

# Cashless Gambling – Interim Position Paper

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## Approval

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## Purpose

1. The purpose of this paper is –
  - To consider on what basis, if any, the Department of Internal Affairs would permit cashless gambling in New Zealand
  - To determine, based on the above, the most appropriate operational response to cashless technologies currently in use in New Zealand gambling venues, and other mechanisms that permit players to load more than \$20 at a time into a gaming machine
  - To consider the most appropriate operational response to cashless technologies, particularly pre-commitment capable technologies (whether cashless or not), not currently available in New Zealand gambling venues.
2. If the Department receives an application for minimum standards in relation to a form of cashless technology, this paper will inform consideration of such an application.
3. This paper assumes no statutory amendment. It considers cashless systems wholly within the context of the current legislation.
4. The focus of this paper is cashless systems, including those that may be pre-commitment capable. However, not all pre-commitment capable systems are cashless. This paper touches on pre-commitment systems primarily in relation to cashless technologies. Pre-commitment systems per se are not the focus of this paper. However the option of further exploration of pre-commitment systems generally is briefly discussed.

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## Executive Summary

5. The change in objectives related to gambling under the Gambling Act 2003 (“the Act”) has limited opportunities for growth within the class 4 and casino gambling sectors in New Zealand. Gambling providers are likely to seek novel ways to grow their businesses. The Act’s prohibition on banknote acceptors accepting notes over \$20 has, according to the gambling sector, increased operational costs and reduced customer convenience. Cashless gambling technologies offer gambling providers an opportunity to reduce costs through operational efficiencies and attract players with increased “customer benefits”.
6. This paper consists of two documents;
  - The first and main document applies the Internal Harm Prevention, Harm Minimisation and Responsible Gambling Guidelines to issues raised and makes recommendations
  - The second document (Appendix I) contains background information on which the analysis and recommendations in the main paper are based. It examines current policy and regulatory issues associated with cashless gambling technologies in both Australia and New Zealand.
7. This interim paper;
  - considers on what basis, if any, the Department would consider the introduction of cashless technologies under the Act
  - explores options for dealing with currently approved cashless technologies
  - considers how we should approach cashless technologies not yet available in New Zealand.
8. This interim paper concludes that:
  - Many cashless systems provide clear operational benefits for gambling providers.
  - Some operational benefits may lead to increased harm for gamblers on gaming machines.
  - Pre-commitment capable cashless systems have the potential to assist players in the management of their gambling by providing player information and permitting the setting of loss and time limits.
  - On the other hand, those features of pre-commitment capable cashless systems that potentially make them a better tool in managing gambling, may also make them less attractive to gamblers, particularly problem gamblers
  - It is unlikely that the Department would permit non-account-based cashless gambling, such as ticket in-ticket out (TITO) systems, under the Gambling Act.
9. At this stage there is a lack of clear research about the potential benefits of cashless systems and regulators have concerns about the potential for harm of some cashless systems.
10. The lack of clear evidence regarding the effects of cashless gambling on gamblers, and the significant level of risk associated with gambling on gaming machines, indicate that a precautionary approach is appropriate at this stage. However, the risks associated with cashless technologies

currently available in NZ gambling venues are not so great that we would intervene to prohibit them at this stage.

11. This paper recommends to Gambling Compliance Group (GCG) management that –
- (a) The Secretary does **not** self-initiate minimum standards for new cashless technologies in the short term until he/she is satisfied that the technology will have a neutral or beneficial effect on gambling harm.
  - (b) In the short term (by the end of the 2007/08 financial year), the Secretary's **basis for consideration** of any application for the approval of cashless technologies, or for new minimum standards for cashless technologies, should be the purposes of the Act, this position paper and any additional relevant information.
  - (c) The Secretary **continues to permit** the existence of currently approved cashless systems.
  - (d) The Secretary does **not** revoke or amend existing approvals for currently approved cashless systems.
  - (e) The Secretary **invite** comment from relevant stakeholders about the desirability and practicality of undertaking New Zealand based research to complement research being conducted in other jurisdictions on pre-commitment capable technologies (that may or may not be cashless).
  - (f) The Secretary **reviews** this position paper by the end of the 2007/08 financial year.

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## Analysis of cashless gambling systems against the Internal Policy<sup>1</sup>

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### Relevant statutory provisions

12. The following statutory powers of decision-making and consultation are relevant to the consideration of cashless gambling systems –
- Sections 326 – 328 Minimum standards for gambling equipment (class 4 and casino gambling)
  - Section 367 Power to make game rules (class 4 and casino gambling)
  - Section 372 Consultation before regulation (class 4 and casino gambling)

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<sup>1</sup> The 'Operational Policy Internal Guidelines – Harm Prevention, Harm Minimisation and Responsible Gambling' provide a framework for identifying and determining appropriate operational responses to any harm prevention, harm minimisation and responsible gambling implications arising from internal or external gambling initiatives or developments, including new technology. The Guidelines are located at [http://www.dia.govt.nz/pubforms.nsf/URL/GamingOperationalPolicy.pdf/\\$file/GamingOperationalPolicy.pdf](http://www.dia.govt.nz/pubforms.nsf/URL/GamingOperationalPolicy.pdf/$file/GamingOperationalPolicy.pdf)

- Sections 141 – 142 Minimum operating standards in casino licences (casino gambling).
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## Principles

13. Considerations must take account of the following key purposes of the Act –

- Preventing and minimising the harm caused by gambling, including problem gambling
  - Facilitating responsible gambling
  - Limiting opportunities for crime
  - Controlling the growth of gambling
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## Grounds for our approach

14. Cashless systems are associated with the highest risk form of gambling – gambling on gaming machines.

15. The introduction of the bank note prohibition was intended to mitigate, in some measure, the continuous nature of gambling on gaming machines.

16. Cashless systems may reverse the mitigation intended by the bank note prohibition, thereby creating a greater potential for harm than might otherwise exist.

17. On the other hand, cashless systems, particularly those that are pre-commitment capable, may facilitate responsible gambling practices and the provision of player information.

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## Evidence based vs. precautionary approach

18. Current relevant evidence –

- Gambling on gaming machines is the most harmful form of gambling<sup>2</sup>
- An important reason why this form of gambling is most harmful is its continuous and repetitive nature<sup>3</sup>
- The introduction of the bank note prohibition was intended to mitigate in some measure the continuous nature of gambling on gaming machines<sup>4</sup>
- There is a link between frequency of play and problem gambling. Approximately 20% of regular gaming machine players experience problems arising from their gambling behaviour.<sup>5</sup>

19. Current research does not yet provide us with a clear indication of whether cashless systems will generally contribute to or mitigate gambling harms. There is a lack of evidence about the level of harm that may arise from the use of cashless technologies. There is a similar lack of evidence about the effectiveness of mitigating controls, including pre-

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<sup>2</sup> *Problem Gambling Intervention Services in NZ – 2004 National Statistics* (2005) (Ministry of Health), p.27 "88.2% of clients accessing problem gambling [counselling] services reported use of gaming machines as their primary problem." (This is both casino and non-casino machines).

<sup>3</sup> Abbot, Max., *What do we know about gambling and problem gambling in NZ* (2001) p. 49 "people who are most at risk for problem gambling are those who take part weekly or more often in continuous forms of gambling and who spend large sums of money on these activities."

<sup>4</sup> Responsible Gambling Bill: Proposed Amendments, POL (03) 137, Rev 1 (20 May 2003), p.10.

<sup>5</sup> M Abbot & R Volberg, *Taking the Pulse on Gambling and Problem Gambling in New Zealand: A Report on Phase One of the 1999 National Prevalence Survey*, Department of Internal Affairs, 2000, p. 18. This is available on the DIA website.

commitment mechanisms. At this stage, therefore, an evidence-based approach is not possible.

20. At the same time not all cashless systems share the same types of functionality, or have the same potential for either harm or good.
  21. Before adopting a precautionary approach, we must satisfy ourselves that:
    - Concerns about an increase in harm in a particular case are on reasonable grounds; and
    - The anticipated level of harm is reasonably significant and/or widespread
  22. On the first count, and on its face, it is reasonable to consider that cashless systems without any associated mitigating controls are more, rather than less, likely to contribute to or increase the harm associated with gambling on gaming machines.<sup>6</sup> For example, non-account-based systems such as magnetic strip cards, simple debit cards and ticket-based systems such as TITO can preserve player anonymity and permit the rapid transfer of large amounts of money into gaming machines without breaks in play. These sorts of systems can exacerbate problem gambling behaviours by facilitating extended, continuous, repetitive and/or anonymous, emotionally detached play. They are generally considered to be potentially more harmful than systems that provide for greater player information and control over gambling behaviour. However, even the more sophisticated account-based systems, by virtue of their operational efficiency, are likely to reduce 'natural' breaks in play and encourage problematic gambling behaviours, if there are no mitigating controls.
  23. On the second count, we consider that the harm that may arise from cashless systems, unmitigated by appropriate controls, could be reasonably significant and widespread. This is largely because cashless systems are associated with the most harmful and widespread form of gambling, and they are likely to exacerbate problem gambling behaviours linked to continuous, extended, intensive, repetitive and detached play.
  24. Finally, the nature, extent and effectiveness of mitigating controls, for example by introducing pre-commitment-capable cashless systems, is as yet unknown or untested in any but the most limited and exploratory manner.
  25. The lack of available or clear evidence regarding the effects of cashless gambling on gamblers and the high level of risk associated with gambling on gaming machines (supported by evidence) indicates that a *precautionary approach* is appropriate at this stage.
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<sup>6</sup> Appendix I contains more detailed background information, while the analysis of cashless systems using the decision-making matrix in the following section outlines more comprehensively the potential advantages and disadvantages of cashless technologies.

