



National Audit Office

Report

by the Comptroller
and Auditor General

The Gambling Commission

Gambling regulation: problem gambling and protecting vulnerable people

Key facts

£11.3bn

total gross gambling yield (bets placed less winnings paid out) earned by gambling operators in Great Britain in 2018-19, excluding the National Lottery

57%

real-terms increase in gross gambling yield between 2008-09 and 2018-19 (excluding the National Lottery), mostly due to a large increase in licensed online gambling

395,000

Gambling Commission's estimate of the number of problem gamblers in Great Britain, of which 55,000 are aged 11 to 16

1.8 million

estimated number of at-risk gamblers, who therefore may be experiencing some negative consequences

**£260 million –
£1.16 billion**

indicative range of extra costs to various public services estimated to be associated with problem gamblers

44%

proportion of online gamblers that used mobile phones to gamble in 2018, up from 23% in 2015

56%

estimated increase in gambling operators' spend on advertising and marketing from 2014 to 2017, mostly from increases in online and social media advertising

£19 million

total funding for the Gambling Commission in 2018-19 (excluding its work on the National Lottery), almost all from licence fees paid by gambling operators

£19.6 million

total value of financial penalties sanctioned by the Gambling Commission against gambling operators in 2018-19, up from £1.4 million in 2014-15

Summary

1 Around half of adults in Britain participate in some form of gambling. People gamble when they pay to engage in a game of chance and win a prize of monetary value, including in arcade games, online bingo, casinos or betting on sports. Gambling is a major industry in Great Britain, which generated £11.3 billion of yield (bets placed less winnings paid out) for gambling operators, excluding the National Lottery, in 2018-19. The industry also raises around £3 billion a year in gambling duty.

2 Gambling can have significant adverse effects on people, particularly when it becomes addictive. These effects include mental health problems (which can also be a cause of gambling problems), relationship difficulties, large-scale financial loss and, in some cases, crime or suicide. The level and range of harms experienced differ from one person to the next and can be made worse by poor or negligent conduct from gambling operators, for example by encouraging people to play more. 'Problem gambling' is gambling considered disruptive and harmful to a person's health and well-being. Harm from gambling is not restricted to problem gamblers, and can also affect other gamblers, friends, family, co-workers and anyone else impacted by a person's gambling.

3 The Gambling Commission (the Commission) regulates commercial gambling in Great Britain. All gambling operators must have a licence, and the Commission has powers to set licence conditions and codes of practice, and to monitor and enforce compliance with these. It seeks to ensure gambling is fair and safe, and is guided by a statutory objective for gambling licensing to protect children and other vulnerable persons from being harmed or exploited by gambling. It also has statutory licensing objectives to prevent gambling from being a source of crime and to ensure gambling is conducted fairly and openly, a duty to advise government on gambling regulation, and separate objectives relating to the operation of the National Lottery. The Commission is a non-departmental public body sponsored by the Department for Digital, Culture, Media & Sport (DCMS) and is funded by licence fees from gambling operators.

4 To meet its objectives, the Commission works with other public, private and charitable bodies:

- DCMS is the government department with overall responsibility for gambling policy and the regulatory framework. It introduces legislative changes where necessary, sets licence fees and has an objective to ensure commercial gambling is socially responsible.
- While the Commission licenses operators at the national level, local authorities license and inspect local gambling premises such as betting shops and arcades.
- Specialist treatment to help problem gamblers, as well as most research and education, is primarily done by independent charities funded through voluntary arrangements by gambling operators.
- The Commission also works with other regulatory and enforcement organisations such as the Advertising Standards Authority, which enforces rules relating to gambling advertising and promotion.

5 Like many sectors, the gambling industry and the way people gamble are influenced by technological and social developments. The industry is larger and more accessible than it has ever been, with licensed gambling having grown by 57% (£4.1 billion) in real terms over the past decade. This growth is mostly due to a significant increase in licensed online and mobile gambling, which did not need to be licensed in Britain before November 2014 if it was based overseas. The Commission also monitors new risks emerging from areas that are not legally defined as gambling but share similar features, such as 'loot boxes' in video games.

