



Response to  
Pre-commitment  
Consultation Paper

September 2010

## PVS Pre-Commitment response

### Executive Summary

PVS views the phased implementation of Pre-Commitment as a positive step forward for the Victorian Gaming Machine Industry in providing harm minimisation mechanisms for problem and at risk gamblers to manage their time and spend on gaming machines.

PVS supports a phased approach that will ensure that all gaming machines have a mandatory pre-commitment system in 2013 without the intention to link all gaming machines in a venue.

This approach would still ensure the compliance with the current legislative requirement that by 1 December 2015 all gaming machines are required to have a pre-commitment mechanism enabled that is linked state wide (3.4.31B).

### Introduction

In Framing PVS's response to this consultation paper it's important to understand the current legislative framework and also the Victorian Governments policy for pre-commitment. Currently the Gambling Regulation Act 2003 has two legislated stages to the introduction of pre-commitment, they are:

1. 1 December 2010 all prescribed machines (Next Generation Machines) will require a pre-commitment mechanism enabled (3.4.31A), and
2. 1 December 2015 all gaming machines are required to have a pre-commitment mechanism enabled that is linked state wide (3.4.31B).

The Victorian Government policy is also to introduce initiatives that require all gaming machines by 2013 to have a pre-commitment mechanism enabled. The intention of the policy is to link all machines within a venue conditional upon advice that the cost is not prohibitive. This phase of the policy has not yet been legislated.

PVS views the phased implementation of Pre-Commitment as a positive step forward for the Victorian Gaming Machine Industry in providing harm minimisation mechanisms for problem and at risk gamblers to manage their time and spend on gaming machines. This also provides for venues that will absorb the physical costs over a phased implementation, a sensible time frame to implement the policy. In our view the policy achieves the following goals:

1. Improved protection for players by offering Pre-Commitment mechanisms on both prescribed gaming machines (2010) and then all machines (2013) and finally via a personal identification device and state wide link (2015 / 16).
2. Dispersing the costs associated with this initiative over a phased implementation will be more manageable for venues. There is little doubt that additional costs absorbed by other industry participants (Gaming Regulator, Gaming Services Providers, Manufacturers, LMO, ATF and Logistic providers) will filter down to venues that will in the end pay for the entire policy. A phased implementation will allow venues to manage costs over a longer time frame at a time that venues are also paying instalments for their gaming entitlement licences.
3. A phased introduction will reduce the risk of a steep revenue decline. Any decline during a time of additional cost absorption due to pre-commitment policy rollout and paying gaming entitlement instalments will no doubt put economic viability pressure on the gaming industry.
4. By using a phased introduction, the work load for implementing this initiative for all industry participants will be manageable.

## Response to Questions

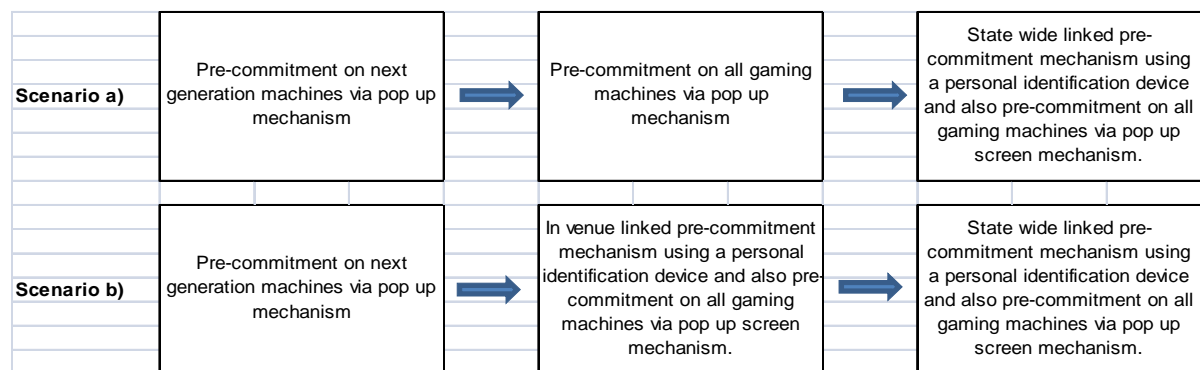
### Q1: What are the types of costs and benefits of the draft regulations?