## Decision-making matrix

[Refer paragraphs 64 – 80 in the Appendix]

Decision-making Category	Advantages	Disadvantages
<p><b>General</b></p> <p><u>Relevant key purpose</u></p> <ul style="list-style-type: none"> <li>• Section 3(b) Preventing and minimising harm arising from gambling</li> <li>• Assessing the evidential base</li> <li>• Identifying the locus of harm</li> </ul>	<p><b>Operational benefits</b> for gambling providers –</p> <ul style="list-style-type: none"> <li>• Reduced cash handling</li> <li>• Security of funds</li> <li>• Accountability of funds</li> <li>• Reduced staffing requirements</li> <li>• Potential for integrating with player-tracking, loyalty schemes for promotional and marketing purposes.</li> </ul>	<p>The locus of harm is gambling on gaming machines using cashless technologies rather than cash. <b>The risk of harm without regulatory intervention is high.</b></p> <p>Cashless gambling <b>systems potentially undermine the intention of the statutory banknote prohibition.</b></p> <p>Possible unintended consequences of cashless technologies are that, without restriction, they may facilitate problematic gambling behaviours, e.g.</p> <ul style="list-style-type: none"> <li>• Facilitating continuous play by reducing breaks in play caused by: <ul style="list-style-type: none"> <li>○ Staff interrupting play in order to clear hoppers or conduct hand pays; or</li> <li>○ Players having to leave their machine in order to top up their cash supply.</li> </ul> </li> <li>• Facilitating ease of movement from machine to machine since staff are not required to conduct hand pays before a player can move on</li> <li>• Supporting anonymity by reducing staff interactions and/or scrutiny at times of hopper clearances or hand pays</li> <li>• Allow potentially at-risk gamblers to be targeted by marketing or promotional campaigns that incentivise continued play.</li> </ul> <p><b>NOTE:</b> Non-account-based systems such as TITO tend to support player anonymity more so than account-based systems.</p> <p><b>Core problem:</b> That any regulatory interventions designed to avoid the potential risks associated with cashless gambling systems may prove so unattractive that consumer uptake is limited.</p>
<p><b>Conclusion:</b></p> <p>In this category, cashless systems appear to offer <b>gambling providers</b> the most unequivocal benefits. The benefits of cashless systems under the Act and in relation to <b>gambling consumers</b> and <b>gambling regulation</b> are less apparent and more speculative. At the same time the potential for harm to gambling consumers on gaming machines appears high. The potential risks and unintended consequences of cashless gambling systems, particularly non-account-based systems, and the possible contravention of a statutory prohibition suggests that under the Gambling Act, the disadvantages of such systems outweigh the advantages in this category of assessment.</p>		

<p><b>Integrity</b></p> <p><u>Relevant key purpose</u></p> <ul style="list-style-type: none"> <li>• Section 3(d) Facilitating responsible gambling (gambling that is lawful, fair, honest)</li> <li>• Section 3(f) Limiting opportunities for crime associated with gambling</li> <li>• Section 3(a) Controlling the growth of gambling</li> </ul>	<p>Opportunities for crime, particularly money laundering, are likely to be more difficult on cashless systems. Account-based cashless cards require identification and the establishment of an account. Such requirements are a disincentive to the anonymous activity of money laundering. Similarly if tickets have to be purchased from a cashier, financial controls around such transactions serve to discourage prospective money launderers and provide the operator and enforcement agencies with an auditable trail of actions. However, this disincentive may be removed if players can obtain tickets via a cash in/ticket out dispenser rather than a cashier.</p> <p>Cashless gambling systems do not change the nature or odds of winning.</p>	<p>Gambling on cashless-enabled gaming machines in casinos may increase the opportunities for casino gambling by increasing the rate of play.<sup>7</sup> To date the Gambling Commission has determined that rate of play is relevant to considerations made under section 12 of the Act.</p> <p>The simplest means by which the rate of play is increased is by reduced staff interruptions as the operations of cashless systems are more efficient, requiring less human intervention to clear and fill hoppers or conduct hand pays.</p>
<p><b>Conclusion:</b></p> <p>Account-based cashless gambling systems may prove a useful tool in assuring the integrity of gaming and limiting opportunities for crime. For casinos, however, the Gambling Commission would need to make a determination on whether particular systems increased opportunities for casino gambling, and if so, what reduction in other opportunities would be proportionate. The determination must be made before any cashless gambling systems are introduced into a casino.</p>		

7 S. Nisbet, 'Responsible Gambling Features of Card-Based Technologies', *eCOMMUNITY International Journal of Mental Health and Addiction*, Vol.3, No.2, pp.54-63, (2005) p. 56

<p><b>Environment</b></p> <p><u>Relevant key purpose</u></p> <ul style="list-style-type: none"> <li>• Section 3(d) Facilitate responsible gambling (in a safe, secure environment)</li> <li>• Section 4 definition of 'responsible gambling'.</li> </ul>	<p>Cashless systems may provide a number of customer service benefits, including –</p> <ul style="list-style-type: none"> <li>• Reduced interruptions in play</li> <li>• Where cards are used, the ability to purchase food and beverages while at a gaming machine using the same card</li> <li>• Where cards are used in conjunction with loyalty programmes, access to member benefits and incentives</li> <li>• Efficient movement from machine to machine without having to wait for payouts.</li> </ul>	<p>Potentially attractive customer service features may aggravate gambling behaviours that are associated with gambling harm.</p> <p>Cashless gambling systems have the potential to facilitate gambling that is extended, intensive and repetitive because –</p> <ul style="list-style-type: none"> <li>• Patrons can load more credit onto the machines more quickly than they can using only \$20 notes</li> </ul> <p>Cashless gambling systems are less rather than more likely to support breaks in play because the more efficient operation of the machines means fewer staff interruptions for hopper clearances/fills and hand pays</p> <p>The reduced number of interruptions in play, together with the ability to load more credits more quickly onto gaming machines, may lead to patrons playing for longer with more money than they intended.</p> <p>A possible reduction in floor staff due to increased operational efficiency may lead to fewer actual or potential problem gamblers being identified by casino staff because there are fewer staff available to observe patron behaviours.</p> <p>Non-account-based systems, for example TITO, can reinforce the anonymity of gamblers, facilitating uninterrupted, invisible play that leaves a player's behaviour unchallenged.</p> <p>Exposure to cashless loyalty member benefits, if unmitigated, could encourage gambling to excess.</p>
<p><b>Conclusion:</b></p> <p>While some cashless gambling systems offer potentially good customer service options, those same options and benefits have the potential to seriously increase gambling harms for regular gamblers. On balance the disadvantages for regular players may outweigh the benefits of enhanced customer service.</p>		

<p><b>Pressure to Gamble</b></p> <p><u>Relevant key purpose</u></p> <ul style="list-style-type: none"> <li>• Section 3(d) Facilitate responsible gambling – without pressure or devices designed to encourage gambling at levels that may cause harm.</li> <li>• Section 4 definition of 'responsible gambling'</li> </ul>	<p>Cashless gambling systems, particularly those that are pre-commitment capable, may help motivated players to moderate their gambling so that the ability to act on any encouragements to gamble with more money or time than they intended are limited.</p>	<p>Cashless systems in themselves would not appear to constitute a <i>pressure</i> to gamble. However to the extent that they circumvent the intention of the banknote prohibition, cashless systems may be viewed as devices that encourage gambling at levels that may cause harm – that is, they may encourage or enable people to wager more money more quickly than they would be able to on non-cashless enabled gaming machines.</p> <p>Incentives to gamble via cashless/loyalty programmes may, if unmitigated, encourage gambling to excess.</p> <p>At best, TITO systems do not protect players from spending excessive amounts of time or money on gaming machines. Neither are they particularly supportive of breaks in play.</p>
<p><b>Conclusion:</b></p> <p>While perhaps not constituting a direct pressure to gamble to excess, potential dissociative aspects of cashless gambling, together with the ease with which credits can be loaded onto machines or moved between machines, indicate that cashless gambling may lead to players spending more time and/or money gambling than they intended. Further, where loyalty systems are integrated with cashless systems, member benefit schemes or promotions could encourage gambling to excess.</p>		

<p><b>Informed participation</b></p> <p><u>Relevant key purpose</u></p> <ul style="list-style-type: none"> <li>Section 3(d) Facilitate responsible gambling – by informed participants who understand the nature of the activity and do not participate in ways that may cause harm.</li> <li>Section 4 definition of ‘responsible gambling’.</li> </ul>	<p>Cashless systems must be able to work with the PID (pop-up player information display) requirements of new gaming machines.<sup>8</sup> To that extent, they will not limit the information available to players via the PIDs.</p> <p>Cashless systems with pre-commitment technology may provide players with tools to control their gambling, for example by being able to set loss and time limits and being able to provide a summary of gambling activity.</p> <p>Some cashless systems, particularly those that are account-based, may be able to provide player activity statements. The NSW research indicated that players would generally like to have this information.</p>	<p>The extent to which pre-commitment capable cashless technology is likely to be adopted by players is open to question.</p> <p>It cannot be assumed that because some cashless technologies confer some benefits to players, that players will automatically embrace the technology.</p> <p>The potential for dissociation from gambling with ‘real money’ may lead to players having less control over their behaviour.</p>
<p><b>Conclusion:</b></p> <p>One of the greatest benefits of account-based cashless systems is their potential to provide players with useful information and tools with which they can manage gambling behaviour. Non-account-based systems, on the other hand, tend to reinforce anonymous play. However account-based cashless systems may have other features that diminish customer convenience and limit customer uptake.</p> <p>It is also worth noting that player information can be delivered in ways other than account-based cashless gambling. Current loyalty card systems can presumably provide players with a summary of their play, and the PIDs required of new gaming machines will be able to provide session information, although this will not become universal until 2009.</p>		