Scope of this report

6 This report examines the extent to which gambling regulation effectively and proportionately protects people from gambling-related harms and addresses emerging risks, based on established principles of good regulation. It focuses on the role and work of the Commission, but also considers the wider regulatory framework it operates within. It covers whether the Commission:

- has a good understanding of the problems it is trying to address, and has clearly set out what it is trying to achieve, so that it can direct resources effectively (Part Two);
- is both intervening directly and working effectively with others to make gambling safer, based on a good understanding of what works (Part Three); and
- has the powers, capacity and expertise it needs to address emerging risks and respond to social and technological changes (Part Four).

7 While we considered the Commission's overall approach and various objectives as part of this review, our evaluation focuses on its licensing objective to protect children and other vulnerable persons from being harmed or exploited by gambling.

8 Gambling harm is a subject of current public and Parliamentary interest and debate. We have not examined the merits of public policy objectives in this area, only the extent to which gambling regulation supports these objectives. We have also not audited non-regulatory interventions by other organisations, such as treatment services for gambling addiction, although we have considered these factors in context.

Key findings

Identifying and responding to gambling-related harm

9 **There are an estimated 395,000 problem gamblers in Great Britain, with 1.8 million more gamblers at risk who may also be experiencing harm.** Problem gamblers typically experience more extreme consequences from gambling, including a possible loss of control of their gambling activity. The Commission estimates, based on bi-annual health surveys, that the number of adult problem gamblers is 340,000 (which has not changed significantly since 2012), with research suggesting that around six additional people are directly affected by each problem gambler. There is considerable demographic variation: problem gamblers are more likely to be male, aged 25 to 34, and from some ethnic minorities. The Commission also estimates there are 55,000 problem gamblers aged 11 to 16, nearly twice its previous estimates, which is considered to be largely due to changes in how it measures problem gambling among young people. The NHS is opening its first gambling clinic for children and young people because of concern around the impact of online gaming and gambling on young people's mental health (paragraphs 2.3 to 2.6).

10 **Evidence on the causes and impacts of gambling problems is limited compared with other addictions, such as alcoholism, or consumer issues such as problem debt.** Understanding the causes and impacts of problem gambling on people, public services and society is crucial to designing an effective regulatory response. Many stakeholders, including Public Health England and the NHS, have started to approach gambling-related harms as a public health matter. However, government does not have the same level of evidence on gambling addiction compared with public health issues such as obesity and alcohol dependency. There is also a lack of longitudinal data to measure the impact of gambling problems. One independent estimate indicates extra costs to public services of between £260 million and £1.16 billion associated with problem gamblers, but these costs are narrowly defined and do not examine causal impacts. The Commission recognises the deficiencies, and in July 2018 set out a plan for improving how harms can be measured and better understood (paragraphs 2.7 to 2.10).

11 The Commission is clear in describing its overall aim to make gambling safer but has not sufficiently clarified how it is pursuing this aim. Regulators need clear, measurable objectives so their teams and the external stakeholders they work with have a common understanding of what they are aiming to achieve and can judge progress. The Commission has translated its statutory objectives and overall aim to make gambling safer into strategic priorities, business plan activities and high-level outcomes it wants to achieve. However, it has not yet developed these high-level outcomes into detailed, measurable success criteria against which to judge progress. For example, the Commission wants to see the number of people affected by problem gambling to reduce significantly but has not articulated what level of reduction, over what period of time, would indicate good progress. It has also not articulated in detail how it interprets which consumers may be vulnerable and when (paragraphs 2.11 to 2.13).

Acting to keep consumers safe

12 There are gaps in the data and intelligence the Commission uses to identify the problems consumers are experiencing with gambling services or operators. The Commission monitors intelligence from a range of sources to identify operators or games that gamblers are experiencing issues with. It uses this and other information to help it identify and prioritise which emerging issues to address. It has increased the number of intelligence reports it gathers and receives by 19% since 2014. However, there are gaps in the Commission's intelligence base. For example, it relies on local licensing authority inspections for intelligence on gambling premises, but 119 authorities did not conduct any inspections in 2018-19 and around 60 did not conduct any for the past three years. The Commission also does not make full use of its own data to identify consumer problems, for example from the 33,000 contacts a year it receives from consumers (paragraphs 3.3 to 3.6).

