

SUBMISSION ON THE RECOMMENDATIONS OF THE REPORT BY THE SOUTH AFRICAN GAMBLING REVIEW COMMISSION

Honourable chair and Honourable members of this Committee, Betfair would like to thank you for allowing us the opportunity to address you today. Betfair is one of the world's largest international online sports betting providers. The company was founded in August 1999, and listed on the London Stock Exchange in October 2010. We are a FTSE 250 company with our headquarters based in London. We hold betting licences in Gibraltar, the USA, Malta, Tasmania and Italy and currently employ more than 2000 people worldwide.

Betfair welcomes the findings of the South African Gambling Review Commission and would like to congratulate its members on producing a holistic, thorough and detailed report and list of recommendations. In particular Betfair welcomes the recommendation to include betting exchanges in the South African regulatory framework and for their inclusion to be based on the requirements outlined by the UK Department of Culture Media and Sport (DCMS) in April 2003.

The focus of our submission today is to discuss Betfair's betting exchange, how it works, and to address some misconceptions about the product. I will also touch on the findings of the Commission in so far as they relate to online gambling and more particularly the Commission's recommendation that betting exchanges be included in the South African legislative framework.

Betfair pioneered the betting exchange concept, which is a form of online sports betting that operates entirely online and shares similarities with both totalisators and bookmaking. Similar to the Tote, Betfair only accepts a bet from a punter if there is sufficient liquidity in its market to accept the bet without taking the risk. Betfair effectively becomes the counterparty to every customer's bet, guaranteeing payment and settling the market. At no time are Betfair's customers able to choose, contact or identify the other customer or customers against whose bets they have been matched.

As with other forms of online gambling, making a bet with Betfair is more complicated than simply walking into a shop and handing over money. A potential customer would first need to have access to the internet and be familiar with the Betfair website. Secondly, they would need to register and open an account. This requires the applicant to provide an accepted form of identification (such as a passport), a phone number and proof of address. Where possible these details would be verified with an external third party source. Once registered, the customer would need to deposit funds from a debit or credit card into their account. No withdrawals can be made until the customer's age has been verified. Betfair employs a closed loop payment policy which means a customer can only withdraw money to the payment source from which it was deposited. This prevents customers from disguising payments from Betfair as winnings as both the deposit and winnings are paid from and to the same account. Customer behaviour is also monitored on an ongoing basis by our Anti-Money Laundering team and any suspicious activity is reported to the relevant regulator and financial crime unit.

Betfair takes its responsibilities regarding the integrity of sport very seriously and is committed to assisting all sports in the fight against corruption. It is essential for Betfair's long term sustainability that its customers have confidence in the honesty of the events on which they place bets. Betfair

has been a pioneer in this field and created a system of Memoranda of Understanding (MOU's) allowing it to share information – including customer details – with national and international sports bodies. In order to use Betfair's services customers have to agree to the passing of their details to governing bodies under these MOUs. Over 40 MOU's are now in place with organisations such as FIFA, The International Olympic Committee and the International Cricket Council. All betting markets are continually monitored by a sports integrity team (manually and using software) which is responsible for identifying suspicious betting patterns. If suspicious bets are detected, the relevant customer's account is suspended and funds in it are frozen whilst it is investigated. Where an MOU is in place information is also passed to the sport's governing body for investigation. We also provide a service called the Bet Monitor which allows MOU partners to monitor bets on their events in real time. We believe these are the most effective and transparent arrangements in the betting industry to date.

Betfair is committed to a sustainable gambling policy, and to guarding against the negative effects of gambling addiction. Our safeguards include financial limits which allow customers to restrict the amount they can deposit or bet; session timers and self-exclusion facilities.

On a commercial level concerns have been raised by some that regulating betting exchanges could destroy the traditional bookmaking industry. This is simply not the case. For example in the UK (arguably the most mature gambling market in the world) where betting exchanges have been available over the past 10 years, traditional bookmakers continue to dominate the sports betting market. In the UK, betting exchanges have less than 25% of the online sports betting market. The online market as a whole is still less than 20% of the complete betting market including offline. The idea that once exchanges are regulated traditional bookmakers will cease to pay tax or licensing fees because they can 'act as bookmakers for free' on an exchange is consequently baseless. An exchange manages its risk perfectly, meaning any customer attempting to build a profit margin into the odds they request, as a traditional bookmaker would have to would simply not have their bets matched.

Others have argued that betting exchanges may endanger the horseracing industry as they provide less by way of financial support to the industry. Again this is not the case. Betfair would like to highlight that in its largest horseracing market, the United Kingdom, it is the second biggest bookmaking sponsor of horseracing after the Tote (a Government owned entity until May 2011), and one of the most significant contributors to the UK horseracing levy.¹

We believe that many of the arguments about the dangers betting exchanges pose are made without supporting evidence and are largely articulated by other betting operators concerned about the competition exchanges may bring to the market.

