data available on the number of people registered with on-line gambling sites. Blue Square, which was launched in May 1999, reportedly has about 110,000 users registered on its onshore internet site.<sup>10</sup> Over the Grand National weekend, it is thought that it received over 70,000 (worldwide) bets on-line.<sup>11</sup> By March 2001, the interactive television site Open, had signed up more than 20,000 betting customers.<sup>12</sup> On-line betting sites apparently rank among the most visited entertainment sites.<sup>13</sup>

### The Industry

12.10 On-line gambling services accessed by consumers over the internet, via a mobile phone or digital TV network are a relatively new development. In the latter two cases bespoke gambling services may be offered instead of or in addition to services available on the internet. In time, other devices such as games machines, personal digital assistants (PDAs) etc will provide connectivity to the internet and so potential access to gambling services.

12.11 Whilst the telephone is readily available, it is only suitable for transactions (e.g. placing bets or buying lottery tickets) in situations where the gambler already has a considerable amount of information about the gambling event. The interactive transmission of text and visual information offered by other networks/devices, in particular the internet, allows a much wider range of gambling services, including gaming as well as betting, to be provided.

#### Operators

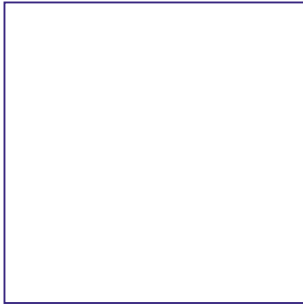
12.12 It is difficult to say how many on-line operators exist because there is no requirement for registration. Theoretically all on-line sites are accessible by punters based in Britain. Many betting operators with bookmaking permits have offshore sites. Currently, they may use British-registered web addresses and divert the punter to an offshore site.

12.13 Although on-line casino gaming is not legal in the UK, British residents have access to the sites wherever they are. Some estimates suggest that there are around 1,500 on-line casinos in the Caribbean alone.<sup>14</sup> Overall, there are already hundreds and possible thousands of gambling websites around the world, all potentially accessible by British punters with internet access.

#### Estimated Turnover

12.14 Present and future on-line gambling revenues are difficult to estimate because of the lack of verifiable public data.<sup>15</sup> Europe Economics estimated the value of the UK internet betting market to be in the region of £100m in 1999. This compares to a betting office turnover of £6,563m and telephone betting of £729m onshore and £250m offshore.<sup>16</sup> BSKyB announced that it made £33m from gambling in the second half of 2000, generated by the Surrey Group internet site and via Open, the TV-based e-commerce platform, which currently carries Blue Square.<sup>17</sup> Reports suggest that less than 5% of betting in the UK has gone on-line.<sup>18</sup> Other commentators have suggested that on-line betting now makes up 2-3% of the UK gambling market.<sup>19</sup> It is possible that very few people are betting on-line but it is the higher spending punters doing so.

7- Ofitel (2001) 8- Mobile Communications (20 March 2001) 9- It is conceivable that mobile phone penetration could go over 100% in time particularly as it includes pre-pay phones no longer used. 10- Broadband Media (9 April 2001) 5 11- Racing Post (13 April 2001) 12 12- Broadband Media (9 April 2001) 5 13- Ibid, 5 14- Sutherland, J. (16 April 2001) 15- Kelly, J. M. (2000) 16- Europe Economics (2000) 28 17- Broadband Media (9 April 2001) 5 18- Ibid, 5 19- Merrill Lynch (2001)



**12.15** The National Gambling Impact Study Commission (NGISC) Report on gambling in the United States quoted estimates that internet gambling revenues were \$651 million (£434 million<sup>20</sup>) for 1998, more than double the estimated \$300 million (£200 million) from the previous year.<sup>21</sup> The Netbets report stated that approximately 14 corporations were involved in on-line gambling in Australia in March 2000 and that much of their turnover was generated by overseas gamblers. One of the corporations reported a turnover of \$100 million (£40 million<sup>22</sup>) in 1998-99.<sup>23</sup>

**12.16** Commentators suggest that there will be a massive growth in revenues from internet gambling in the next few years but predictions of the likely size of the market vary enormously. A report produced by the National Office for the Information Economy in Australia estimated that the global market could be worth between \$11 billion (£7.3 billion) and \$110 billion (£73 billion) in annual turnover.<sup>24</sup> In their evidence to us, Christiansen Capital Advisors LLC estimated that internet gambling expenditure would be in the region of \$2.2 billion (£1.5 billion) in 2000 and \$6.4 billion (£4.3 billion) in 2003, as in figure 12.i. Whatever the exact figure, there is a significant internet gambling market both globally and in the UK.

	1999	2000	2001	2002	2003
US Dollars, millions (£ equivalent) <sup>25</sup>	\$1,167 (£778)	\$2,207 (£1,471)	\$3,119 (£2,079)	\$4,546 (£3,031)	\$6,346 (£4,231)

Source: Christiansen Capital Advisors LLC (2000)

**Figure 12.i:** Estimated Actual Internet Gambling Expenditures 1998-2003

20- Using a conversion rate of (US)\$1.50 to (GB)£1. 21- National Gambling Impact Study Commission (1999) 22- Using a conversion rate of (AUS)\$2.50 to (GB)£1.  
23- Senate Select Committee on Information Technologies (2000) 3 24- National Office for the Information Economy (2001) 25- Using a conversion rate of (US)\$1.50 to (GB)£1.