13 The Commission has increased enforcement action against operators that break rules. In line with good regulatory practice, the Commission uses penalties or other sanctions to deter licensed operators from deliberately or inadvertently failing to meet licence conditions or codes of practice. Between April 2014 and March 2019, the Commission revoked the licence of eight gambling businesses and eight senior individuals working in the industry. Over the same period, it enforced 29 financial penalties. These penalties have increased from three penalties with a combined value of £1.4 million in 2014-15 to nine penalties totalling £19.6 million in 2018-19. The Commission does not know the extent to which these increases have strengthened the deterrent effect of enforcement action (paragraphs 3.10 and 3.11).

14 The Commission is not doing as much as it could to incentivise operators to raise standards and make gambling safer. Effective regulation not only penalises rule-breaking, but also raises standards across the industry both by strengthening the rules where appropriate and by incentivising and supporting companies to go beyond minimum standards (paragraphs 3.8, 3.9 and 3.12 to 3.14).

- The Commission acknowledges that some of its licence conditions and codes of practice have not been effective at making gambling safer and has made incremental improvements since 2015.
- The Commission also seeks to prompt industry to raise standards but has not explored common approaches that regulators use in other sectors, such as financial or reputational incentives. Industry representatives we interviewed also indicated that a more collaborative relationship, and more clarity over what the Commission expects of them, would be more effective in raising standards.

15 The Commission is increasingly proactive in working with other organisations to protect consumers, as its direct role and powers are limited to regulating operators. Effective consumer protection usually involves a number of other functions alongside regulation, such as consumer advocacy and complaints services. The Commission has therefore worked with other organisations that also seek to make gambling safer, and developed a new national strategy in the absence of anything similar already existing (paragraphs 3.15 to 3.17).

- In April 2019, the Commission launched its three-year national strategy to reduce gambling harms, which articulates how activities from various organisations fit into an overall framework for making gambling safer. Many stakeholders we interviewed welcomed the Commission's efforts to bring key organisations together. We also found specific examples of joint working, such as work with the Advertising Standards Authority to clarify requirements relating to gambling advertising and sponsorship.
- Within the arrangements as currently designed, consumers cannot typically seek redress where operators fail to meet social responsibility codes of practice (for example, requiring them to help consumers stop gambling for a defined period of time when the consumer requests this), as these are not normally reflected in operators' terms and conditions. The Commission has therefore found it difficult to consistently direct consumers seeking support or redress to relevant organisations. For example, this includes directing consumers with complaints towards the appropriate industry-funded dispute resolution service, of which there are eight. There is also no statutory consumer representative organisation, as exists in some sectors.

16 The Commission does not have a full understanding of the impact of its work or whether it is achieving its overall objectives to protect consumers.

Regulators need a good understanding of their performance so they can prioritise what works, take corrective action and be held accountable. The Commission generally follows good practice in reporting performance to its board. It reports quarterly a set of indicators linked clearly to its strategic priorities and includes some measures of consumer outcomes, such as estimated numbers of problem gamblers. However, its measures are not comprehensive, are not set against clear benchmarks to indicate overall performance and do not, for example, assess how effectively the Commission's work reaches consumers most at risk (paragraphs 3.18 to 3.20).

Responding to social and technological change

17 The way that gambling regulation is funded does not allow the Commission to change licence fees and makes it more difficult to invest in new skills to quickly address changing risks.

The Commission received £19 million of funding in 2018-19, almost entirely from licence fees. DCMS sets fees through secondary legislation, which normally happens approximately every four years. DCMS and the Commission intend for fees to reflect the cost of licensing and regulating the industry, based on the level of risk of each licence type and size of operator. Since the last fees review in 2016, the Commission has seen increased complexity in its work, particularly in online and mobile gambling which account for 83% of the total number of regulatory penalties in the past five years. The Commission has identified specific skills gaps, including in crypto-currency and addictive technologies, but cannot change licence fees to raise additional resource and also faces more general constraints in reprioritising within existing budgets (for example, due to the specific technical skills required). However, it has not yet produced a robust assessment of future needs or fully explored what more it could do within its existing resources (paragraphs 4.10 to 4.14).

18 The Commission's ability to respond to changes in gambling is constrained by its understanding of how they affect consumers.