## Conclusions and Recommendations

### Question I **On what basis, if any, would the Department permit cashless gambling in NZ under the Gambling Act 2003?**

#### *General comment*

1. The circumstances under which we would permit cashless gambling in New Zealand should be clear. Equally, the benefits of cashless systems in relation to the purposes of the Act should also be clear. At the very least, the introduction of cashless systems for gambling should be neutral in its effect and not detract from the key purposes of the Act. At this stage, such circumstances are not clear. There is a demonstrably high level of harm associated with gambling on gaming machines, and there are reasonable grounds to consider that cashless systems may exacerbate that harm and a lack of evidence to support the advantages to gambling consumers of cashless systems. Cashless technologies in general potentially undermine the harm minimisation intention of the bank note prohibition and exacerbate some of the evidence-based indicators of problem gambling behaviour.
2. Unmitigated by appropriate controls, cashless technologies generally are likely to be inconsistent with a key purpose of the Act which is to prevent and minimise the harm arising from gambling.

#### *Non-account-based systems, e.g. TITO*

3. The only clear benefits associated with non-account-based cashless systems are operational efficiencies applying to gambling providers and some customer convenience measures that apply to players. However the customer convenience measures, namely the ability to load more than \$20 at a time into a gaming machine, appears to militate against the stated intention of the bank note prohibition. Moreover, being able to load more money onto machines more quickly tends to reinforce the continuous, harmful nature of gaming machine play. Continuous play may in turn lead to dissociation or detachment from reality. Non-account-based systems are also likely to reinforce player anonymity (a characteristic that is potentially attractive to problem gamblers), and they are not supportive of breaks in play.
4. The benefits of non-account-based cashless systems, such as TITO, are not sufficient at this stage to outweigh their potential for harm. There are few, if any, clear circumstances in which we would permit non-account-based cashless gambling in New Zealand as they are generally inconsistent with the key purposes of the Gambling Act.

#### *Account-based systems*

5. Account-based cashless systems potentially offer broader benefits to gambling providers, gambling consumers and gambling regulators than non-account-based systems. Along with operational benefits, gambling consumers can expect access to more player information and the ability to set money and time limits on their play. The setting of time limits in particular could mitigate the effects of dissociative and/or continuous play. The player 'visibility' afforded by account-based systems works against the anonymity preferred by some problem gamblers. On the other hand, any visibility derived from cashless/loyalty systems may render players vulnerable to promotional activities that encourage increased or excessive

play (in the absence of any regulation). At the same time, regulators can expect the visibility required of account-based systems (together with requirements around identity and financial transaction reporting) to limit opportunities for crime. Minimum standards could be specified that ensured the positive benefits of such technology was realised.

6. However, while some benefits may appear attractive, they are primarily theoretical since little research into the effectiveness of such systems has been conducted. The potential benefits are also equivocal – demonstrated by the discussion above about ‘visibility’. The author of the New South Wales study discussed in the appended paper cautions that the features most likely to be helpful to gamblers, particularly problem gamblers, are those features that may work against customer convenience, thereby limiting customer uptake. Additionally, in order for the benefits of these systems to be effective for the greatest number of people, they may need to be mandatory. Voluntary account-based systems may prevent or limit harm for those that are motivated and have adequate support. However unless systems are universal and mandatory, players, particularly at-risk players, will be able to circumvent the benefits of some systems by switching from cashless to cash, or simply moving to another venue that does not have cashless systems.
7. While some account-based and/or pre-commitment-capable cashless systems may contribute to a key purpose of the Act in facilitating responsible gambling, the benefits of such systems are neither unequivocal nor so compelling at this stage that the Department would be prepared to initiate standards or apply significant resources to the making of standards in the short term. In the event an application for a form of cashless technology is placed before the Department, it will be considered against the purposes of the Act, this paper, and additional relevant information. Following that consideration, minimum standards may or may not be made.

## Recommendations

It is recommended that –

- (a) The Secretary does **not** self-initiate minimum standards for new cashless technologies in the short term until he/she is satisfied that the technology will have a neutral or beneficial effect on gambling harm.
  - (b) In the short term (by the end of the 2007/08 financial year), the Secretary’s basis for consideration of any application for the approval of cashless technologies, or for new minimum standards for cashless technologies, should be the purposes of the Act, this position paper and any additional relevant information.
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**Question II** **What is the most appropriate regulatory response to cashless technologies currently in operation in NZ and other mechanisms that permit players to load more than \$20 at a time into a gaming machine?**

***Option 1***

1. Do nothing – cashless systems currently in NZ have a limited coverage. TITO cannot be expanded beyond the parameters approved by the Casino Control Authority. It is possible that some class 4 venues may seek to move to cashless technologies in a form provided for in the current minimum standards. This is unlikely in the short term due to the sector being absorbed with the task of understanding and implementing EMS. In the event any venue did seek approval for a cashless technology, it is highly likely that it would be refused at this point.

Advantages

2. The advantage of doing nothing is that it maintains the status quo, does not unnecessarily inconvenience anyone, is light in its resource requirements and is unlikely to be particularly controversial. It also keeps the current extent of cashless technology in NZ strictly confined (thereby limiting an increase in gambling harm), while allowing current users of approved technologies to continue to benefit from their capital outlay. Maintaining the status quo may also be the fairest option, given that we have not yet decided that cashless technology is universally undesirable.

Disadvantages

3. The major disadvantage of this position is that we may be seen as permitting harm to occur that could be mitigated. This may be particularly so with TITO at SKYCITY Auckland casino since it appears to lack any responsible gambling benefits (apart from an 0800 problem gambling service provider contact number).

***Option 2***

4. Revoke the approvals for existing cashless technologies, or set a sunset period on currently approved systems.

Advantages

5. The advantage of this position is that we are seen to be actively addressing systems that may increase rather than minimise gambling related harm.

Disadvantages

6. The disadvantages include the possibility of legal challenge, for example on whether it is fair or reasonable to legislate retrospectively (due to compliance costs, no hard evidence that the technology causes harm, etc). In addition, the revocation of approvals or the setting of a sunset period is likely to require a consultation process to remove the limited provisions for cashless in minimum standards and game rules. The process is likely to be contentious and require significant policy and legal resources from the Department to it. In addition, in the short term our technical resources are largely dedicated to the successful implementation of the electronic

monitoring system for the next year and industry resources are similarly focused upon this important matter. Resources all round are likely to be stretched if this option is pursued. This may be especially undesirable given that many existing cashless systems (with the possible exception of TITO in casinos) are antiquated and nearing the end of their useful life.

### **Option 3**

7. Embark on consultation to re-set the conditions on which cashless systems can operate in NZ. This might include such things as requiring them to be pre-commitment capable, divorced from loyalty schemes and account-based, or it might simply set the 'cash in' maximum at \$20 to bring it into line with the bank note prohibition. However this is likely to significantly reduce any operational benefits currently enjoyed by those establishments using some form of cashless technology. At this stage we probably do not have enough information available to be able to set the broad rules or parameters for cashless systems, but we could redefine the conditions under which, for example, TITO operates.

#### Advantages

8. The primary advantage to this option is that we are seen to be taking harm prevention and minimisation seriously.

#### Disadvantages

9. Disadvantages include as above, that it may require more resources than we have available at the moment due to the EMS project. It is also likely to be controversial and does not really address the issue that minimum standards currently provide for cashless in and cashless out.<sup>9</sup> Additionally, there are likely to be compliance costs associated with revised standards and conditions.

### **Preferred option**

10. **Option 1** is the preferred option as it is the least contentious, is not resource prohibitive, is consistent with approaches currently being taken by our Australian counterparts, continues to allow operators to reap the benefits of their capital outlay, and maintains the status quo while we continue to consider policy around the introduction of new cashless systems. At the same time the current conditions under which existing technologies were approved do not allow for their expansion. The potential for harm of existing systems therefore continues to be constrained.

### **Recommendations**

It is recommended that –

- (c) The Secretary continues to permit the existence of currently approved cashless systems.
- (d) The Secretary does not revoke or amend existing approvals for currently approved cashless systems.

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<sup>9</sup> Refer paragraph [11] in the attached Appendix I. Current minimum standards provide in a limited way for cashless systems. The standards were inherited from the previous regime, pre-date the Gambling Act and do not address issues related to harm prevention, harm minimisation and responsible gambling.

