

Executive Summary

Background

# Socio-Economic Impact of Illegal and Online Gambling in South Africa

SUMMARY



September 2016

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## LIST OF ABBREVIATIONS AND ACRONYMS

AMASA	Advertising Media Association of South Africa
CASA	Casino Association of South Africa
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DDoS	Distributed Denial of Service
DoJ	Department of Justice
DNS	Domain Name System
EU	European Union
FNB	First National Bank
GGR	Gross Gambling Revenue
ICT	Information Communications Technology
ISP	Internet Service Provider
ISPA	Internet Service Providers Association
IP	Internet Protocol
LPM	Limited Pay-out Machines
NDP	National Development Plan
NGA	National Gambling Act, 7 of 2004
NGB	National Gambling Board
NGPRD	National Gambling Policy Review Document
NLC	National Lotteries Commission
NRF	National Revenue Fund
NRGP	National Responsible Gambling Programme
NPA	National Prosecuting Agency
PLA	Provincial Licencing Authority
SAPS	South African Police Services
SASSA	South African Social Security Agency
the dti	Department of Trade and Industry
VA	Value Add

## GLOSSARY OF TERMS AND CONCEPTS

Economic Model	A simplified representation of how the economy works. Economic models take various shapes and forms, and can include regression models (OLS), social accounting matrices (SAMs) and general equilibrium models (CGEs).
Economics	The social science dealing with the use of scarce resources to obtain maximum satisfaction of society's virtually unlimited wants.
Population	Summation of all individuals who form part of the same group or species and who reside in the same geographical area.
Household <sup>1*</sup>	A group of persons who live together and provide themselves jointly with food and/or other essentials for living, or a single person who lives alone.
Education Level	The level of formal education or training that was attained.
Gross Domestic Product	The total market value of all final goods and services produced in a national economy over a given period, usually one year.
Employment*	Those aged 15–64 years who, during the reference week, did any work for at least one hour, or had a job or business but were not at work (temporarily absent).
Unemployment*	Refer to persons aged 15–64 years, who: <ul style="list-style-type: none"> <li>a) Were not employed in the reference week;</li> <li>b) Actively looked for work or tried to start a business in the four weeks preceding the survey interview;</li> <li>c) Were available for work, i.e. would have been able to start work or a business in the reference week; or</li> <li>d) Had not actively looked for work in the past four weeks but had a job or business to start at a definite date in the future and were available.</li> </ul>
Disposable Income	Another measure of the region's welfare. It shows the average amount of income derived during a certain period. Since disposable income includes all income receipts by households and excludes all transfers, such as taxes and social contributions, it reflects the amount of money that the population has in its disposable to be spent on consumer products and services
Value Add	The total market value of all final goods and services produced in a national economy over a given period, usually one year, less subsidies and taxes.

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<sup>1\*</sup> Definitions provided by Statistics South Africa, 2010.

## 1. INTRODUCTION

The South African gambling industry is a relatively important component of the local entertainment and recreation sector of the country, both directly and indirectly, and its tax contributions go a long way to supporting growth and development in the country, as espoused in the National Development Plan (NDP) for the country. In 2014 alone, the industry contributed almost two billion Rand to the South African tax base. However, the size of this tax base is slowly being eroded by the growing shadow industry of online and illegal gambling, which has gained momentum in recent years.

The most important factors that hang over the formal industry is that of shadow gambling activities operated by unlicensed operators, primarily through online platforms. These operators create games that compete with traditional gambling operators and can have an impact on formal gambling revenues. This ultimately impacts tax revenue for government, while further consequences include loss of employment opportunities, loss of local economic activity, and an erosion of consumer rights and protection.

This shadow industry is exacerbated by the socio-economic challenges which form part of the day-to-day lives of ordinary South Africans, as well as the growth in technology, in the case of online gambling. This has allowed online gambling to become a faceless adversary for regulators due to its borderless nature and modus operandi, making regulations and law enforcement even more difficult and challenging.

Furthermore, as revenues continue to erode this industry, the gambling industry's contribution to Corporate Social Responsibility (CSR) initiatives are likely to decline. Hence, reducing the contribution to social and educational programs.

### 1.1. Purpose and Scope

The purpose of this report is to assist the National Gambling Board (NGB) and the policy making body in the country to understand and address the dynamics that are fuelling the growth of online and illegal gambling in South Africa. This information will be used to inform the recommended regulatory framework on how to combat online and illegal gambling in South Africa.

The report will also address the current policy conundrum of whether to expand gambling by legalising prohibited modes or to combat the modes by improved regulation.

This report is a summary based on a detailed and extensive report provided that is available on request.

### 1.2. Study Objectives

The overall study objective is to conduct a socio-economic study of illegal gambling, inclusive of online gambling in South Africa. Secondary objectives include:

- Identification of all illegal gambling modes in South Africa.
- Establish international approaches and best practice.
- Provide guidelines for proposed legislation.
- Strengthen measures against online operators offering online gambling.
- Determining most effective methods for prohibition of online gambling.
- How to improve coordination and collaboration with other institutions and organisations.
- Identify online mechanisms to block adverts, payments and transfer of funds, and access.
- Establishment of procedures for communities to report online gambling.
- Prescribe possible sanctions.
- Strategies to combat problem online gambling.

### 1.3. Significance of the Study

The discussion around the impact of online and illegal gambling in South Africa has begun to take centre stage as industry investors and operators express concerns around this mushrooming shadow industry, which impede on their revenues, creates unfair competition, and increases the challenges associated with the gambling industry such as pathological gambling. Despite efforts by industry operators, provincial gambling authorities, and investors to contain this shadow industry, it has become necessary that National Gambling Authorities explore tools and mechanisms to combat or contain illegal gambling as a whole in the Republic.

Therefore, a need exists for the NGB together with Government to protect and prioritise gambling as one national agenda. The agenda must also adhere to the recommendations in the Wiehann Commission Report, which includes:

- Protection of society from over-stimulation of latent gambling through the limitation of gambling opportunities.
- Protection of players and integrity and fairness of the industry through strict control and supervision of the industry.
- Uniformity and harmonisation of policy and legislation at all levels of government across provinces through minimum norms and standards, cooperation and coordination.
- Generation of revenue and taxes for provincial governments and for good causes.
- Economic empowerment of the historically disadvantaged.
- Promotion of economic growth, development and employment.



## 2. STATUS QUO OF ILLEGAL AND ONLINE GAMBLING

### 2.1. Introduction

In order to understand what is meant by “illegal gambling” and all that this term encompasses, it is important to clearly define illegal gambling in the national legislation and canvass the different types of illegal gambling in the country. The terms regulation through prohibition or legalisation and non-regulation have brought much confusion to the public and even authorities themselves. Regulation is instruction based on and meant to carry out a specific piece of legislation. The exact meaning of each must be noted:

- Regulation through prohibition – This form of regulation entails that the activity is illegal, but still monitored and controlled by the National Gambling Act (NGA) 7 of 2004. Legislation accounts for the regulation of the industry and provides penalties for those contravening the laws.
- Regulation through legalisation – The activity is allowed and controlled by authorities and there are measures in place to penalise offenders. This is similar to regulation through prohibition expect that the activity is permitted.
- Non-regulation – The activity is not provided for, or accounted for in state legislation and authorities do not monitor or control the activity. Essentially it is not authorised, but nothing is done to govern the activity.