The Commission needs this understanding to determine an appropriate regulatory response. The Commission monitors various industry and consumer developments. This has highlighted, for example, an increase from 23% to 44% of online gamblers who gamble through mobile phones between 2015 and 2018, increasing popularity of gambling related to video games by younger people, and a 56% estimated increase in advertising spend from 2014 to 2017 (mostly from online advertising and social media). The Commission has not yet assessed the impact or potential harms of these developments for consumers and has recognised it needs to increase its expertise in digital technologies to be able to respond more quickly (paragraphs 4.3 to 4.5).

19 The Commission has taken a cautious approach to changing regulations, and some changes have been made via legislation, which has taken a number of years. While the Commission's powers give it considerable scope to change requirements on operators in order to meet the licensing objectives, in practice it does not always make changes itself. This is either because it lacks powers in specific areas, or due to a lack of evidence over what the best regulatory response would be. In some cases, legislative changes have been introduced by DCMS and enacted by Parliament. For example, legislation in 2019 reduced the maximum stakes on fixed-odds betting terminals (FOBTs) from £100 to £2 per play. The Commission does not have powers to change stake limits on gambling machines, but it can take other actions to place new requirements on operators, and it also provides advice to government. It advised government in 2013 that the industry urgently needed to improve both transparency around FOBTs and measures to minimise harm to consumers. The Commission and DCMS subsequently introduced new requirements on operators, but the Commission considered it did not have evidence to support reducing stakes limits until 2018 (paragraphs 4.6 to 4.9).

Conclusion

20 Gambling-related harm is a serious problem for the individual affected and people close to them. It imposes potentially significant costs on public services and society more widely, although government has a limited understanding of these impacts. The Gambling Commission is a small regulator in a challenging and dynamic industry. To reduce these harms, it has increased its regulatory action (such as penalties on operators that break rules) and its collaboration with others in the field. But there is more it needs to do to identify where problems are occurring and ensure gambling operators raise their standards.

21 The way people gamble is changing, with new risks emerging in online and mobile gambling and other technological developments. The Commission's ability to ensure consumers are protected from these new risks is constrained by factors outside its control, including inflexible funding and a lack of evidence on how developments in the industry affect consumers. The Commission is unlikely to be fully effective in addressing risks and harms to consumers within the current arrangements.

Recommendations

22 The Commission should:

- a** **build on its high-level definition of vulnerability to articulate clearly how it interprets which consumers may be vulnerable under what circumstances, and how its work is intended to address this.** To achieve this, it could work with and learn from the experiences of other regulators that have articulated their interpretations of vulnerable consumers including, for example, how they consider concepts such as temporary vulnerability (such as due to job loss or bereavement);

- b do more to translate its high-level intended consumer outcomes into what they mean in practical terms, to help determine progress in achieving these objectives.** The Commission should also continue to develop how it measures its performance and impact, including in protecting demographic groups that are particularly at risk of harm, and assessing the timeliness of its interventions and the effectiveness of industry-led initiatives to protect consumers;
 - c enhance its analytical capability to better identify consumer harm and make greater use of the intelligence it has available.** For example, it could develop a more systematic and detailed approach to recording and analysing information from consumers who make contact. The Commission should also consider how it can work with other organisations such as local licensing authorities and dispute resolution providers to plug gaps in its current intelligence base; and
 - d develop a more strategic approach to influencing gambling operators to raise standards in protecting consumers.** This could include, for example, considering ways to place financial or reputational incentives on operators to go further in making gambling safer for consumers, including by learning from other regulators.
- 23** The Commission and DCMS should:
- e develop a deeper understanding of the causes and impacts of gambling-related harm.** This should include the Commission’s own research programme as well its engagement with the wider research community. It could include, in particular, analysis of how social and technological developments affect people’s gambling and the impact this is having in practice, particularly to at-risk groups;
 - f review whether the arrangements for consumers when things go wrong are working effectively.** This should include consideration of whether simplifying dispute resolution services would make it easier and more consistent for consumers to access them, and whether it would also provide benefits for the Commission by simplifying the insight and intelligence it gathers and receives on consumer problems; and
 - g review the suitability of the current licence fee model, and what it means for the regulatory approach, to address the challenges identified in this report and ensure that gambling regulation can adapt to changing risks to consumers.** This includes the ability to quickly respond to new areas of consumer harm and, where necessary, increasing capability and capacity to address this. It would also be an opportunity to consider ways licence fees could be used to create financial incentives on operators to raise standards.