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**Question III What is the most appropriate regulatory response to cashless technologies, particularly pre-commitment capable technologies (whether cashless or not), not currently available in NZ gambling venues?**

1. Account-based cashless systems and card-based systems are often linked with pre-commitment capability. They offer primarily theoretical benefits that may be limited by consumer uptake, or circumvented to the extent such systems are voluntary.
2. There is a significant amount of relevant research planned in Australia and Nova Scotia over the next 1 – 2 years. Much of this research is focused on pre-commitment mechanisms (that are not necessarily cashless systems). It may therefore be appropriate to adopt a view of ‘purposeful watchfulness and waiting’ until the planned research provides us with a more solid platform on which to make decisions on pre-commitment technology (whether cashless or not) in the mid-term.
3. Alternatively, given the high level of interest in pre-commitment capable technologies, there may be merit in the Secretary encouraging further discussion with relevant stakeholders regarding the desirability and practicality of conducting New Zealand based research to complement research being conducted in other jurisdictions.<sup>10</sup>
4. If this approach were to be made to relevant stakeholders, the following issues would need to be addressed:
  - Mandate. Research and evaluation are elements of the integrated problem gambling strategy focused on public health described in section 317 of the Gambling Act. Cabinet has allocated responsibility for that strategy to the Ministry of Health. Would the Ministry be responsible for research into pre-commitment systems?
  - Priority. The Ministry of Health has already developed a research strategy in consultation with industry and community stakeholders. How would research into pre-commitment systems relate to the priorities in that strategy?
  - Funding (which is related to priority and mandate). Would research into pre-commitment systems require an increase in Ministry of Health funding (and therefore an increase in the problem gambling levy), or would something that is currently seen as higher priority drop off the list? If so, what?
  - Legislative constraints. It may not be lawful for the Department of Internal Affairs to approve equipment temporarily, for research purposes.
  - The integrity of existing systems. For example, pre-commitment technology must not jeopardise the integrity of the electronic monitoring system currently being put in place for non-casino gaming machines.
  - Capacity constraints and timing of the research. The Ministry of Health

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<sup>10</sup> Paragraphs 50 – 63 of the Appendix include further discussion about current research into pre-commitment technologies and some of the issues associated with them.

already has a substantial research programme under way, and most experienced gambling researchers are currently engaged on other gambling research contracts.

- Defensible research design and results. What methodology would produce defensible results, given that what happens in a laboratory doesn't necessarily happen in real life?
5. We would consider any application for new cashless technologies in NZ against the Act, this position paper, and any additional relevant information. The onus will be on the applicant to demonstrate that gambling harms will be prevented or minimised. At the very least the applicant must be able to argue compellingly that the new technology would have a neutral effect on gambling harm.
  6. The position can be reviewed by the end of the next financial year and after more research, particularly from Australia and Nova Scotia, becomes available.
  7. We will consider any application for pre-commitment capable technology (whether or not it is cashless-enabled) against the Act and any additional relevant information. It is likely that the introduction of such technology would require amendments to the Act and/or new regulations.

## Recommendations

It is recommended that –

- (e) The Secretary **invite** comment from relevant stakeholders about the desirability and practicality of undertaking New Zealand based research to complement research being conducted in other jurisdictions on pre-commitment capable technologies (that may or may not be cashless).
- (f) The Secretary **reviews** this position paper by the end of the 2007/08 financial year.

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## Summary of Recommendations to GCG Management

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It is recommended that –

- (a) The Secretary does **not** self-initiate minimum standards for new cashless technologies in the short term until he/she is satisfied that the technology will have a neutral or beneficial effect on gambling harm.
- (b) In the short term (by the end of the 2007/08 financial year), the Secretary's basis for consideration of any application for the approval of cashless technologies, or for new minimum standards for cashless technologies, should be the purposes of the Act, this position paper and any additional relevant information.
- (c) The Secretary continues to permit the existence of currently approved cashless systems.
- (d) The Secretary does **not** revoke or amend existing approvals for

currently approved cashless systems.

- (e) The Secretary **invite** comment from relevant stakeholders about the desirability and practicality of undertaking New Zealand based research to complement research being conducted in other jurisdictions on pre-commitment capable technologies (that may or may not be cashless).
  - (f) The Secretary reviews this position paper by the end of the 2007/08 financial year.
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# Appendix I

## BACKGROUND PAPER – CASHLESS GAMBLING

### Introduction

1. The change in objectives related to gambling has placed significant limits on opportunities for growth within the New Zealand gambling industry of class 4 gambling venues, gaming machines and casinos. For casinos the limitation is almost absolute with sections 10 and 11 of the Gambling Act 2003 (the Act) prohibiting any new casino venue licences and any increase in the opportunities for casino gambling. Limitations imposed by statute and regulations are largely driven by increasing concerns for harm arising from gambling, including problem gambling. At the same time, opportunities for gambling outside of class 4 and casino gambling appear to be increasingly accessible to a technologically literate society. While remote interactive gambling is prohibited in New Zealand, gambling conducted by both the New Zealand Lotteries Commission and the New Zealand Racing Board is exempt and they can pursue growth strategies unavailable to the class 4 and casino sectors.
2. In this context, it is likely that gambling providers, particularly the commercially driven casinos, will look for opportunities to continue to grow their businesses without running foul of regulation. There are two primary avenues of growth available to gambling providers – attracting new custom or increasing return custom via marketing and advertising strategies; and identifying gambling technologies that reduce operating costs, attract players or provide advanced customer service.<sup>11</sup> Cashless gambling technologies offer gambling providers the opportunity to reduce costs and attract players with increased customer benefits or convenience. This is particularly so given the prohibition that the Act has placed on bank note acceptors, construed by the industry as a customer inconvenience.
3. Sections 84 and 180 of the Act prohibit gaming machines in class 4 and casino venues from accepting banknotes with a denomination greater than \$20. These sections took practical effect on 18 March 2004. The intention behind the prohibition was to limit the harm arising from gambling, including problem gambling.
4. Until these sections of the Act took effect, gaming machines in New Zealand could accept \$1 and \$2 coins and all denominations of bank notes. Some gaming machines in casinos were able to accept tokens or 'chips'. A very small number of class 4 venues were able to use a basic form of magnetic strip debit card. In addition, just prior to the disestablishment of the Casino Control Authority ("the CCA") in June 2004, SKYCITY Auckland casino ("SC Auckland") received approval from the CCA to introduce a form of cashless technology called Ticket In/Ticket Out ("TITO" it is also sometimes referred to as "TOTI"). SC Auckland also received approval from the CCA to use \$25 chips or tokens in gaming machines.
5. While sections 84 and 180 of the Act relate specifically to banknotes, the continued and lawful existence of some forms of cashless technology in gambling venues may be perceived as circumventing the harm minimisation intent of the prohibition. There is a tension between the operational benefits that cashless systems may offer to gambling providers, and the potential for harm created by the ability of cashless systems to

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<sup>11</sup> Nisbet, Sharen, 'Alternative Gaming Machine Payment Methods in Australia: Current Knowledge and Future Implications', in *International Gambling Studies*, Vol. 5, No. 2, 229-252 (November 2005) p.229.

circumvent a harm prevention initiative in the Act. Recognising this tension, a number of gambling providers have promoted the responsible gambling potential of those systems, particularly pre-commitment functionality. *Pre-commitment* is the ability for a gambler to set automatic limits in advance on the amount they spend on gaming machines and/or the time they spend gambling. Some problem gambling treatment providers promote pre-commitment-capable card based gambling systems as a major tool in preventing and limiting harm.

6. It is important to note that not all pre-commitment capable systems are cashless or even card-based. This paper deals with pre-commitment capable systems only to the extent that they *may* be associated with cashless gambling. Due to the current level of interest in pre-commitment capable systems generally however, this Appendix will briefly canvas some of the issues associated with pre-commitment systems.

## **Current Situation and Issues**

### **The Gambling Act 2003 – Harm Prevention and Minimisation**

7. The Act became law on 18 September 2003 and since 1 July 2004 all of its provisions have been in effect. Amongst the purposes of the Act, the following are most relevant to the issue of cashless gambling –
  - Preventing and minimising the harm caused by gambling, including problem gambling
  - Facilitating responsible gambling
  - Limiting opportunities for crime or dishonesty associated with gambling.

Section 4 of the Act defines 'harm', 'problem gambler' and 'responsible gambling'.

8. Some of the Act's provisions are specifically intended to prevent and/or minimise harm arising from gambling, including problem gambling. The prohibition on banknote acceptors for both class 4 and casino venues is one such provision.
9. Sections 84 and 180 of the Act prohibit gaming machines in class 4 and casino venues from accepting banknotes with a denomination greater than \$20. These sections took effect on 19 March 2004.
10. The prohibition was designed to go 'some way towards limiting any potential harm from banknote acceptors, without the disadvantages of a blanket prohibition'. The alternative, unsuccessful option was a blanket prohibition on banknote acceptors for all new gaming machines, with the implication that gaming machines would be played with coins only. This alternative approach was not supported for a variety of reasons: lack of conclusive research demonstrating that banknote acceptors significantly exacerbate the harm caused by gaming machines; increased operational costs associated with counting, storing and banking large quantities of coins from gaming machines; significant concern registered by the gambling sector.<sup>12</sup>
11. The current prohibition does not preclude the introduction of minimum standards or regulations regarding cashless technologies.

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<sup>12</sup> Responsible Gambling Bill: Proposed Amendments, POL (03) 137, Rev 1 (20 May 2003), p.10.