### 2.2. Policy Rationale for Regulating Gambling

Prior to the legalisation of gambling in South Africa in 1996 through the NGA, gambling was predominantly outlawed in the country through the 1965 National Gambling Act (No. 15) which prevented most forms of gambling activity aside from gambling in the homelands, supported by the Self Governing Territories Constitution Act in 1971 (van Wyk, 2010).

During the political transition, various committees were appointed – the Howard and Wiehan Commission’s – to undertake research on the setting up of a national gambling industry in South Africa and to further provide recommendations on a suitable regulatory and legislative framework. The recommendations of both commissions was that a national gambling industry should be created that would contribute to the social and developmental needs of the newly formed country in terms of creating employment, contributing to economic growth, supporting transformation and contributing to government revenue through taxation (van Wyk, 2010).

Soon thereafter, the National Gambling Act of 1996 was passed that saw the creation of a national gambling industry that was to roll-out various types of gambling activities in the country, starting with casinos, Bingo and Limited Pay-Out Machines (LPMs) (Gambling Review Commission, 2011).

### 2.3. Definition and Types of Illegal Gambling

Illegal gambling is not defined per se in the relevant legislation relating to gambling and lotteries. Rather, illegal gambling is defined as any gambling activity that is not authorised in the legislation. Unlawful gambling activities are contemplated in Section 2 Part B of the NGA.

A gambling activity as provided for in the NGA is defined as a game that is *played upon payment of any consideration, with the chance that the person playing the game might become entitled to, or receive a pay-out; and the result might be determined by the skill of the player, the element of chance, or both; or it is a bet or wager in terms of section 4 (1), that is placed in a casino in relation to an activity that meets the criteria in paragraph (a).*

Online gambling is defined in the legislation (NGA) as an *interactive gambling game played or available to be played through the mechanism of an electronic agent accessed over the Internet other than a game that can be accessed for play only in licensed premises, and only if the licensee of any such premises is authorised to make such a game available for play.* The NGA makes further provision for related components of online gambling such as interactive gambling equipment, software, interactive providers and the internet.

Currently, the legislative framework governing gambling activities in South Africa makes allowance for the following authorised activities:

- Gambling games at casinos such as slots and tables.
- Betting and wagering on horse racing and other sports.
- Bingo.
- Limited Pay-out Machines (LPMs).
- Lotteries and associated schemes authorised by the National Lotteries Commission (NLC).

Illegal gambling is therefore, any activity that fits the definition as provided above that is not authorised by any of the relevant gambling-related legislation, i.e. any gambling activity or game that falls outside of the provision of any of the gambling-related legislation. These unauthorised activities are described in Part B of the NGA and include:

### 2.4. Prevalence of Illegal Modes

Illegal gambling as a whole is prevalent across the country. This includes both traditional forms of illegal gambling, such as Fafi, dice, animal betting and illegal casinos, as well as online gambling. Interestingly, certain modes appear to be more prone in certain areas, revealing the often myriad factors that influence the popularity and prevalence of gambling in different areas. This theory is evidenced by the popularity of the different illegal gambling modes in South Africa, where for instance Fafi – a numbers' game based on superstition – is widespread across the interior of the country in provinces including Gauteng and Limpopo with pockets of participation in Mpumalanga,

the North West and the Free State. This is put down to the game being played in the mining communities of the Witwatersrand and surrounds, and is believed to have been introduced by Chinese migrant labour employed on the mines in the early 1900s. Modes that are endemic across the entire country include dice, illegal limited pay-out machines, animal betting, and online gambling.

Generally, illegal gambling is found in areas that can be described as having low levels of socio-economic welfare; areas that suffer from socio-economic challenges such as high unemployment, poverty, and low levels of economic activity. These are often areas that are spatially disconnected from urban areas and places of employment such as townships and rural communities. It is in these areas that illegal gambling flourishes, due to both the low levels of enforcement and regulation from law enforcement and gambling authorities, as well as the demand from people that often do turn to these illegal modes as a way of coping with their situations and sustaining themselves. Many people indicated that they play Fafi because their parents did and because the game offers them a chance to make some money which can be used to feed their family.

The spread of various forms of illegal gambling is summarised in the table below.

*Table 2-1: Spread of Illegal Gambling Across South Africa*

Form of Illegal Gambling	Prevalence in South Africa
<b>Fafi</b>	Six provinces including Gauteng, Limpopo, Mpumalanga, North West, Free State and Northern Cape – concentrated in Gauteng and Limpopo.
<b>Dice</b>	All nine provinces – concentrated in townships.
<b>Animal Betting</b>	All nine provinces – not enough information to determine hotspots.
<b>Illegal LPM's</b>	All nine provinces
<b>Online Gambling</b>	All nine provinces – particularly in urban nodes such as Johannesburg, Cape Town and Durban.

## 2.5. Current Challenges Facing Effective Enforcement

Enforcement in the gambling sector is comprised of three different pillars, namely:

1. Gambling authorities: national and provincial.
2. Law enforcement: South African Police Service (SAPS).
3. Prosecutors: National Prosecuting Authority (NPA).

The complexity of the relationship and number of working parts in the enforcement system means it is difficult to win successful prosecutions in most cases. This is due to existing challenges within the system that include:

- Corruption.
- Low priority attached to illegal gambling at the national level.

- Intricate nature of enforcement, investigation and prosecution which requires efficient coordination and buy-in from various role-players and authorities.
- Lack of training and expertise in successfully investigating and prosecuting illegal gambling operators, especially online gambling operators, across the gambling, law enforcement and prosecutions fields.
- Lack of resources.
- Lack of public awareness regarding illegality of certain gambling activities.
- Lack of certainty in the legislation.
- Lack of common direction across provinces.

As this shadow industry grows, one of the biggest challenges faced by regulators in addressing the issues of this industry is the heavy reliance on the SAPS which does not see this illicit activity as a priority crime due to the fact most developing countries usually face a barrage of other social issues including violent crime, rape and entrenched corruption - and South Africa is no exception to this. However, it is also often the case that these illegal gambling activities are linked to other organised crimes such as poaching and human trafficking.

All these challenges contribute to a very low success rate in the prosecution of illegal gambling operators, particularly those that are involved in the more complex forms of illegal gambling, such as online gambling. It is important for these issues to be addressed in the future to ensure that illegal forms of gambling do not negate the positive contribution the formal, regulated gambling sector makes to South Africa in the form of employment, tax revenue and local economic activity.

## 2.6. Case Study: Online Gambling Internationally

Online gambling activities have grown substantially since the early 1990s when the technology underpinning it was in still its early stages. Once the internet and the supporting technologies and system became more matured, online gambling began to grow in popularity. Since then, the number of known online gambling sites has increased from 15 by end 1996 to more than 2 000 by 2010 – increasing by a factor of more than 150. This figure is likely to be even higher at present. Approximately 96 online gaming sites accept participants from South Africa (Casino City, 2016).

In terms of revenues, countries that have legalised (or partially legalised) online gambling, such as Germany, the UK, France and Canada, generated between US\$1.81 billion to US\$3.65 billion during 2015 (Statista, 2015). Interestingly the countries with the highest revenues are China and the US, yet these countries have completely banned online gambling; this is likely due to their greater populations and more advanced economies.