PV S wishes to answer this question using two scenarios that are proposed in this consultation paper to outline the types of costs and benefits. On page 4 of the consultation document and the 5<sup>th</sup> dot point down it states ' the government also intends to link all gaming machines within a venue in 2013, conditional on advice that the cost is not prohibitive for venues.

The scenarios are:

- a) all gaming machines have a mandatory pre-commitment system in 2013 **without** the intention to link all gaming machines in a venue.
- b) all gaming machines have a mandatory pre-commitment system in 2013 **with** the intention to link all gaming machines in a venue.

The table below summaries the milestones of each scenario:



PVS has taken the view that as Next Generation Machines become available the pop up mechanism for pre-commitment will still be required in perpetuity because the regulations pertaining to Next Generation Machines will still exist. This consultation paper does not give any indication to undo this regulation when in venue or a state wide linked system exists.

PVS has also taken the view that the LMO is best placed to use its monitoring infrastructure for the infrastructure for linked pre-commitment. Using alternative 3<sup>rd</sup> party infrastructure for this initiative could add even further costs and implementation risks for venues.

## Costs and Benefits

Groups	Costs	Benefits
Business	<ul style="list-style-type: none"> <li>• Increased cost of gaming equipment and operations for venues passed on by:               <ul style="list-style-type: none"> <li>○ Gaming Services Providers</li> <li>○ Manufacturers</li> <li>○ LMO fees</li> <li>○ ATF organisations</li> <li>○ Logistics providers</li> </ul> </li> <li>• Venues to bear all the implementation risk and licence risk. Venues are extremely dependent on all other industry participants delivering its responsibilities on time and in a cost efficient manner.</li> <li>• Increased R&amp;D and production costs for manufacturers by adding further functionality to game software and additional hardware to machines.</li> <li>• Possible lower revenues or capping revenue growth.</li> <li>• Compliance and administration costs.</li> <li>• Additional R&amp;D and logistic costs for LMO on developing a state wide linked pre-commitment system ATF will require additional resourcing to cope with additional projects and functionality with games and machines.</li> <li>• Logistic organisations will require additional resourcing to cope with fluctuating demands associated with roll out goals.</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Adoption of world's best practice pre-commitment systems.</li> <li>• Commitment to a sustainable and safe industry.</li> <li>• New technology may become available for players such as loyalty systems and cashless systems if the pre-commitment linked system is implemented with a card (mag stripe or smart).</li> </ul>
Consumers		<ul style="list-style-type: none"> <li>• Choice on how to manage time or money spent</li> </ul>

		<p>playing gaming machines by the option of two pre-commitment mechanisms. A choice of mechanism between using a personal identification device or using a pop up device on the machine.</p> <ul style="list-style-type: none"> <li>• Access to historical data.</li> <li>• A more responsible gambling environment.</li> <li>• Risk aversion mechanisms for at risk players.</li> <li>• Non problem gamblers less likely to become at risk players.</li> </ul>
Government	<ul style="list-style-type: none"> <li>• Possible lower revenues or capping of revenue growth.</li> <li>• Increased compliance costs.</li> <li>• Increased operational costs due to compliance policing.</li> <li>• Risk of industry non-delivery.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued commitment to a sustainable industry with worlds best practice player safety mechanisms.</li> </ul>

The difference between the scenarios outlined is essentially the degree of cost and the risk associated with either method. Also consumers are protected under both. The table below encapsulates the difference in both scenarios for Industry participants.

	Scenario a	Scenario b
Manufacturers	<p>Will consume additional R&amp;D and production costs for:</p> <ul style="list-style-type: none"> <li>• Next Generation Machines.</li> <li>• Game and base software that provides pop up screens by 2013.</li> <li>• Game and base software that requires communication with pre-commitment servers in 2015 / 16.</li> <li>• Machine hardware for collar (if applicable) to provide Personal Identification device in 2015 / 16.</li> </ul>	<p>Will consume additional R&amp;D and production costs for:</p> <ul style="list-style-type: none"> <li>• Next Generation Machines.</li> <li>• Game and base software that provides pop up screens by 2013.</li> <li>• Game and base software that requires communication with in-venue pre-commitment servers in 2013.</li> <li>• Machine hardware for collar (if applicable) to provide Personal Identification device in 2013.</li> <li>• Updated game and base</li> </ul>