## **Gambling Equipment**

12. The Australia/New Zealand National Standard for Gaming Machine Equipment (“the National Standard”) has provided, in a minimal way, for both ‘cashless in’ and ‘cashless out’ since at least January 2002.<sup>13</sup> The standards appear to simply require that cashless systems are ‘secure’ and ‘reliable’. These standards were made before any statutory requirement to consider harm prevention and minimisation, but they remain in force under the Act. The NZ Appendix to the National Standard contains further technical requirements relating to TITO, and section 5A of Division III of the Rules for Electronic Gaming Machines sets parameters within which TITO must operate at SC Auckland Casino. The CCA made these latter rules just prior to its disestablishment. The rules remain in force and are deemed under the Act to be minimum standards. Finally, since at least January 2002 the NZ appendix to the National Standard also provided for ‘casino vouchers’ to be accepted by banknote acceptors, provided they had been approved by the CCA.
13. Cashless gambling technologies introduced into this country are captured by the definition of ‘gambling equipment’ under the Act. All gambling equipment for use in class 4 and casino gambling venues must be approved against relevant minimum standards. The current minimum standards for cashless gambling technologies are not sufficient since they do not address issues related to gambling harm. There are currently no minimum standards for account-based cashless pre-commitment card technologies. Since no relevant minimum standards exist, the cashless pre-commitment technologies cannot be lawfully introduced into New Zealand.
14. The Secretary for Internal Affairs (“the Secretary”) has broad power under section 327 of the Act to prescribe minimum standards for the design, manufacture, and performance of any particular gambling equipment. Those standards may include features designed to reduce the likelihood of problem gambling or other harms arising from use of the gambling equipment. The development of such standards is a demanding exercise requiring significant technical resources and a comprehensive consultation process. Before prescribing minimum standards, the Secretary must weigh the benefits of the proposed standards and associated technology against the resources required to develop them and any current priority claims on technical resources. If the Secretary were to consider prescribing minimum standards for particular cashless technologies for gaming machines, he or she is likely to require compelling evidence that a particular technology does not exacerbate gambling harms.
15. Finally, it is worth noting that the Act contains no provision that would allow the Secretary to waive or grant a dispensation to the requirements under sections 326 and 327 of the Act. Similarly there is no provision under the Act to suspend the requirements of the Act for the purposes of a trial.

## **Cashless Gambling Systems**

16. In simple terms, cashless gambling systems are systems that replace the ‘cash in’ and/or ‘cash out’ payment mechanisms on gaming machines with currency substitutes. There are a variety of currency or non-cash substitutes available on the international market. These range from basic value tokens to simple stored value tickets or vouchers, to stored value debit cards such as magnetic strip cards or ‘smartcards’. Some ‘smartcards’ may also have biometric capability and/or pre-commitment capability.

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<sup>13</sup> Australia/New Zealand Gaming Machine National Standard Revision 5.0 (January 2002), at 3.6.10 and 3.7.8.

17. Cashless gambling systems cover a wider range of functionalities. Many systems provide significant operational benefits for gambling providers by way of reduced cash handling, with consequential reduced staffing requirements and increased security and accountability of funds. In an increasingly regulated environment, cashless gambling systems may also provide gambling operators with a 'point of difference' allowing them to attract new players in a retracting arena. Some systems are pre-commitment capable. It is this particular functionality that some within the gambling industry and many within the treatment provider sector view as offering important responsible gambling tools.
18. Cashless gambling systems fall largely within two major categories, those that are ticket based and those that are card based. A minor category of cashless technology is gambling via 'tokens'. These categories are discussed further below.

## **Tokens**

19. The simplest form of cashless gambling technology is the token (the 'casino voucher' provided for under current minimum standards approved previously by the CCA). Players purchase from a cashiering facility tokens of a particular value that can be read by the gaming machine. The tokens are inserted into the gaming machine in the same way that coins are inserted. Tokens paid out by the gaming machine can be redeemed at a cashiering facility.

## **Ticket based cashless gambling systems**

20. There are two primary types of ticket based cashless gambling – Cash In/Ticket out ("CITO"), and Ticket In/Ticket Out ("TITO"). When installed in gaming machines these systems allow players to use tickets or vouchers rather than cash. The tickets or vouchers contain a unique identifier such as a bar code.

### *Cash In/Ticket Out*

21. CITO is a limited form of TITO technology. Players insert cash into the machine but obtain winnings via a ticket printed with a credit value that can be redeemed at a cashier's station. Due to the Cash In function, CITO technology is subject to any prohibitions imposed by regulators on bank note acceptors or other cash restrictions. In this regard CITO systems are of no regulatory concern in New Zealand since they provide casinos with some operational benefits while still being subject to the bank note prohibition.

### *Ticket In/Ticket Out*

22. TITO systems allow players to load a credit value onto tickets or vouchers at either a cashiering station or through a specially designed machine before they commence play on a gaming machine. The tickets are then placed in the gaming machine instead of cash, usually via a modified banknote acceptor device. The technology also enables gaming machines to print tickets with a credit value that can be inserted into another machine, or redeemed at a cashiering facility.

## **Card based cashless gambling systems**

23. There are two primary categories of card based cashless gambling: stored value magnetic strip cards and stored value 'smartcards'. (This paper focuses on stored value cards rather than cards offering a credit facility, because credit for gambling is prohibited under section 15 of the Act, except where the Gambling Commission has approved particular circumstances in which a casino operator may offer credit.)

### *Magnetic Strip Cards*

24. Magnetic strip cards are simple stored value cards that allow players to load a cash value onto a card at a cashiering location in the venue. The card is then inserted into a gaming machine that can read the stored value electronically, enabling a player to play with that value as though it were cash. The functionality of these sorts of cards is limited to data storage and 'read only' transactions.
25. Debit cards operate on a similar basis, accessing an account already established at a bank. These cards communicate directly with a person's bank account. Transactions conducted with these cards would not be visible to gambling providers, unless they were integrated with a player-tracking loyalty system.

### *Smartcards*

26. Smartcards, like magnetic strip cards, are stored value cards that allow players to load a cash value onto a card at a cashiering location in the venue. Unlike other systems, however, smartcards are usually account-based, i.e. players must set up an account with the gambling provider before receiving an account card that can be placed in the machine.
27. Smartcards vary greatly in their functionality. Common features include the ability to both receive and respond to information. The differences include whether they are physically inserted into machines, or simply have to be in close proximity to a machine. Other differences include the size and expense of the cards, and they may not be 'cards' as such. Smartcards that we are generally familiar with include the subscriber identification module (SIM card) for cellular phones.<sup>14</sup>
28. Some smartcard systems are pre-commitment capable. They are able to provide a number of functions including player session information and the setting of loss and time limits.

### *'Dumb' cards vs. smartcards*

29. Ticket based systems and magnetic strip systems are generally referred to as 'dumb' cards. 'Dumb' cards and smartcards differ from each other in two key respects –
  - 'Dumb' cards are limited to data storage and 'read only' transactions, while smartcards can both record and respond to information and more complex information can be loaded onto the cards. Smartcards can interact with gambling equipment and record information in ways that 'dumb' cards cannot.
  - 'Dumb' cards do not generally require players to establish a player account with the gambling provider. While 'dumb' debit cards require the setting up of a bank account, transactions conducted on these cards are not visible to gambling providers as the transaction is between the player and the bank or account provider. Smartcards are generally account-based, with the account established with the gambling provider. Both cards have an impact on player privacy or anonymity, with 'dumb' cards providing greater privacy and anonymity of play. The issue of anonymity and gambling will be returned to, as it is important when considering potential for harm.

## **Current Cashless Technologies in NZ Gambling Venues**

30. There are currently three forms of cashless gambling operating on a limited basis in New Zealand; magnetic strip cards, TITO and \$25 tokens. A very small number of class 4

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<sup>14</sup> 'Report: Inquiry into Smartcard Technology', Independent Gambling Authority (South Australia) (2005) p. 4.

venues use a basic form of magnetic strip debit card. The system was in use prior to the Act coming into force.

31. Just prior to the disestablishment of the CCA in June 2004, SC Auckland received approval from the CCA to introduce TITO. In order to facilitate the approval the CCA made amendments to both the NZ appendix to the National Standard and Division III of the rules for electronic gaming machines. By this stage, sections 84 and 180 of the Act had taken effect.
32. In consultation prior to the CCA's approval, the Department of Internal Affairs ("DIA") expressed its concerns about the introduction of TITO. Unlike the Casino Control Act, the Gambling Act requires that harm be prevented and minimised. DIA argued that a decision on whether or not to introduce such a significant new technology should be deferred until the Gambling Act was fully in force. DIA considered the potential for harm of TITO was significant and that the appropriate legislation under which it should be considered was the Gambling Act.
33. These arguments notwithstanding, the CCA approved the operation of TITO within limited parameters. The following limitations apply to TITO –
  - TITO may only be implemented on a maximum of 300 gaming machines at SC Auckland
  - It may only be used on gaming machines with denominations of 20c or above
  - 'Tickets in' can be to a maximum of \$500
  - 'Tickets out' can be to a maximum of \$9,999
  - All tickets must have on them the name and current telephone number of the Problem Gambling Helpline.<sup>15</sup>

At this stage, TITO cannot operate anywhere else in New Zealand other than at SC Auckland.

34. Finally, the CCA's approval of \$25 tokens for use in some casino gaming machines shares with other forms of cashless gambling systems the ability to circumvent the banknote prohibition on gaming machines.
35. The current cashless technologies available for gaming machines in New Zealand do not contravene the prohibition in sections 80 and 180 since it relates only to banknotes. The driver for the prohibition, however, was to limit the harm arising from gambling machines. It is appropriate then to consider whether current cashless technologies in New Zealand gambling venues circumvent the intention of the prohibition. Firstly, it is worthwhile reviewing the current state of affairs in Australia since we work most closely with Australian regulators.