Growth in online gambling has been much associated with and connected to the digital revolution that has occurred since middle of the 20<sup>th</sup> century. Digital platforms have led to many new industries and activities emerging including the hosting of multi-media sites on the internet, creating online payment mechanism, online search engines, advertising and social media platforms.

The factors put forward for the rapid increase in online gambling include (Banks, 2012):

- Online gambling represents a lucrative enterprise and has a fraction of the start-up costs associated with traditional land-based gambling activities. Further, the barriers to entry for online gambling are significantly less than for land-based casinos. Many operators have thus been enticed to open online gambling sites.
- The progress of technology and rapidly declining cost have increased peoples access to technology and the internet. Millions of people have access and exposure to online gambling.
- The development of specialist gambling software has increased customer experiences, and complimented with the rise of internet-payment mechanisms. The ease at which one can play online gambling, makes it a more attractive proposition for some.

Perhaps the largest factor that counts for growth in remote gambling is the fact that the future adult population would have been the first generation to grow up with technology, meaning that many millions of people across the globe will be both familiar and accustomed to doing things on the internet (Swiss Institute of Comparative Law, 2006).

Within the European Union (EU), the table below reflects the position of different member states with regard to internet gambling, with the countries in the columns further to the right taking a more liberal and progressive stance on the regulation of online gambling.

Table 2-2: Online Gambling Legislation for Various Countries

Restricted Gambling Activity	Internet Gambling Prohibited	Protect State/Private Monopolies and Revenues	Foreign Operators Not Allowed	Domestic Internet-Based Gambling Allowed	Accepts Cross Border Internet Gambling	Liberal Approach with Licenses Offered
Austria	Greece	Austria	Belgium	Austria	Cyprus	Finland
Belgium	Hungary	Belgium	Denmark	Belgium	Ireland	Aland Islands
Luxembourg	Lithuania	Denmark	France	France	Latvia	Malta
Spain	Luxembourg	Finland	Hungary	Germany	Malta	UK
		France	Netherlands	Ireland	UK	Latvia
		Greece	Italy	Italy		
		Hungary	Spain	Portugal		
		Netherlands		Slovakia		
		Norway		Slovenia		
		Portugal		Spain		
		Sweden		Sweden		

Source: Swiss Institute of Comparative Law, 2006.

The arguments for the prohibition of online gambling can be split into three different categories (Alijani, et al., n.d.):

1. Protection of sovereignty: Online gambling erodes a country's sovereignty in terms of rules and regulations governing society by making gambling accessible to anyone with a device and internet connection.
2. Protection for the consumer: The difficulty of regulating online gambling means that government is unable to protect the rights of consumers that engage in online gambling that is operated often internationally.
3. Protection of economic interests: Online gambling activities compete with traditional, land-based casinos for punters. This can have an impact on the jobs and taxes contributed by the traditional gambling sector. Internet gambling creates no direct or indirect local economic benefits.

On the other hand, the arguments for the regulation of online gambling include:

1. Internet gambling is already in existence and growing at a rapid rate. This growth is expected to grow in an era where many governments are focussed on the roll-out of Information Communications Technology (ICT) infrastructure that will increase accessibility to this form of gambling.
2. If internet gambling cannot be effectively prohibited through enforcement, then a more sensible approach to mitigate the potential downside of this activity is to regulate it. This would provide government with the power to monitor these activities while extracting some sort of benefit in the form of license fees, etc.

The question of whether to prohibit or regulate online gambling is a difficult one to answer, and depends on a number of different factors that relate to access to technology, regulatory capacity, political will, and consumer preferences. Some of these factors to be considered in South Africa's case when it comes to the question of prohibit or regulate include:

1. Roll-out of ICT infrastructure across South Africa that includes free WIFI in major urban areas and improved internet speeds.
2. Growing population with, on average, higher incomes and more exposure to a larger basket of goods and services that includes technological and internet-related products: smartphones, iTV, etc.
3. Education in ICT at an early age for children which is a priority for government.
4. Future adult population that will be accustomed to technology and the use of digital services in their daily lives.

## 2.7. Problem Gambling Situation<sup>2</sup>

Problem gambling can be defined as "an urge to gamble despite harmful negative consequences or a desire to stop." (Jazaeri & Habil, 2012), and shares the features of an impulse control disorder,

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<sup>2</sup> The International Benchmarking Exercise Report previously submitted to the NGB was used to source information in this section.

a compulsive disorder, and an addictive disorder. The cause is complex and involves multiple factors including genetics, distorted thoughts, and psychological problems.

Problem gambling, while being in itself a harmful activity, can cause other harmful effects, due to its addictive nature, such as:

- Exacerbating financial difficulties.
- Leading to other substance abuse problems.
- Damaging relationships.
- Worsening to become pathological gambling.

Although there is somewhat more information internationally than locally, it is the case for both that there is very little information specific to online problem gambling as online gambling is still a very new phenomenon. International studies do suggest higher levels of problem gambling among online players than non-internet gamblers, but stress that these findings may be at least partially due to other factors such as demographics.

With the increasing availability and accessibility of online forms of gambling, it is important to understand the effect this has on problem gaming, due to the ease of accessibility and unmonitored nature of the activity.

The nature of online gambling makes it easily accessible, not tied down to a physical location or time. This makes self-exclusion more difficult for problem gamblers, as mobile devices become an increasingly integral part of daily life. In addition, this increases the risk for those with a psychological or genetic predisposition to habit forming behaviour to become ensnared in problem gambling behaviour, as internet devices are found in a majority of places.

However, the ability of technology to identify problem gambling, particularly with online gambling, may provide a solution to its own problem. The vast amount of help resources available online mean that as online gambling platforms detect patterns of problem gambling, they could automatically provide links to help programmes, or redirect players to problem gambling information websites.

More detailed studies on online specific problem gambling should be conducted, particularly locally, to obtain a better understanding of the prevalence.

### 2.7.1. International Perspective

A study performed in Canada with both a national, and international sample of gamblers, found a higher prevalence of problem gambling amongst online gamblers versus non-internet gamblers (Wood & Williams, 2009). The rate of problem gamblers was nearly four times higher (where 4.1% were non-internet and a much higher 17.1% were internet problem gamblers), and approximately 3 times higher in the international sample (5.7% for non-internet and again a higher 16.4% for

internet). Additional studies on problem gaming show significant rates for various regions, which include Denmark (14%), Australia (14%), and two separate international studies (43% and 41%). One of the possible reasons for this higher trend of online problem gamblers could be the lack of active prevention carried out by the websites themselves, as in the case of the UK (Wood & Williams, 2007c), it was found that very few websites (23%) explicitly referenced the risks of gambling addiction.

Alternative cases (in the USA and UK) found that online gambling did not have an impact on the prevalence of problem gambling, despite increasing accessibility. It was noted that the lack of an increase may have been caused by the economic downturn experienced in the global economy, causing gamblers to have less money available with which to play. As the global economy grows, it is possible that new trends will be seen in terms of online problem gambling.