		software that requires communication with pre-commitment servers in 2015 / 16.
	<p>Scenario b for manufacturers adds R&amp;D and production costs for software upgrades in 2013 by requiring the game to communicate to an in-venue pre-commitment mechanism if there is a technical requirement base and game chip and server communications. The software may also be required to be updated again in 2015 / 16 for state wide pre-commitment.</p> <p>Scenario b also adds time and R&amp;D risk to manufacturers by requiring them to re-develop and seek approval for all their updated game stock in both 2013 and 2015 / 16. Additional consideration should be given to the fact that these approvals need to be sought in the vicinity of 12 months before the cut off dates in order for the industry to organise the logistics to install.</p> <p>Scenario b will be very difficult to deliver based on the current Governments timing on announcing the LMO operator for the new gaming regime.</p>	
LMO	Requirement on the LMO to develop, seek approval and install pre-commitment infrastructure for state wide system by 2015 / 16.	Requirement on the LMO to develop, seek approval and install pre-commitment infrastructure for in-venue system by 2013. Then additionally develop, seek approval and install for state wide system in 2015 / 16.
	<p>Scenario b for the LMO will require additional development, approval and logistic costs in 2015 / These costs may not be substantial due to the nature of the functionality from in venue to state wide but are required none the less.</p> <p>Scenario b adds an enormous amount of R&amp;D and logistic risk to the LMO. This is because the LMO will be required to develop, seek approval, and install its monitoring infrastructure commencing August 15 2012 to 500+ Victorian venues. The final roll out to all venues could take well into 2013. Adding the requirement to develop, seek approval and install pre-commitment infrastructure by 2013 to 500+ Victorian venues adds considerable risk. Consideration will also need to be given to the infrastructure for in venue pre-commitment that will need to approved and installed up to 12 months prior to allow other industry participants time to install other required infrastructure (game and base software and machine hardware). This could be at a time that the LMO is still rolling out its monitoring infrastructure.</p>	

ATF	Required to test and recommend all infrastructure associated with manufacturer's game software and also LMO infrastructure.	Required to test and recommend all infrastructure associated with manufacturer's game software, machine hardware and also LMO infrastructure.
<p>Scenario a &amp; b requires the ATF to test and provide recommendations for manufacturers and LMO infrastructure. Scenario B requires the ATF to provide more testing resources and recommendations over the phased introduction of this initiative due to higher testing and recommendations requirements.</p> <p>Consideration also needs to be given to the ATF's recommendations. These recommendations will need to be provided over 12 months ahead of the pre-commitment mile stone dates in order to give time to manufacturers, LMO and venues to organise logistics for the installation if the infrastructure required.</p>		
Logistic and Gaming Service Providers	Required to install all infrastructure on behalf of venues from the manufacturers base and game software and meet the LMO's requirements.	Required to install all infrastructure on behalf of venues from the manufacturers base and game software and also hardware and meet the LMO's requirements.
<p>Scenario b places a heavy logistic requirement on these providers in that in 2013 these providers will be required to install new base and game chips required for in-venue pre-commitment and pop ups and also the machine hardware upgrades for personal identification devices and new machines. Also logistic providers will be required to install the LMO infrastructure such as new servers and kiosks.</p> <p>Consideration will need to be given to the size of the short term pool of resources available to complete this task. This is intended at a time that logistics providers are providing state wide break / fix, preventative maintenance and install services for machines in venues and to the LMO infrastructure. The risk is that there is not enough short term resources available to complete the initiative in the time frame provided.</p>		
Venues and Gaming Service Providers	Required to ensure their machines provide a pop up mechanism by 2013 and then state wide link pre-commitment by 2015 / 16.	Required to ensure their machines provide a pop up mechanism and also in-venue by 2013. Then ensure state wide link to pre-commitment by 2015 / 16.
<p>Scenario b bears additional cost on Venue operators in 2013 due to the cost passed on by manufacturers, LMO, ATF, Gaming Services Providers and logistic providers without considering any additional operation costs associated with on-going compliance.</p> <p>Also the Venue operators bear the risk of non-compliance if any of</p>		