## **Current Cashless Technologies in Australian Gambling Venues**

36. In July 2004 the Department wrote to Australian regulators asking about the status of cashless technologies, bank note prohibitions and harm minimisation policies in relation to cashless technologies. In March 2006 the Department contacted Australian regulators to update the status of these matters. Responses from Australian regulators are summarised below.

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<sup>15</sup> Division III Rules for Electronic Gaming Machines, section 5A (available on the DIA website).

37. Cashless gambling systems, particularly TITO and card-based, are not widely available or in use in Australian jurisdictions, in either the casino or non-casino sectors. Some states have statutory provisions requiring gaming machines to be operated by coin only, thus prohibiting consideration of ticket or card based gaming systems. In the Northern Territory for example, banknote acceptors are prohibited in the non-casino sector and all machines must be coin-fed. In South Australia, the Gaming Machine Act 2001 was amended to prohibit the operation of gaming machines by means other than coin across all gaming sectors.

38. In relation to ticket based gaming systems and amongst those jurisdictions that are able to approve such systems:

- Western Australia has approved a Cash In Ticket Out (CITO) gaming system but it is not yet in use. Burswood Casino proposed to introduce TITO but has not yet done so and has held off on a submission to the Gaming and Wagering Commission of WA.
- In Victoria a limited form of Ticket Out technology (CITO) is approved and in use in the casino sector.
- Similarly, clubs in NSW currently operate the 'ticket out' (CITO) part of the technology. A trial of TITO is currently taking place at several venues.
- The ACT Gambling and Racing Commission has recently received a submission seeking approval for 'Ticket In' for use in ACT Clubs. CITO has been approved in ACT for approximately two years and the Commission has no major concerns regarding Ticket Out. The ACT Commission however does have some reservations regarding Ticket In with regard to harm minimisation. The Commission is currently seeking status reports from fellow Australian and New Zealand regulators on TITO in order to facilitate its decision-making.

Complete TITO systems therefore have yet to be approved for use anywhere in Australia.

39. In relation to cashless systems and amongst those jurisdictions that are able to approve such systems:

- An account/card system is currently approved for use in the casino in Victoria.
- In New South Wales a number of different systems have been approved for use and are operating in the non-casino sector. While these systems are also technically approved for use in the NSW casino, to date none have been introduced.
- Queensland regulators have been considering cashless systems for some time. While a trial has been conducted, the results have not been made public.

### Banknote Prohibitions

40. A number of Australian jurisdictions impose restrictions or prohibitions on banknote acceptors for gaming machines. However the provisions are by no means uniform as the table below demonstrates. Only Queensland shares with New Zealand the same banknote prohibition, with the added restriction on non-casino gaming machines that only 5 X \$20 can be loaded into a machine at any one time.

<b>Jurisdiction</b>	<b>Casino</b>	<b>Non-casino</b>
Western Australia	Max \$100 credits	N/A (gaming machines only permitted in casinos).
Northern Territory	No Banknote restrictions	Machines must be coin-fed only.
South Australia	Banknote acceptors and tokens are	Banknote acceptors and tokens

Jurisdiction	Casino	Non-casino
	prohibited.	are prohibited.
Victoria	Banknote restriction on denominations greater than \$50, unless the gaming machines are in a 'specified area'. The Commission approves specified area. Within these areas the machines must be capable of reporting player activity and setting loss limits.	Banknote restriction on denominations greater than \$50, unless the gaming machines are in a 'specified area'. The Commission approves specified area. Within these areas the machines must be capable of reporting player activity and setting loss limits.
Queensland	Banknote restriction on denominations greater than \$20.	Banknote restriction on denominations greater than \$20. No more than 5 x \$20 notes can be inserted.
New South Wales	No prohibitions or restrictions.	No prohibitions or restrictions.
Tasmania	Notes up to the total value \$10K can be inserted.	Gaming machines not permitted to have bank note acceptors in non-casino sector.

## Cashless Gambling Systems and Policy Issues

41. Of the jurisdictions that have approved aspects of TITO or are considering TITO or other cashless gaming systems, NSW, Queensland and more recently South Australian and ACT regulators have grappled with policy issues relating to responsible gambling or harm minimisation.
42. While Victoria has introduced a form of cashless gaming and a Ticket Out system, at the time of approval harm minimisation and responsible gambling issues were not part of the regulatory framework. Accordingly, these issues did not inform technical assessments of the systems, which focused instead on the their integrity.
43. The cashless systems in NSW were approved some time ago and card-based cashless systems are permitted. At the time key policy concerns related to the facilitation of responsible gambling including the availability of player information, player privacy and security of funds. Regulations provide for player activity statements to be available on request, the setting of weekly account limits and the provision of responsible gambling information upon opening or accessing player accounts. Participation is voluntary – responsibility for managing gambling behaviour may be facilitated by the technology, but the decision to participate resides with the individual. In addition there are measures to protect player funds and ensure player privacy. There is a maximum account limit of \$200. However, this is not a harm minimisation measure - rather it is to protect the player in the event a venue goes into liquidation. NSW does not have technical standards for the operation of cashless systems. As with Victoria, emphasis is placed instead on ensuring the integrity, accountability and auditability of the systems.<sup>16</sup>
44. In late 2000 all gambling legislation in Queensland was amended to include community and player protection objectives. These objectives have informed the Queensland Office of Gaming Regulation's ("QOGR") approach to TOTI and cashless technologies. QOGR is generally not supportive of TOTI due to its limited functionality. The technology is not sufficiently flexible to enable players to assume some measure of control over their gambling behaviour.

<sup>16</sup> Information obtained directly from DGR. The information is also contained in S. Nisbet, 'Responsible Gambling Features of Card-Based Technologies', *eCOMMUNITY International Journal of Mental Health and Addiction*, Vol. 3, No. 2, 99.54 – 63, (2005).

45. In relation to card-based gaming systems, the QOGR has a more open mind provided such systems make information available to players, permit players to set a variety of wagering and time limits and ensure player privacy and security of player funds. QOGR considers that card-based gaming systems should enable players to manage their own gambling behaviour.<sup>17</sup>
46. The Queensland approach (non-support for TITO, but a cautious approach to card based cashless gaming systems) is reflected in the review completed in June 2004 by the Independent Pricing and Regulatory Tribunal of New South Wales (“IPART”). Its report, *Gambling: Promoting a culture of responsibility* contains a review of the effectiveness of gambling harm minimisation measures in use or proposed for NSW. The Tribunal consulted widely across the gambling industry, gambling regulators, problem gambling service providers, gambling researchers and the community. It also reviewed relevant research where it was available.
47. In relation to TITO systems, the Tribunal notes that it is not aware of any particular research on TITO gaming systems and harm minimisation. Some stakeholders supported TITO systems as a harm minimisation measure. The Australasian Gaming Machine Manufacturers’ Association (“AGMMA”) argued that the technology potentially provided greater ‘impulse control’ by enabling players to redeem their funds directly and immediately rather than having to wait for an attendant to cash them out (with the opportunity to continue to play while ‘waiting’). AGMMA also argued that responsible gambling messages could be printed on tickets.<sup>18</sup> Other stakeholders noted that the operational benefits and efficiencies of the system could negatively affect employment in venues. Others argued that the efficiency of TITO systems could reduce the natural breaks in play created by less efficient gaming machines operations such as hopper fills. The report concluded, ‘Given the absence of evidence of effectiveness, or broad stakeholder support for TITO, the Tribunal considers that this technical facility should not be introduced as a *gambling protection measure* at this time’. In its May 2005 response to the IPART review the Department of Gaming Regulation of New South Wales (DGR) agreed with the recommendation.<sup>19</sup>
48. It is worth noting that at the time of the IPART review, gambling providers considered TITO primarily for the operational efficiencies it offered rather than its potential as a harm minimisation tool. It should not be inferred from the IPART report that the Tribunal considered TITO inherently harmful and that it therefore ought not to be implemented. Similarly the recommendation should not be read as precluding the implementation of TITO on other grounds, for example as an operational efficiency measure. Rather the Tribunal considered there was simply insufficient evidence to warrant the implementation of TITO as a harm minimisation tool, at this time.

### **Addendum**

#### **Pre-Commitment Capable Systems (whether or not cashless-enabled)**

49. As noted above, there is a significant level of interest in pre-commitment capable gambling systems. Research currently underway in both Australia and Nova Scotia is examining pre-commitment strategies and systems. While some of this research may touch on cashless systems, its primary focus is on what mechanisms people use to control their gambling, and how such mechanisms may be incorporated into the design of gambling technology.

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<sup>17</sup> Direct communication with QOGR.

<sup>18</sup> *Gambling: Promoting a Culture of Responsibility*, Final report of the Independent Pricing and Regulatory Tribunal of New South Wales (IPART) (June 2004), p. 111.

<sup>19</sup> *Towards a Culture of Responsibility: NSW Government Response to IPART Reports*, (May 2005), pp. 47-48.