French research presented at the International Gambling Conference suggests that online gamblers are more likely to be male gamblers – that are young and affluent – which means that e-gamblers suffering from problem gambling are likely to fall under this demographic (2016). When controlling for these demographic factors, the research found that online gamblers were not more likely to be problem gamblers. This means that while internet gambling may be a significant cause for concern for most of the population, it does have an impact on this at-risk category of young males, leading to higher rates of problem gambling for them.

### *2.7.2 South African Online Specific Situation*

Research studies conducted since 2012 found that within the groups of illegal gamblers, there is a much higher risk of problem gambling, with 30.4% of illegal gamblers classified as problem gamblers. The percentage of this group that are online gamblers is unknown.

While internationally the highest risk group appears to be young, affluent males, in South Africa it has been found that the highest risk category is the young, male, lower income group. Although the demographic group is somewhat different, the fact remains that this at risk group has access to online gambling through mobile technology, increasing the potential exposure to a risky environment for these individuals. In South Africa, this may mean that a large group of male low income earners are at risk of becoming problem gamblers, thereby worsening the situation they are in.



### 3. SURVEY RESULTS

This section of the report aims to analyse and highlight the key drivers of the growth in usage and operations of the Illegal and online gambling environments in South Africa. The discussion in this section will focus on understanding other factors that drive online and illegal gambling.

The surveys conducted throughout the country for both illegal and online gambling show considerably diverse results, particularly in terms of age, income, and reason for gambling. In terms of illegal gambling, it is obvious that the serious situation of general low incomes and living standards of previously disadvantaged persons contributes immensely to its involvement. Furthermore, these people do not have the capabilities to play at more official establishments like casinos. From an online perspective, the majority of participants are affluent Africans with access to money trying to keep pace with the wealthier class.

An infographic outline of the general profile of online and illegal gamblers is provided below:

ONLINE PROFILE [Majority]		ILLEGAL PROFILE [Majority]
Female	<b>Gender</b>	Male
Young (18 – 34 years)	<b>Age</b>	Young to middle-aged (25 – 39 years)
African	<b>Race</b>	African
Two dependents	<b>Dependants</b>	Two dependents
High to semi-skilled	<b>Occupation</b>	Low/unskilled
Middle to high income	<b>Income</b>	Low to middle income

For the marginalised groups in the population participation in illegal land based gambling is driven by issues surrounding the country's social and economic environment such as high unemployment, poverty and inequality. While for more affluent groups, participation is not only seen as a form of entertainment, but also as a way to supplement their high standards of living. Other differences between these two groups is gender participation. For example, illegal gambling participants were found to be mainly males, while online gamblers were females. Results of other studies indicated that this could be due to anonymity, which was considered a factor in female gambling with some women considering traditional venues to be overly masculine (McCormack & Griffiths, 2012). The difference in the gender structures is also evident in the types of locations that gamblers play at. The majority of online gamblers who are female prefer to play in their homes, while illegal land based gamblers mostly play in public places.

It must be understood that the socio-economic characteristics of punters does influence to a degree the type of illegal gambling they participate in. For instance, lower income earners participate in Fafi and dice while higher income earners participate in online gambling such as online poker.

Therefore, most of the illegal gambling activity in the country is likely to be the types of modes that are accessible to a majority of the population: games such as Fafi, dice and lotto targeted at lower income earners. On the other hand, participation in online gambling – which requires access to internet, devices and online payment platforms, and ICT know-how – is only accessible to those with higher incomes and access to these types of services. The socio-economic status of a punter therefore determines what types of gambling they can access, and due to the average socio-economic status of most South Africans, it would appear that the concern is on land-based forms of illegal gambling and not online gambling. However, this traditional dichotomy is changing as the key enablers to online gambling are becoming more accessible to more and more people through, for instance, free Wi-Fi programmes, training and education on the use of ICT, social media, etc. These trends are eroding the traditional barrier between lower income earners and online gambling and as a result general shifts in society and the economy may be exposing the poor to greater amounts of gambling.

### 3.1. The Online Gamblers

According to desktop research and fieldwork conducted during the study, the main drivers/enablers of online gambling are:

- Marketing of e-gambling.
- Social media (as a platform and marketing tool).
- Financial institutions that transact the payments/deposits and pay-outs.

These drivers and/or enablers will require control measures, regardless of regulation status, as the environment is quickly expanding and the associated consequences may be exacerbated by the unmonitored nature of the activity.

The survey results indicated that most respondents originated from the following provinces: Gauteng (39%), Kwa-Zulu Natal (18%) and Western Cape (17%) and mostly participated in online gambling<sup>3</sup> from their place of residence. It was also found that the typical online gambler in South Africa can be described as a working middle income, young African individual between the ages of 18-34 with tertiary education and earning between R10 000-R20 000 with two dependants. Their main motivation to gamble is fuelled by the desire to boost their income.

Furthermore, it was discovered through the survey that online gambling sites were visited more by African females, despite most of the current literature that states that more males tend to play online

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<sup>3</sup> For the purposes of the study, online gambling in this case will refer to the prohibited modes, not legal activities, such as sports betting online with authorised operators.

gambling games (McCormack, 2014; Horridge, 2016). This may be because many of the women are middle class mothers who gamble to alleviate boredom, without being subjected to the social stigma to limit them (Kelly, 2013).

Evidence suggests that about 75.4% of average South African online gamblers are young, technologically advanced individuals, who mainly access the internet using portable devices. According to Messerlian (2004), more young people are becoming attracted to the perceived excitement, entertainment, and financial freedom associated with gambling due to the greater accessibility, availability, and promotion of such activities.

The online gambling games that the respondents participate in are slot machines (most likely on online casinos) and bet on sport, horse racing and other contingencies, followed by card games. It was ensured that those who bet on sports and other contingencies understood that it involved only betting on international sites, as betting online on domestic sites is legal in the country. A significant number of respondents play card games too, which indicates that most people play casino-style games and bet on contingencies. Overall, most people play for short periods at average frequencies of 1-3 times a week. Interestingly, some respondents in the survey did not view their participation as gambling, but rather as a form of leisure.

The survey had female (51%) respondents and male (49%) respondents, although the gender difference was relatively small in size. This difference can further be observed in the type of modes chosen by the different genders. For instances, male gamblers gravitate towards casino table type games and betting, while women are attracted to games such as bingo and casino slots.

Over the years, research has shown that there is generally a gender divide that exists when it comes to the different gambling modes. This is because men are known to prefer the thrill of gambling and hence play casino type games, but women prefer to gamble to escape from reality and therefore, like non-strategic games such as slots and bingo (LaPlante, et al., 2006).

Certainly, the internet is the most developed interactive medium, and mobile phones have made it much more accessible, even to households in rural areas. Around 41.3% of all households in South Africa are said to access the internet using their mobile phones (Statistic South Africa, 2014). The survey results of this study indicated that 96% of the respondents had access to the internet via their mobile devices. In terms of the location type where the participation is taking place, a large portion (over 50%) of the surveyed population play in their homes, on personal computers and laptop devices, while a lower but still significant share play in public locations and at internet cafes (both around 15%). This supports literature that says that most people play in their personal spaces, making it more difficult for regulators to restrict participation, as it will be difficult to monitor every individual with an internet capable device.