	<p>these participants fail to meet there time lines for any reason. With the time lines provided there seems to be a much greater risk with scenario B.</p> <p>Scenario b places all the cost and compliance risk on them, which is arguably appropriate given the changes, at a time they are also still paying instalment for Gaming Machine Entitlements. Revenue could be under additional pressure at this time due to two types of pre-commitment on machines.</p>	
Customers	<p>Access to pre-commitment as follows:</p> <ul style="list-style-type: none"> <li>• Next Generation Gaming machines from 2010 to 2013 to include pop ups.</li> <li>• All machines by 2013 to have a form of pop up.</li> <li>• All machines by 2015 / 16 in 2 forms, either machine based pop up's or via state wide personal identification device.</li> </ul>	<p>Access to pre-commitment as follows:</p> <ul style="list-style-type: none"> <li>• Next Generation Gaming machines from 2010 to 2013 to include pop ups.</li> <li>• All machines by 2013 in 2 forms either a machine based pop up or via in-venue personal identification device.</li> <li>• All machines by 2015 / 16 in 2 forms either a machine based pop up or via state wide personal identification device.</li> </ul>
	<p>By 2013 all customers machines have a pre-commitment device installed, scenario A is pop ups on machines whilst scenario b is two methods, pop ups and personal identification device.</p> <p>Customers under both scenarios will have the ability to pre-commit by 2013 and control their time and money spent on gaming machines.</p> <p>Scenario b could add a layer of confusion to customers who will have to operate multiple cards between 2013 - 2015 before switching to a statewide card in 2015. This will also increase the chance of non compliance in some respect negating the purpose of this legislation.</p>	
Government	<p>Pop up mechanism by 2013</p>	<p>Pop up and Personal Identification mechanism by 2013.</p>
	<p>Under scenario b the Government will have additional compliance costs due the requirement on the VCGR to approve all infrastructure within quick time frames. Also the question of what role the VCGR plays in approving the deployment of an individual venues roll out of this system – i.e. on site commissioning.</p> <p>Also the government could be collecting less Gaming Tax revenue under this scenario.</p> <p>Scenario b is incredibly difficult to deliver under the current proposed timelines. The government is at risk of this scenario not being implemented despite the best intentions of industry participants to do</p>	

	so. This could leave the government exposed.
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**Q2: Are the preferred options for the making of regulations for 2010 (the options to prescribe a pre-commitment mechanism and to prescribe gaming machines for the purpose of pre-commitment) suitable?**

PVS believes this is a suitable option for the following reasons:

1. Does not place immediate pressure on the industry in terms of additional cost, R&D effort, production, testing & approval and logistics effort during transition from the dual operator system to the venue based system.
2. Prescribing the mechanism to be a pop up system is also suitable because it extends the current functionality that already exists in PID screens on machines. Whilst adding extra functionality to base and game software this will not be onerous for manufacturers to provide due to the backbone of pre-commitment already existing in base and game software. Manufacturers could use methods like SPAM messaging to deliver the proposed displays to the game screen at prescribed times.
3. Prescribing new machines after 1 December 2010 is suitable.

**Q3: Are there more suitable options to either prescribe a pre-commitment mechanism or prescribe gaming machines for the purpose of pre-commitment, having regard to the Governments objectives and technological restraints?**

Whilst there are other options for pre-commitment operating in other jurisdictions the proposed regulations are most suitable for Victoria. This is due to the backbone of the functionality that already exists in Player Information Displays. Also prescribing new machines will avoid extensive upgrading of the current machine stock.

