

7 December 2018

Keno Licensing Project
Department of Justice and Regulation
121 Exhibition Street
MELBOURNE VIC 3000

By direct submission: <https://engage.vic.gov.au/keno-discussion-paper>

Dear Keno Licensing Project Team,

KENO DISCUSSION PAPER

Please see below the response of Sportsbet to the Keno Discussion Paper. By way of background, Sportsbet is one of the largest online wagering operators in Australia and is a wholly owned subsidiary of Paddy Power Betfair (PPB). Aside from Sportsbet the broader PPB Group has significant retail and online betting operations across Europe, the UK and Ireland, as well as rapidly growing interests in the United States that includes the recent acquisition of FanDuel as well as strategic broadcasting operations. PPB has extensive M&A and licensing experience in cross-border transactions and other international projects.

In Australia, Sportsbet has ~1.2 million active customers who have placed a bet on Australian racing or sporting events in the last 12 months. Sportsbet has demonstrated its deep commitment in Australia and is the second largest contributor of funding to the racing and sports sectors via product fees, sponsorships, media rights payments and other initiatives which total more than \$150 million p.a. We have a strategic focus on bringing excitement to life to our customers through marketing and brand engagement, creating the best customer experience possible through unrivalled value and innovative products that engage our customers. Our business could do for keno what we have done for wagering on racing and sport.

Legal Requirements for the Keno Licensee

Given the acknowledgement that persons with gambling problems were significantly more likely to play keno than non-problem gamblers the frequency of keno draws could be reviewed. It is possible the frequency could be reduced and / or a period of each day allocated where there would be no draws taken place. This would provide a respite period for persons with gambling problems so that their harm is minimised on keno product.

Harm Minimisation Requirements

The conduct of keno could require player identification and tracking so that where a player's behaviour is indicative of problem gambling the issue can be identified as early as possible and appropriate player support and harm minimisation measures implemented.

Changes to the Licensing Arrangements

The prohibition on the distribution of keno over the internet could be evaluated. Other forms of gambling are permissible over the internet and it seems to be an aberration that keno, with a very small share of overall gambling turnover, is prohibited when the closest product substitute, lotteries, is authorised over the internet. Other gambling (and non-gambling) products available over the internet have facilitated a reset in customer experiences and increased their expectations. Our belief is that if the next keno licence term is 10 years (which would expire in 2032), a product like keno may be unattractive to customers and unviable for the keno licensee if it remains unavailable via online channels.

If online keno was authorised it could be coupled with player identification and tracking like online wagering. This would enable the keno licensee to enhance the customer experience, improve personalisation and most importantly better protect the players that are at risk of problem gambling. The increase in distribution to online channels could be offset by a reduction in the frequency of keno draws to support the harm minimisation objectives.

Revenue Distribution Arrangements

Returns to players are comparatively low versus most other gambling products, especially when the skew of jackpots to a small number of players is considered. Given the frequency of draws keno's share of the overall gambling market should arguably be higher, however, the low returns to players may be making keno seem less attractive to other substitutable gambling products. Changes to the level of returns to players should be considered.

The level of State tax is relatively high in comparison to other gambling products. It means the capacity of the keno licensee to provide a fair return to venue operators in the form of sales commissions, or other payments, is constrained. Further, it means the keno licensee has less available funds to invest in systems and processes to identify and address problem gambling issues. The aggregate level of State tax generated from keno is immaterial in the State's overall budget.

Reductions in the State tax rates could:

- offset any changes to returns to players;
- enable the keno licensee to:
 - increase the sales commissions to venue operators (potentially by assigning them a share of commission on online keno sales), if the channel prohibition was lifted;
 - improve the keno offer to players; and
 - implement more effective problem gambling initiatives
- enable keno venues to employ more staff.

Factors Influencing Keno Performance

Without detailed access to keno performance information it is difficult to definitively explain underperformance in Victoria relative to other jurisdictions. The issue of Victorian performance is likely to be multi-factorial; however some potential considerations include:

- Keno has come from a low base in Victoria at the start of the current licence term, noting the current keno licensee has done a reasonable job to grow real per capita keno expenditure;
- Victoria is an event destination and residents have a wide variety of entertainment options with which to allocate their discretionary expenditure. It is possible that the routine nature of the current in-venue keno offer is not an attractive option versus alternatives;

- Returns to players are relatively low compared to alternate forms of gambling. Consumers may be demonstrating their sophistication in comparing value across alternate products with keno not seen as positively as other options, such as online wagering on sports and racing; and
- There is a higher number of venues in other states which increases the distribution of keno relative to Victoria.

Next steps

Sportsbet are happy to be provide further assistance to the Keno Licensing Project Team as you prepare for the formal licensing process.

Yours sincerely

Scott McDowell
Sportsbet