Moreover, participation in gambling has also become more accessible and immediate for a wide group of people through the non-traditional promotion of online gambling and the increasing use of

mobile phone applications for exposure to gambling advertising. While online gambling may be still a relatively small part of the overall gambling industry, it is growing faster and could potentially have a significant impact on a younger and more vulnerable groups of people.

Most of the respondents have observed e-gambling advertisements in digital form, either through emails, SMSs or websites. The second most observed channels are popular social media applications such as Facebook, Twitter, etc. These platforms are known to have a high user usage concentrated with mainly young individuals. In 2015, the Facebook platform hosted an estimated 1.59 billion monthly users, while Twitter was said to have an estimated 270 million active users. The danger of social media in relation to gambling activities is important to highlight as most respondents have used it as a platform for their activities (63.4%), and have stated that their initial participation was triggered by it (62.8%).

Interestingly, most of the individuals already gambling are not affected by advertisements. The issue of social media advertisements as a trigger affects the youth more, as they use social media applications and technology daily, which is a reason for the higher number of young individuals gambling online.

Other than the social media platforms that help facilitate online gambling, financial institutions are also unsuspecting or involuntary role players because they process some of these transactions. For example, credit-card companies typically receive 2–5% of each transaction amount. In addition, they earn interest on the debt incurred by the card user (Library Index, n.d.) The survey results indicated big financial institutions within South Africa (82%) are the most used mediums of exchange between an online gambler and the online operators i.e. First National Bank, Standard Bank and ABSA. 'Other' institutes used are Bidvest, Capitec Bank and United Bank for Africa (UBA). These institutes have the capability to determine the nature of the transactions, as well as to block/limit their processing.

However, as literature states, the main beneficiaries of online gambling are the operators, the countries in which they are situated, and the financial institutes that process the transactions (Library Index, n.d.), which makes it difficult to get the institutes' cooperation in limiting transactions.

In terms of awareness, a larger percentage share of the sample was unsure of the laws regulating online gambling, while a much higher proportion are aware of support programmes offered by the National Responsible Gambling Programme (NRGP).

However, a high proportion of respondents indicated that they would discontinue participating if they knew it was illegal. The unmatched proportions of those who say they understand the laws yet are not certain of its regulation, shows that much of the sample, and therefore most probably the population, do not understand/know the laws governing e-gambling. This requires immediate attention as the public has to be made aware of the illegality and penalties of online gambling, to attempt to curb participation.

### 3.2. The Illegal Gamblers

Besides online gambling another substantial proportion of prohibited gambling in South Africa takes place in the townships. Gambling for the township residents is a far more frequent activity than for non-township residents and it consumes substantially more of their time (Scott & Barr, 2012a). According to (Scott & Barr, 2012b), gambling is apparently endemic to township life, and represents a potent and pervasive form of entertainment and socialisation. It must be noted, as in the Field Report<sup>4</sup>, that the illegal component of the study excludes online gambling activities and only focused on prohibited land-based gambling modes.

A higher proportion of men were found to gamble in prohibited activities, which is most likely because women prefer to gamble in more private, safer venues, as opposed to gambling on the neighbouring streets (where the majority of games occur). A high percentage of the sample participate in betting on contingencies<sup>5</sup> and sport, then cards and dice, as seen below. These modes involved men more than females, while for the popular township lottery, Fafi, more young to middle-aged women were found to participate. Generally, most respondents play for short periods at frequent intervals of at least once a day, or 1-3 times per week.

These gambling activities take place in public places, usually near the participants' homes, providing gamblers with an easily accessible way to generate money. These respondents play to boost their income, to buy necessities, and provide for their families (the majority have at least one child); but as they earn low incomes, they spend a high portion on gambling expenditure, which indicates a deeper issue of deprived people gambling to make ends meet. This was found to be evident because the majority of the respondents had indicated that they were aware of the laws governing prohibited gambling modes and yet they stated they would continue to gamble in these modes regardless. This is mainly driven by economic desperation of this group to leverage for some income; as well as the structural inequality of the South African economy as a whole, which is a core legacy of apartheid. Therefore, making individuals from this group more vulnerable to gambling activities due to socio-economic problems such as unemployment, inequality and poverty that are more prevalent within this group.

Most of the respondents have an incomplete secondary education or Grade 12 qualifications; essentially these people play to survive as they have low paying low skilled jobs and are unable to find better positions due to insufficient educational requirements. Worryingly, a higher portion of respondents borrow money to fund their gambling activities. While it would be safe to assume that most of these people do not suffer from gambling addiction (as they play to survive), the respondents that stated they have increased debt levels and play for the thrill (22.5%) may be suffering from problem gambling. In terms of problem gambling support, a higher proportion of the sample are unaware of the NRGP and its services.

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<sup>4</sup> Urban-Econ NGB Socio-Economic Impact Study - Field Report.

<sup>5</sup> Betting on contingencies in the study refers to less popular contingencies such as dog racing and other animal betting.

### 3.3. Unlawful Online Winnings

Any form of online gambling happening on unauthorised sites in South Africa is expressly prohibited and is a criminal offence. Those found to be contravening the act not only face imprisonment, but also hefty fines. This prohibition also applies to unlicensed online sports betting and bingo operations. Winnings from prohibited activities are forfeited and placed in a trust account as stipulated by the National Gambling Act of 2004.

The provinces with the highest participation in online gambling include Gauteng (42.5%), Western Cape (21%) and KwaZulu-Natal (18%). Together, these three provinces account for over 80% of all online gambling throughout the country. This coincides with the survey results, with KZN being a bit higher than Western Cape. These results therefore validate the online surveys component of the study, which also indicated that participants are mainly found in these three provinces.

## 4. IMPACT OF ILLEGAL AND ONLINE GAMBLING

Illegal gambling – an umbrella term that includes both physical and virtual forms of unlawful and prohibited gambling – has a marked impact on the economy of the country. This impact is not only confined to the economy, however – society too is affected. This impact can be categorised according to the economic and social effects:

Table 4-1: Economic and Social/Socio-economic impact of Illegal Gambling

Economic Aspect	Social/Socio-Economic Aspect
Unfair competition on authorised gambling activities	Over exposure to gambling activities
Reduction in gambling tax revenue generated by authorised gambling enterprises	Increase in consumer indebtedness
Employment losses in licensed gambling establishments	Loss of Corporate Social Investment (CSI)
Links to organised crime	Reduction in consumer protection

### 4.1. Economic Impact

Illegal gambling has a meaningful impact on the national economy of South Africa. This occurs primarily through its impact on legal gambling establishments, where the unfair competition created by illegal enterprises negatively affects legal enterprises in terms of their ability to generate revenue. The onerous regulatory environment for legal gambling enterprises – created to protect the consumer and ensure a fair environment for gambling activities – means that legal gambling enterprises have to fulfil a number of different conditions before operating licenses are granted. This has an impact in terms of the number of licensed enterprises that are allowed in any one area, and the costs associated with gambling at the establishment. In contrast, illegal gambling outfits do not adhere to the rules, regulations and standards governing the industry, and thus face no restrictions in terms of the areas they operate in and the price which they can charge for gambling. Ultimately, this all translates into reduced government revenue in the form of tax contributions made by legal gambling enterprises. For example, the Casino Association of South Africa (CASA) estimates the total tax loss due to illegal gambling activity in the country equalled R110 million for the 2014/15 financial year.