## Australian Research

50. In relation to 'pre-commitment' mechanisms, including smart cards, the Tribunal noted that it was not aware of any specific research on the effectiveness of such mechanisms. The report notes that stakeholders were at variance over whether smart cards should be introduced on a mandatory basis although many stakeholders voiced general support for pre-commitment capable cards. The University of Sydney Gambling Research Unit argued in its submission that voluntary pre-commitment might not be effective for problem gamblers, although it might be useful to recreational players.<sup>20</sup> On balance however the report recommends that 'players should be encouraged to use pre-commitment cards on a voluntary basis where they are available. Research into pre-commitment mechanisms, including cards, should be conducted at a national level'.<sup>21</sup>
51. The IPART review is part of a wider Federal concern to develop a co-operative, multi-disciplinary and cross-jurisdictional response to problem gambling in Australia. The Ministerial Council on Gambling is charged with the task of developing a national framework to achieve this. In 2004 the Council confirmed the National Framework on Problem Gambling 2004 – 2008. The framework acts as a guide and support for Australian States and agencies to further work in reducing the social impact of problem gambling.
52. The priorities of the National Gambling Research Program are congruent with the framework. One of the top priorities of the program is a study of the 'feasibility and consequences of changes to gaming machine operation such as pre-commitment of loss limits, phasing out of note acceptors, imposition of mandatory breaks in play and the impact of linked jackpots'. This resulted in a research project entitled 'Analysis of gambling consumer pre-commitment strategies – A two-phased study'.<sup>22</sup> Phase I of the study commenced in November 2004 and a report was made available in June 2006. The report entitled 'Analysis of Gambler Pre-commitment Behaviour' was commissioned by Gambling Research Australia ("GRA").<sup>23</sup> Phase II of the project will focus on the relative cost-effectiveness of the different forms of pre-commitment measures, including an assessment of possible unintended consequences.
53. The Department is still considering the report noted above. It is a substantial document (392 pages) and constitutes an analysis of the 'Australian National Survey of Gambler Pre-commitment Behaviour'. It is important to note that this was a behavioural study, and not a study of the efficacy of particular technologies. The purpose was to identify different sorts of pre-commitment strategies that gamblers employ. The authors of the study are at pains to note that the study is a 'first step', 'exploratory' and 'indicative'. Of the seven categories of key findings, suggestions for further research and investigation predominate, followed by suggestions related to comprehensive education and communications strategies in the event pre-commitment is trialled in live situations. In this regard, a key conclusion was that 'there is sufficient evidence from the current study to support a real-world trial of both a gambling card and a pre-paid gambling card with regular gamblers across Australia'.<sup>24</sup> The authors suggest that such a *12-month* trial would ideally be conducted before the commencement of Phase II of the study. The report also identified some potential design options for future implementation of pre-commitment systems.<sup>25</sup> Presumably, these design

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<sup>20</sup> Blaszczynski, A., Sharpe, L., Walker M.I., 'Harm Minimisation in Relation to Gambling on Electronic Gaming Machines: Submission to the IPART review by members of the Gambling Research Unit of the University of Sydney' pp. 1 – 65 (2003), p. 40

<sup>21</sup> IPART Final Report (June 2004), pp. 99 – 100.

<sup>22</sup> National Gambling Research Plan 2004 – 2008: Status Report (July 2004).

<sup>23</sup> 'Analysis of Gambler Pre-Commitment Behaviour' (June 2006), Gambling Research Australia. The Executive Summary can be located at <http://www.hsc.org.nz/pdfs/LitReview-ExecSummary.pdf> and the full report is available at [http://www.hsc.org.nz/pdfs/Literature\\_Review-Part1.pdf](http://www.hsc.org.nz/pdfs/Literature_Review-Part1.pdf)

<sup>24</sup> Ibid. p.45.

<sup>25</sup> Ibid. p.48.

options would be tested in the sort of live trial anticipated. What is clear from the recommendations is that pre-commitment systems alone are unlikely to prove useful – their introduction would need to be supported by comprehensive education and communication strategies.

54. The DGR was awaiting the outcome of the above study before considering further regulatory action.
55. Meanwhile, on 9 December 2004 the South Australian Parliament passed legislation reducing the number of gaming machines in the state by 20%. The same piece of legislation required the Independent Gambling Authority (“the IGA”) to provide a report on how smartcard technology might be implemented with a view to significantly reducing problem gambling. The *Report: Inquiry into Smartcard Technology* was tabled in July 2005. The final conclusion of the report was that ‘smartcard (or like) technology can be implemented with a view to significantly reducing problem gambling, and that this can be done at reasonable cost’. The IGA recommended that Parliament mandate the adoption of the technology and that there should be a competitive tender for its provision.<sup>26</sup>
56. The South Australian Parliament has at this stage decided not to proceed with legislation to implement the recommendations. A consideration at the time of the decision was the unproven nature of the technology. It is possible that the South Australian Parliament in particular may revisit the recommendations of the IGA once more research is available and after the general election, scheduled for mid-March 2006.<sup>27</sup>
57. To date therefore, Australian jurisdictions are awaiting the outcome of further research before determining whether or not to pursue the introduction of pre-commitment capable systems (whether or not cashless-enabled) as a harm minimisation measure. The recent publication of the GRA analysis of pre-commitment behaviour is an important document that may lead to a live trial of pre-commitment systems. Such a trial will be important for testing, amongst other things, possible design options and gambler uptake of the technology.

### **Nova Scotia Research**

58. Since 2005 the Nova Scotia Gaming Corporation has been conducting field research into a ‘Responsible Gambling Device’ (RGD) developed by Techlink.<sup>28</sup> This is a pre-commitment device that is attached to a gaming machine and activated by a card. The device allows users to pre-set limits on the amount of money or time they spend gambling, maintains a record of gambling for the user, and may also be utilised to prevent a person from gambling. Gaming machines fitted with the device are *not cashless*, but can only be activated by swiping a card.
59. The system is reliant upon a central database, a venue manager that can issue a card only upon completion of an identification check, and a system of unique identifiers to ensure that a person cannot have more than one card and thereby establish different loss limits.
60. Results from the research are not yet available and the report notes that the device ‘has yet to be trialled with ‘real players in a real world’.<sup>29</sup>
61. At this early stage there are a few points worth noting about the RGD;

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<sup>26</sup> ‘Report: Inquiry into Smartcard Technology’, Independent Gambling Authority (South Australia) (2005), pp.1-3.

<sup>27</sup> Email communication dated 23 February 2006, with Robert Chappell, Director of the IGA, South Australia.

<sup>28</sup> ‘Nova Scotia Gaming Corporation Annual Report 2005 – 2006: A Corporate Story’, pages 8-9.  
[http://www.gamingcorp.ns.ca/pdf/NSGC\\_AnnualReport\\_2005-06.pdf](http://www.gamingcorp.ns.ca/pdf/NSGC_AnnualReport_2005-06.pdf)

<sup>29</sup> Ibid. p.9. Further information on the research can be located on the Nova Scotia Gaming Corporation’s website at <http://www.gamingcorp.ns.ca/research/>. Further information on the RGD is located on Techlink’s website at <http://www.techlinkentertainment.com/>

- One unique identifier noted on the Techlink website is a thumbprint. Systems of unique identifiers, including biometrics, are much simpler to consider in places that have universal identification cards. In Nova Scotia for example, drivers' licences have a magnetic strip that contains personal, unique information about an individual. Privacy concerns are likely to arise where universal identification cards are not in use. In the past, many community groups have expressed concern at identity cards and/or unique identifiers.
  - In order for the system to be effective, every gaming machine must be linked through an on-line, real time central database. At this stage even the EMS system does not have this capability.
  - It is estimated that a card reader will cost between \$2000-\$3000 per gaming machine. Implementation costs for the card readers and centralised database are therefore substantial.
  - The integrity of the system relies on venue managers verifying the identity of users. Where a single organisation runs all the machines, as it does in Nova Scotia, this may be feasible. Where machines are run by up to 500 different operators, as in New Zealand, the integrity of the system may not be assured.
62. Associated with the above issues is whether or not pre-commitment systems should be voluntary or mandatory. In a voluntary pre-commitment environment benefits may only be realised by –
- Problem gamblers who have already recognised that they have a problem
  - “Enlightened potential problem gamblers” concerned about aspects of their gambling behaviour
  - Recreational gamblers concerned that they may inadvertently overspend time or money.<sup>30</sup>
63. These and other issues need to be addressed before pre-commitment capable systems are seriously considered for the New Zealand gambling environment.

## **Cashless Gambling Systems: The Pros and Cons in the Current Policy Environment**

### **Potential Benefits of Cashless Systems**

64. Cashless systems first and foremost provide operational benefits to gambling providers by way of reduced cash handling and staffing requirements and increased security and accountability of funds. Gambling providers may also be able to integrate cashless systems with player-tracking loyalty systems. These systems allow gambling providers to analyse how, what and when people gamble, providing a valuable platform for targeted advertising, marketing and promotional campaigns. Promotional campaigns may in turn create incentives for players to continue to play at a particular venue while reinforcing the

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<sup>30</sup> Mandatory vs voluntary systems in relation to cashless gambling are discussed further at paras 77 – 78.

marketing and branding of that venue. Gambling providers may also see cashless systems as providing enhanced customer service, for example in enabling players to also pay for food or beverages while remaining at a gaming machine.<sup>31</sup> These operational, promotional and customer-service benefits however, are unlikely to be viewed so positively in the context of responsible gambling.