**Q4: Do the preferred options (the option to prescribe a pre-commitment mechanism and to prescribe gaming machines for the purpose of pre-commitment) limit or create a barrier to options for pre-commitment in 2013 and 2015 / 16?**

The preferred options being mooted by PVS do not limit or create barriers for pre-commitment in 2013 or 2015 / 16. PVS believes this to be the case for the following reasons:

1. All Victorian gaming machines currently and should continue to have the capacity to have a collar for a personal identification device installed that may be required for these proposed regulations. Each gaming machine generally has a 'sandwich board' area. This is normally located between the monitor and the top box of the machine. This area of the machine could be the area that a personal identification device be installed
2. A limitation will be the protocol of the gaming machine stock in 2013 and 2015 / 16. The protocol of game and base software used will require 'two way' communication. That is communication between the game software meters and an external pre-commitment server to send game play data back and forth in a live environment. Currently over 50% of the machine stock in both gaming operator's network (13,500 machines) are not 'two way' protocols. Those games and machines that do not operate 'two way' communication may need either an additional upgrade to make the protocol communicate 'two ways' or a 3<sup>rd</sup> party communication device installed to enable communication between the game and the external pre-commitment server.

**Q5: Are the preferred options for making of regulations for 2010 (the option to prescribe a pre-commitment mechanism and to prescribe gaming machines for the purpose of pre-commitment) cost effective to implement?**

PVS believes that the preferred regulations will be cost effective to implement because the installation of these machines and games will not have any additional cost associated with them other than the installation of a new machine or game that is not prescribed. The ongoing maintenance of the machine also will not vary.

Apart from some adjustment to the cost of gaming equipment the ongoing installation and operation of prescribe machines and software will not attract additional cost over non-prescribed machines.

**Q6: What additional costs (such as design, development and testing costs) would be incurred by manufacturers if the draft regulations were made?**

Manufacturers will incur additional costs if the draft regulations were made because the functionality of base and game chips will increase by incorporating the additional feature of providing a pop up mechanism in relation to information surrounding session details. In PVS's view the quantum of these additional design costs would be minimal for the following reasons:

1. The backbone of the pre-commitment functionality already exists in the software; that is the ability to start a session, record time and money spent and lastly to end a session.
2. What is the new functionality that would be required to provide that information to the player on the monitor at prescribed times?

Most games already have a spam capability; that is an ability for the game to provide messages to customers on the monitor. An example is that sending a message to the player to press the feature button to start a feature on the monitor.

PVS's conclusion is that existing software already has the backbone and capability to provide pop up messages surrounding session details because of the existing Player Information Display functionality and spam functionality. We believe that there may be some additional costs but believe the quantum of these additional costs would be minimal.

**Q7: How would the draft regulations impact on the product (new gaming machine) development cycle?**

PVS believes that the development cycle for new machines would be longer and that there will be less new product released due to the draft regulations. This is due to the economic factors surrounding supply of machines. They are

1. The development and approval of new machines due to the games extended functionality. This will add extra cost to the development and approval process; albeit the quantum of the additional cost is likely to be minimal.
2. These additional costs will be passed on the Venue Operators who will keep that gaming machine in the venue longer to ensure a reasonable pay back. Also from the manufacturers point of view they will require a longer pay back on their investment they have made because the Venue operators are likely to buy less aggressively.
3. Another consideration is the revenue performance of these machines could be less than other machines without a prescribed pre-

commitment mechanism. Thus the payback time on all participants invest will be longer.

**Q8: Would the draft regulations prevent gaming machine manufacturers supplying new gaming machine types to the Victorian market after 1 December 2010?**

The draft regulations in PVS's view would not prevent gaming machine manufacturers supplying machines to the Victorian market because the frame work for approving new gaming machine types still exists.

The development and production of gaming machine equipment may require a small amount of additional effort and testing. However there is nothing in the draft regulations that would 'prevent' manufacturers from supplying new gaming machine types.

It's PVS view that if manufacturers choose not to supply new gaming machine types to this market it's an economic judgement call on their behalf on which markets to supply gaming equipment to.

**Q9: How many new gamine machine types do gaming machine manufacturers envisage submitting to the VCGR for approval on or after 1 December 2010 and until 30 November 2013?**

Unknown.

**Q10: How many new gaming machine types do gaming operators or venue operators envisage purchasing from manufacturers after 1 December 2010 that will be required to have a pre-commitment mechanism?**

PVS will purchase on behalf of its clients new gaming machine types with pre-commitment mechanisms if they are made available from gaming machine manufacturers. The quantum of this is difficult to predict because at this stage its unknown how many prescribed machines will be available.

**Q11: Will the draft regulations create additional barriers to entry that would otherwise prevent new industry participants?**

These draft regulations do not create significant additional new barriers for entry for new participants.