Directly connected to the issue of tax is the issue of employment, in terms of both numbers of people employed and the quality of employment. Legal enterprises which face competition from illegal enterprises often have to undertake cost cutting measures to remain profitable. Reducing staff numbers is often one of the first avenues that are pursued for reducing costs. In addition, people employed in illegal enterprises do not enjoy the basic provisions of a fair and equitable workplace as contained within the relevant legislation. Illegal enterprises often take advantage of their employees through low wages and poor working conditions.

The benefits of a formal gambling industry are revealed for instance in the United States, where it was found that communities with commercial casino operations often have higher job opportunities, and casino operations are often an integral part of the community's local economy the form of entertainment and tourism. Online gambling, on the other hand, is unlicensed, untaxed and create almost no local economic benefits (Alijani, et al., n.d.).

The less obvious impact illegal gambling has on the economy is in terms of its connection to organised crime. This is due to many transnational criminal networks using illegal gambling, mostly online gambling, as a mechanism for money laundering. Further, the proceeds generated through illegal gambling activity may also be used to fund other criminal activities such as animal poaching and the trafficking of counterfeit merchandise, drugs and people. Evidence of the presence of illegal gambling and its connection with other organised crime is submitted by Gastrow (2001) who details the history and activity of Chinese triad societies in South Africa. Further evidence suggests that criminal groups from the Eastern Bloc countries (most notably Russia), Greece and Cyprus are involved in online gambling activities in South Africa. These criminal groups are involved in other criminal activities such as arms and ammunitions trading and can be linked to crime in other Southern African countries, such as illegal arms trade and vehicle theft in Mozambique, and drug trafficking and motor vehicle theft in Zambia (Shaw, 1998).

There are three main ways in which internet gambling sites can be used to launder money (Banks, 2012). The first one includes gambling on the site until all the money has been lost. The second way is through the use of rigged games where the odds are pre-determined, allowing the gambling enterprise to 'pay' the winnings to someone outside of the organisation. Thirdly, software can be programmed to respond to specific usernames or passwords by removing a percentage of the money deposited and record it as a gambling loss.

The challenge with online gambling and money laundering is that the system allows the circumvention of traditional channels through which money can be moved around the world. The highly regulated and scrutinised financial system environment is therefore bypassed. Moreover, the fact that many of the internet sites are located in countries with weak institutions and regulatory oversight mean that online gambling is an almost ideal tool for money laundering by criminal syndicates. The high-speed, high-volume and international reach of the internet, as well as the anonymity created through encrypted processes only adds to the attractiveness (Banks, 2012).

#### 4.2. Social Impact

Aside from the economic impact of illegal gambling in terms of tax revenues and employment, illegal gambling also impacts society in a variety of ways. These games, due to their nature and the typical characteristics of the punters that play them, do often reduce the welfare of the consumers directly involved as well as society at large.



On the consumer side, many of the illegal gambling modes are targeted at lower income earners. These consumers, often desperate to make ends meet or earn extra income, are lured into playing. The consequence is that many of them end up spending the little income that they have and are forced to borrow money to either fund their gambling habits or to take care of themselves. Further, as indicated through the survey results, many of them use 'new' money to try and win back money that was lost –the so called “sunk cost” fallacy.

It must, however, be acknowledged that the social impact of illegal and online gambling will vary due to the socio-economic characteristics of the punters that are found to participate in either activity. Generally, punters that play land-based illegal modes have lower incomes and lower living standards, while online players are generally higher income earners. Land-based gambling, because it accounts for proportionately more of a punter's income is seen to have a larger negative consequence than online gambling, where it can be argued that online gambling participation accounts for a smaller share of the punters disposable income. In other words, punters that participate in online gambling generally have a higher participation threshold in terms of losses they could potentially absorb, while the opposite is true for land-based gambling punters.

Consumers are also impacted by illegal gambling establishments in terms of their rights as a consumer and protection under the relevant legislation, i.e. the Consumer Protection Act (No. 68 of 2008). Consumers that participate in illegal gambling do not enjoy the same rights and protection as those that participate in legal gambling due to the legality of the operator. This is demonstrated by the evidence: Many punters that have gambled in illegal establishments and won a substantial amount of money have been refused payment. Further, many of the games offered by illegal operators are not always based purely on chance or skill.

At a higher level, illegal gambling impacts society at large through its impact on social resources, both in terms of what is spent on enforcement with regard to prohibiting illegal gambling activities, and also what is lost on account of these activities. For instance, many millions of rand in state resources are expended on crime intelligence activities relating to the investigation and prosecution of illegal gambling operators (although this crime is less of a priority compared to other forms of organised crime). On the other side of the coin are the social resources that are lost due to legal operators (either private gambling enterprises or the National Lottery) having to cut spending in terms of social investment and the funding of good causes. In some instances, funding through these means exceeds traditional funding sources from the state. Therefore, a reduction in funding sourced from legal gambling activities can have a significant impact on many social causes.

### 4.3. Quantification of Economic Impact

#### 4.3.1. Quantification of Online Gambling

The statistics compiled by CASA regarding the tax losses incurred by casinos due to the presence of online gambling provides a useful starting point in terms of quantifying the total value of online gambling in the country and by extension the total economic impact of this activity. The table below includes the estimates of both the tax cost of online gambling and the associated gross gambling revenues.

Table 4-2: Estimated Gross Gambling Revenue Associated with Gambling Tax Losses, 2014/15

Factor	CASA Members	Online Gambling
<b>Gross Gaming Revenue (GGR)</b>	17 018 844 000	328 433 832
<b>Value Add</b>	15 200 000 000	293 333 333
<b>Tax</b>	5 700 000 000	110 000 000
<b>% of GGR</b>	33,5%	33,5%
<b>% of Value Add</b>	37,5%	37,5%
<b>Online Gambling to Casinos</b>	1,93%	

Source: CASA, 2015.

It is possible to deduce the total amount of Gross Gambling Revenue (GGR) and Value Add (VA) that is spent on online gambling through the expected tax revenue loss, based on the ratio of 0.335 (33.5%) and 0.375 (37.5%) between tax revenue and GGR and tax and VA for the casino industry in the country. In this regard, it is estimated that GGR for online gambling is roughly R328 million and R293 million in VA. In terms of GGR, online gambling GGR equals roughly 1.93% of the formal casino industry.

As most of these e-gambling transactions take place internationally, the generated revenue may not be an exact loss to CASA (or the casino industry) as they are capital outflows to other countries, however the consumers (and therefore the money they spend) that move away from land-based casinos to online may be regarded as a potential loss. The CASA found the casinos industry grew by a mere 0.6% in the 2013/ 2014 financial year, and compares poorly with a 10.4% in the year prior. The major reason, CASA believes, is the upsurge in online gambling. In terms of employment generation in the formal casino industry, the following table records the actual direct and indirect jobs created through this industry in 2015. It is also possible to estimate the relationship between employment and VA in the casino industry.

*Table 4-3: Online Gambling Employment Impact, 2015*

	Total	Ratio: Employment to Value-Add
<b>Employment Total</b>	64 000	0,000004
<b>Direct: Casino only</b>	14 212	0,000001
<b>Direct: Non-casino</b>	10 068	0,000001
<b>Indirect</b>	39 720	0,000003

Source: CASA, 2015.