With regard to the practicalities of South African legislation and proposals for change, Betfair supports the overriding regulatory objectives of current gambling legislation, being to regulate gambling in the public interest in order to protect and to control. Online gambling merits specific consideration and internet specific measures because of its borderless nature, (which makes a

¹ Betfair has voluntarily donated £6 million to the Horseracing Levy in 2011. Alongside the voluntary donation, Betfair remains the second biggest bookmaking sponsor of British Racing and is continuing to invest £3 million over three years in the grassroots of racing.

prohibition very difficult to enforce), and the specific challenges it presents. The practical difficulties encountered in trying to police any prohibition effectively means that consumer demand for any form of gambling on the internet must be able to be satisfied by licensed providers if player protections and controls are to be effective.

The Commission's report has classified betting exchanges as person-to-person gambling. Although this is one way of classifying them it is somewhat different to other person-to-person gambling products such as poker and bingo in which customers actually interact with each other. Betfair is better understood as a hybrid of a traditional bookmaker and a totalisator, offering the best of both worlds.

Existing legislation, (including the 2007 amendment thereto, which has not taken effect as yet) does not specifically cover betting exchanges, although significant features of exchanges are found in other forms of gambling which are currently regulated. This suggests that the legislative leap required in order to extend the reach of legislation to encompass betting exchanges, would be a rather small one.

The South African legal framework presently regulates internet based gambling inconsistently, to the detriment of the customer (who cannot distinguish between what he or she can or cannot legitimately access) and of government revenues as punters seek out operators not licensed in South Africa. These inconsistencies are the result of the disconnect between provincial legislation and national legislation that has allowed some popular forms of internet based gambling, such as the Soccer 6 product, whilst not offering other popular forms of online gambling. To illustrate these inconsistencies, consider the fact that, as highlighted in the Commission's report, operators can offer cell phone betting in certain provinces but not in others; some provinces have strict probity requirements and scrutinise licensees to a fault whilst other provinces have adopted less stringent requirements for compliance. Current legislation does not recognise online bookmaking as an interactive game even though, by its very nature, online bookmaking is just that. Consequently, online bookmaking licences have to be accessed through traditional bookmaking legislation, whereas the natural home for online bookmaking, like an interactive betting exchange, is within interactive gaming legislation.

In order to safeguard all players within South Africa and ensure that the risk of harm to individuals and communities is minimised, it is essential to apply regulation uniformly and not to allow loopholes of any kind. Online gambling legislation must necessarily be as wide as possible so as to capture all forms of online gambling within its net – experience in other jurisdictions shows that the smaller the range of permitted online gambling opportunities, the greater the size of the illegal market. We propose the amendments required to encompass all forms of internet based gambling are not great and would be achieved by a wider, more comprehensive definition of interactive gambling that would cover all forms of online gambling including betting exchanges and online poker, both of which have grown in popularity globally. Betfair supports technology-neutral regulation that encompasses specific interactive games, systems and methods. Such an approach would assist in avoiding piecemeal amendments to any new regulatory regime.

Aside from the obvious benefits which comprehensive regulation would hold for customers and the Government alike, such regulation would also serve to introduce healthy competition into a gambling industry where competition and choice are currently limited.

Betfair agrees with the Commission's assessment of countries which have attempted to prohibit online gambling. A market for online gambling exists and should be regulated effectively; attempts to prohibit it will most likely also lead to an increase in the illegal market. An example of this can be seen in the recent indictment of Poker Stars and Full Tilt in the United States, both of which had managed to create multi-million dollar gambling businesses from a country in which such activity was prohibited. Similarly, overly strict legislation under which regulated operators are unable to make a profit and customers cannot get access to the products they want will discourage operators from obtaining licences and encourage customers to use sites based abroad.

Betfair believes the Commission's report is an excellent step towards an effectively regulated and licensed environment which will protect South African citizens, allow for research and problem gambling treatment, create skilled jobs, lead to an improvement of infrastructure and provide valuable tax revenues. We would like to expand our business and enter South Africa as there is an existing demand for our product and we believe that South Africa is a respected and well regulated gambling jurisdiction. Betfair is committed to adhering to all aspects of black economic empowerment.

Honourable Chair and Honourable members of this committee, thank you for affording Betfair the opportunity to address you today.

For more information on this submission or on Betfair as a whole please contact Tom Tuxworth, Public Affairs Officer at Betfair on +00 44 20 8834 6904 or at thomas.tuxworth@betfair.com