65. For regulators, cashless systems may support the integrity of gaming and limit opportunities for crime – one of the key purposes of the Act. Money laundering in particular is likely to be more difficult on cashless systems. Account-based cashless cards require identification and the establishment of an account. Such requirements are a disincentive to the anonymous activity of money laundering. Similarly if tickets have to be purchased from a cashier (for example in a casino situation), financial controls around such transactions serve to either discourage prospective money launderers, or provide the operator and enforcement agencies with an auditable trail of actions. However in relation to ticket-based systems, this disincentive would be removed if players were able to obtain tickets via a cash in/ticket out dispenser rather than a cashier.
66. Cashless systems may also facilitate responsible gambling and mitigate gambling harms. Pre-commitment capable systems may help players to assume control of their gambling and manage their spending by providing them with the opportunity to set loss and time limits on their gambling. Research indicates, however, that in order for such a benefit to be maximised, the setting of limits should be completed away from gambling activity and any associated irrational thinking or habitual behaviour.<sup>32</sup> If pre-commitment capability were permitted in New Zealand, this is one aspect that would need to be considered.
67. Cashless systems providing player activity statements (“PAS”) may provide players with information that will help them to assess and manage their gambling behaviour. In the NSW research 67% of respondents strongly supported the utility of a PAS. At the same time, a small percentage claimed that they would not want the information since it was likely to be too shocking. This small percentage is likely to be at risk or problem gamblers.<sup>33</sup>
68. It is worth noting at this point that any cashless systems introduced into New Zealand under the Act would have to comply with regulations 7 and 8 of the Gambling (Harm Prevention and Minimisation) Regulations 2004. These regulations require all new gaming machines after 1 October 2005 (and all gaming machines by 1 July 2009) to interrupt play at irregular intervals (not exceeding 30 minutes of continuous play) and provide a player with the following information –
- The duration of the player’s session of play;
  - The amount expressed in dollars and cents, that the player has spent during the player’s session of play; and
  - The player’s net wins or net losses during the player’s session of play.
69. Current regulations in force here therefore provide in some measure for player activity statements to be made available to players. However, there are some limitations, the most obvious being that the regulations only apply to gaming machines purchased after 1 October 2005 and will not apply to all gaming machines until 1 July 2009. Similarly, the pop-up player information display (“PID”) is confined to a player’s single session on a single gaming machine. PIDs as currently provided for are not capable of allowing a player to see how long they have been playing over a series of consecutive sessions on the same or differing machines. PIDs cannot provide a player with information on the net wins or losses over consecutive sessions on the same or differing machines.

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<sup>31</sup> Nisbet, *International Gambling Studies*, pp. 241-242 and p. 246.

<sup>32</sup> Nisbet, *International Journal of Mental Health and Addiction*, pp.58-59; and IPART Final Report (June 2004), p.99.

<sup>33</sup> Nisbet, *International Journal of Mental Health and Addiction*, p.59.

70. PAS provided by smartcard cashless systems are able to overcome these latter limitations as the information is written to the card and not confined to a single session of a single player on a particular machine.

## Potential Harmful Aspects of Cashless Systems

71. The unregulated use of cashless gambling may be inconsistent with key purposes of the Act related to preventing and minimising the harm arising from gambling. They have the *potential* to adversely effect gambling behaviour on a variety of fronts including –

- Dissociation from the reality of gambling with ‘real’ money by removing the need to use real cash in order to gamble<sup>34</sup>
- Facilitating gambling that is extended, intensive and repetitive due to the following –
  - Breaks in play are minimised because players no longer need to ‘top up’ their cash reserves, and operational efficiencies mean play is interrupted less often for the purposes of hand pays or hopper fills and clearances. Limiting breaks in play may therefore exacerbate the continuous nature of gambling on gaming machines. Continuous forms of gambling are highly correlated with gambling harm.<sup>35</sup> However, this negative effect might be counteracted by regulation 8, which is specifically intended to facilitate breaks in play.
  - Facilitating the rapid transfer of potentially large amounts of money to and between machines equipped with the relevant technology. For example, players on gaming machines in casinos that are not cashless-enabled can increase their credits on a gaming machine by a maximum increment of \$20 a time, up to a maximum credit limit of \$9,899.<sup>36</sup> With TITO however, players can elect to increment up to \$500 at a time to the maximum of \$9,899. Cash-in limits for other cashless gambling systems would be limited only by specific and mandatory regulation, or the levels voluntarily set by an individual.
  - Reduced breaks in play together with the ability to load more credits more quickly onto gaming machines may lead players to play for longer than they intended with more money than they intended.
- Supporting player ‘invisibility’ and/or anonymity where increased operational efficiencies mean fewer interactions with staff that might identify problem gambling behaviours.<sup>37</sup> Additionally, in the NSW research, two thirds of respondents appeared to prefer anonymous gambling that protected their identity and did not expose their levels of play or behaviour to scrutiny. Ticket-based gambling and cashless systems that do not require the setting up of a player account preserve player anonymity since the identity of a player remains hidden unless they are known by some other means to the gambling provider. However non-account-based systems are usually simple ‘dumb’ systems that provide fewer player protection measures than account-based cashless systems. Moreover those players most likely to want anonymity while gambling may be those at highest risk of gambling harm. The level of anonymity afforded by cashless systems is therefore likely to be a factor in player acceptance of those systems.<sup>38</sup> Players, particularly those at risk, may be less inclined to accept or use account-based systems if they perceive their privacy or anonymity is compromised.

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<sup>34</sup> Nisbet, Sharen, *International Gambling Studies*, p. 232

<sup>35</sup> *Ibid*, p.234.

<sup>36</sup> National Standards, parameter limits

<sup>37</sup> Nisbet, *International Gambling Studies*, p. 233.

<sup>38</sup> Nisbet, *International Journal of Mental Health and Addiction*, p.60.

## Possible Unintended Consequences

72. Some features of cashless technologies are likely to be attractive to frequent and possibly 'problem' gamblers. For example, frequent gamblers (those most at risk of becoming problem gamblers), are likely to appreciate features that preserve their anonymity by removing them from the scrutiny of staff, reduce breaks in play and facilitate the rapid transfer of money from themselves to the machine or machines. Thus features that may cause harm to problem gamblers may also be features that are likely to attract frequent (often 'problem') gamblers more so than gamblers without gambling-related difficulties.<sup>39</sup>
73. In this situation the very technology promoted to assist problem gamblers in controlling their behaviour may actually create greater harm.
74. Similarly, if loyalty systems were integrated with cashless systems, the data available to gambling providers for marketing and promotional purposes could be enhanced at the possible expense of responsible gambling. One of the research priorities of the Ministry of Health is to understand the impact of gambling advertising and marketing on gambling perceptions and behaviour. Until that research is made available, it may be prudent for regulators to require that, if pre-commitment cashless systems are introduced, they are separated from loyalty schemes.
75. At the same time, increasing the 'responsible gambling' functionality of cashless systems (for example by requiring the setting up of accounts, the setting of limits and the establishment of security measures) may lead to reduced customer convenience, increased exposure to scrutiny and an unwillingness to use the system, including any beneficial aspects.<sup>40</sup> Indeed the characteristics of cashless systems that are of most benefit to gamblers, including problem gamblers, may be barriers to user-acceptance. Concerns about privacy were also noted in the GRA analysis of pre-commitment behaviour.<sup>41</sup>
76. Finally, the extent to which the use of pre-commitment capable cashless systems are voluntary or mandatory is important. Some treatment providers have argued that cashless pre-commitment systems must be mandatory in order to be effective. If cashless systems were purely voluntary, players would be able to sidestep any monetary or time limits by switching to cash, or moving to another venue that does not host cashless systems.
77. However, both the NSW and GRA research indicate resistance to the notion of compulsion. In addition, participants demonstrated a preference for having choices in how they gambled, for example, not being confined to cashless only, but able to supplement cashless gambling with cash.<sup>42</sup> Yet the ability to opt out of cashless systems while continuing to gamble with cash undermines the responsible gambling utility of the systems. There is no reason to believe that New Zealand gamblers would be any different to NSW gamblers in this respect. As a population we have strongly resisted efforts to establish a national identity card, with firmly held beliefs around privacy and resistance towards any kind of compulsion.
78. It cannot be assumed that since some cashless systems confer some benefits, consumers will automatically adopt such systems. Many problem gamblers and potential problem gamblers simply may not take advantage of pre-commitment. In this regard, pre-commitment capable cashless systems are unlikely to be the 'magic bullet' of harm prevention/minimisation and should be combined with rigorous responsible gambling practices, education and communication strategies.

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<sup>39</sup> Nisbet, *International Gambling Studies*, p.234.

<sup>40</sup> *ibid.* p.232.

<sup>41</sup> GRA 'Analysis of Pre-Commitment Behaviour', p.39

<sup>42</sup> Nisbet, *International Gambling Studies*, p. 243; and GRA 'Analysis of Pre-Commitment Behaviour', pp. 39, 46 and 303.

79. The NSW research concludes –

‘Overall, there is no evidence to suggest that a voluntary, card-based gambling scheme offers any significant protection to gambling consumers relative to that offered by other responsible gambling measures. ...

Therefore, in the absence of direct empirical evidence to the contrary, it is prudent to conclude that the impact of card-based gambling as a harm minimization tool remains unresolved ...’<sup>43</sup>

80. Perhaps the live trial anticipated by the authors of the GRA report and further reports from the Nova Scotia Gaming Corporation will resolve some of the matters addressed in this document.

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<sup>43</sup> Nisbet, *International Journal of Mental Health and Addiction*, p.61