A total of 64,000 people are employed within the casino industry of South Africa, with approximately 24% (14 212) employed directly in the casinos themselves, 17% (10 068) employed directly by the casinos for non-gambling related activity, while the remainder of 66% (39 720) are employed indirectly by casinos in activities such as entertainment, security and hospitality. This equates to roughly one job per R250 000 in value-added generated by the industry.

There are a number of caveats associated with the quantification of the total monetary extent of online gambling and for that matter illegal gambling. Firstly, there are no official statistics on the total value of illicit gambling – at best rough estimates are available. Secondly, this information is difficult to obtain due to the reluctance of operators/punters to share information of this nature. Thirdly, it is difficult to estimate exactly how much money could be spent on illicit gambling every year in South Africa.

While this study puts the total value of online gambling in terms of GGR at R328 million per annum, it is possible that this amount may be many times larger. This is due to the presence of many illegal gambling dens that open frequently across the country. In Gauteng, for instance, the number of known online gambling operations is more than 200, while each operation has on average roughly 20 operating terminals on which individuals can play online gambling games. These sites often generate roughly R80 000 per month individually which translates into millions of rand per annum across the province. Based on this information, another estimate of online gambling can be estimated.

The total estimated value of online gambling using this approach reveals that more than R1.1 billion is spent on online gambling in South Africa per annum. This figure only covers server-based online gambling, and the inclusion of web-based online gambling may increase this figure. The estimates of online gambling in this study show how the figures can vary significantly depending on what assumptions and parameters are used. In order to understand the size of the online gambling market in more certain terms, it is recommended that the NGB work with Provincial Licensing Authorities (PLA's) to estimate the size of the market with more province-specific and up-to-date information.

#### 4.3.2. Quantification of Land-Based Illegal Gambling

Various modes of illegal gambling exist throughout the country, played predominantly in areas in which low-income earners reside/work or commute. These modes include Fafi, illegal slot machines, and dice. In order to quantify the economic impact of these modes to the economy of South Africa, it is necessary to first quantify the total value of these activities in the country.

##### **Fafi**

Information obtained through engagement with stakeholders revealed that Fafi is a popular form of gambling that is played across the inland region of the country; it is only absent in the Western Cape, Eastern Cape and KwaZulu-Natal. Fafi is played mostly by Black African females between the ages of 18 and 65, with the usual frequency following twice a day for between 5 to 6 days a week.

The average amount wagered is difficult to ascertain due to the high variance in the information obtained from engagement with punters: Some participants play only a few rand a day, while some indicated that they spend upwards of R20 per day. Betting on Fafi is also influenced by superstition, and the stronger the punter feels about a specific dream/sign, the higher the bet is.

Based on this information, it is estimated that there are roughly 100,000 persons in the country that frequently participate in Fafi. These players constitute the stable Fafi-playing population and do not count people that play infrequently. A conservative average daily bet of R2 is applied, representative of the typical amount a Fafi punter is likely to bet on a given day. The frequency of participation, on average, is 260 days a year. The total estimated value of Fafi is therefore equal to R520 million.

Information from Gauteng and Limpopo, provinces where Fafi is extremely common, indicate that the value of Fafi in those provinces equalled R25 million per month in Gauteng some years ago and R210 000 per day in Limpopo in 2010-2011. This information cannot be verified from the relevant authorities.

##### **Unlicensed Limited Pay-out Machines (LPMs)**

While LPMs are licensed to be operated in bars, taverns, and restaurants throughout the country, these machines are sometimes installed illegally. The illegal machines are manufactured locally and commonly use imported parts and components that resemble legitimate machines.

It is not clear how many machines are in operation throughout the country, but based on the frequency of confiscation in some areas, it is possible to estimate the total number of illegal LPMs operating at any one time. Based on the confiscation figures and the actual number of licensed LPMs in each province, it is estimated that the total stock of illegal LPMs in operation is equivalent

to roughly 10% of total licensed LPMs. Average takings for LPMs vary significantly and depend on a number of factors. Average weekly revenue per LMP in Gauteng is estimated at R3 800,00 per week. In an attempt to remain conservative and to account for the inter-provincial differences in gambling revenue, it was assumed that each illegal LPM generates R1,500 in revenue per week. This equates to a total of R104 million in revenues generated by illegal slot machines throughout the country over a 1-year period.

## Dice

Survey results from previous studies reveal that a small fraction of the Black African and Coloured communities participate in gambling with dice on average 3 times a week. The average amount spent on this game can vary, but the figure is put at roughly R5,00 per day per punter due to the socio-economic characteristics of the participants who are often unemployed and dependent upon some sort of social assistance. The estimated number of people that participate in dice throughout the country is estimated at 70,000. The total monetary value is therefore estimated at approximately R54 million per annum – equivalent to R780 per person per year.

In order to quantify the potential impact of illegal gambling to the economy of the country, the following gambling multipliers have been utilised - Economic multipliers for gambling in South Africa: GDP: 2.0 and Employment: 4.46

### 4.3.3. Online Gambling Impact

The impact of online gambling in South Africa has been determined on the basis of the total GGR of online gambling using the indicators from CASA, which reveals that the total value add of online gambling equals R293 million per annum. Using the gambling multipliers listed above, the total VA impact of online gambling in the country equals R586.66 million, roughly 4% of the direct VA generated by the casino industry. In terms of employment, the total direct employment loss is 1,235, based on lost employment in casino-related activity of 274 and casino-support activity of 194. A further 767 employment opportunities are lost in non-casino activity such as entertainment, trade and maintenance of casino facilities.

The location of these jobs perhaps elucidates the critical impact online gambling is having on the country, where unemployment is currently one of the most serious challenges facing South Africa. The table below reflects the share of the total lost jobs by province, and also provides the latest provincial unemployment rate to provide some context.

Unemployment is an issue nationally and is a key element of many national strategies and plans. The latest unemployment figures for the provinces paint a sombre picture of the current labour market conditions, where all the provincial unemployment rates barring Limpopo are above 20%. The picture is worse if the expanded definition of unemployment is used.

In terms of job losses caused by online gambling activity, it can be seen that the majority of the job losses are experienced in Gauteng, North West, and KwaZulu-Natal. This is due to the fact that many labour-intensive casinos are located in these provinces, such as Sun City in the North West. While these job losses may appear miniscule if total employment in each province is considered, they do however represent a loss of value and opportunity for many individuals and households.

#### 4.3.4. Illegal Gambling Impact

The true extent of illegal gambling in the country is difficult to determine due to the lack of information pertaining to the numerous illegal gambling modes. Estimates conducted in this study have, however, attempted to quantify the most popular and visible forms of illegal gambling which include Fafi, illegal LPMs and dice.

Based on the total estimated revenue generated through illegal gambling activities in the country and the gambling industry multipliers, the following impact has been quantified for land-based illegal gambling in the country over a 1-year period: Lost Gross Domestic Product in terms of illegal gambling in Rand: Value – R1 356 346 917. The total loss in employment is estimated at 2 550.

Through the addition of the impact of online gambling and the impact of illegal gambling, the total economic impact to the economy of South Africa can be determined. The value of lost GDP in terms of illegal and online gambling in Rand is R1 943 013 584. Total losses in terms of employment total is 3 785. *\*Note: The estimates on the value of illegal gambling are based off information obtained from gambling authorities and punters themselves and are intended to give an indication only of the true extent of illegal gambling in South Africa.*

In this regard, the estimated monetary flows associated with illegal and online gambling in South Africa impact the economy in the following ways with respect to employment and GDP:

- Total loss in VA of R1.9 billion for the economy as a whole over a 1-year period. This includes a direct impact of R972 million and an indirect impact of R972 million. This is less than 0.01% of total annual GDP for South Africa.
- Total loss of 3,785 employment opportunities in the legal gambling industry based on employment in casinos (841) and employment in related services such as retail outlets and restaurants (2,945). This equates to 5.9% of the total employed persons in the casino industry of the country.

Considering all the negative implications of online gambling and the features of the South African economy, it is important for government for the time being to take responsible stance and continue to prohibit online by working with other stakeholders to implement control mechanisms to assist in the fight to both protect punters and industry investors.

## 5. COMBAT FRAMEWORK

Online gambling is not permissible under the current legislation. The only four legal forms of e-gambling that are regulated in South Africa include bingo, casinos, limited payout machines and betting on horse racing and sport. In 2008, there were talks to permit online gambling as a fifth gambling mode using the National Gambling Amendment Bill to do so, however, this Bill was never passed and did not come into effect due to contestation by various stakeholders around exposing the population to all the negativities that come with that type of gambling.

Currently the stance is that the capacity to regulate it is not adequate, but can be streamlined to prevent illegal operations. The aim of combat mechanism will be to assist the NGB and policy makers to streamline capacity to be in a better position to enforce the stance adopted in the National Gambling Policy, which states that there will be no additional gambling modes allowed, and that force should be on creating controls to address online gambling. The policy goes on to say that new forms of gambling such as greyhound racing, online gambling, fafi, poker etc. will require further scrutiny before they could be permitted.

### 5.1. Online Gambling Combat Framework

The combat framework highlights the importance of effective enforcement in order to ensure the achievement of the public interest objectives behind the National Gambling Policy. Effective enforcement is dependent but not limited to the following:

- The organisational structure.
- Overall competences of the NGB.
- Administrative cooperation with other key role players.
- Appropriate enforcement tools.

In order to combat online gambling, it is important to understand the process and various points before the “user” is actually participating in gambling on the operator’s site. For online gambling to take place, a “user” or gambler is required who wants to participate in various gambling activities in the virtual environment, i.e. internet casino. In order for this user to gamble online, the user must have an interface on which to download a compatible software to enable participation. Once connected, the user then creates a personal account providing their name, home address, a valid e-mail address, date of birth and other personal information. Thereafter, the user then accesses the site where they are required to set up an electronic account from which bets will be drawn and in which winnings will be deposited. At this stage it is important to note that alternative accounts can be set up such as Neteller. This is an online account in which money can be deposited and used for any type of transaction. Once a player has set up an account, they are able to play to their liking.

The following implementation guidelines are suggested to address illegal gambling and especially online gambling and serve as input into a gambling combat framework:

1. Remove and ensure that access to all information available on the internet that could potentially be misleading to South African citizens about the legality of the online gambling industry e.g.: National Gambling Amendment Bill.
2. Create an awareness campaign that highlights the following:
  - Governing laws and the stance of government.
  - Organised crime groups that use illegal gambling, as a means to finance other forms of violent and illicit activities.
  - Risk of compromising of user information such as ID, credit card number, etc.
  - Punters are faced with the risk of forfeiting their winnings, because there is no provision for online gambling in South African law.
  - Severe participation penalties.
3. Create a “Stop Online Gambling in South Africa” initiative similar to the 702’s crime line initiative:
  - Market this initiative on radio stations and other forms of media.
  - Establish a tip off line and a website for this initiative.
4. The NGB must collaborate with mobile and internet services providers to request that sites related to online gambling be blocked. In order for this control measure to be successfully implemented, the following take place:
  - NGB must create a database of all illegal online gambling sites.
  - NGB must be create a team which is dedicated to detecting new sites in order to constantly updated the database supplied to operators.
  - The NGB team must ensure that filters are created to ensure that permitted modes are not blocked by operators.
  - The NGB must publish the list of illegal websites which have been blocked on their website.
  - Any person attempting access the sites on the database must be redirected to a “landing page” of the NGB.
5. The NGB must create penalties for non-participating service providers. For example, the implementing an administration cost for those who choose not to adhere to these requirements.
6. Issue prohibition orders. Where these orders are not observed, the NGB can make an application to the courts to have the IP provider withdraw access to this particular address by domestic citizens.
7. Collaborate with the national Internet Service Providers’ Association (ISPA) to set domain controllers by creating a running national Exception Log/list of all local and internationally known and identified illegal gambling operators, where the Internet Service Providers (ISPs) ensure that access to these operators’ sites are blocked. This list must be constantly updated and it is suggested that a team (in partnership with the ISPA) be created that focuses solely on: identifying all sites available to residents online, and updating the official list. In terms of



- the local operators, their locations can be identified by using geotagging codes associated to their Internet Protocol (IP) addresses; law enforcement authorities can then target these local operators that would otherwise create replacement sites.
8. Work in partnership with countries that are known to have major site operators (countries with the most sites offered) by setting up treaties that ensure that residents are blocked from accessing online gambling sites within those countries.
  9. Regulating authorities should actively target online gambling servers through internet cafes by setting up raids in collaboration with SAPS and appointed peace-officers in the PLAs. Further, as with the web-based control measure approach, in each raid, roots of LAN computers must be traced to identify the IP addresses in use so that access to these can be blocked by ISPs, and the national Exception Log can be updated.
  10. To enforce the Merchant Category Codes (MCC) control measure, create a law in South Africa similar to the Unlawful Internet Gambling Enforcement Act of 2006 which prohibits gambling businesses from knowingly accepting payments in connection with all forms of gambling. This ensures that there is no upside for these institution to process these transactions. In order to do this the laws should be clear in the sense that it includes the following clauses:
    - Credit extended to or on behalf of such other person (including credit extended through the use of a credit card).
    - Funds transmitted by or through a money transmitting business on behalf of such other person.
    - Any check, draft, or similar instrument which is drawn by or is drawn on or payable at or through any financial institution.
  11. Develop penalties for non-compliance.
  12. Undertake active consistent investigations to trace the source of unusual large funds to various account holders and known gambling operator accounts. Following the results of the investigation of flagged transactions:
    - Winnings should be confiscated by commercial banks which are then forfeit these to the state and account holders must be penalised where possible.
  13. Develop clear penalties in the legislation for the non-compliance by operators.
  14. Issue prohibition orders as a warning to the operators of South Africa laws governing online gambling and to withdraw access by domestic citizens.

Internationally, there is little information on the implementation and success of the proposed combat measures. This is expected as information on the actual combat measures is extremely limited. Regardless of successful implementation cases, in order for the NGB to continue tackling illegal gambling (encompassing of online) using prohibition as a form of regulation, it must improve its enforcement capacity. To effectively do so, the combat framework shows the NGB that the regulation and supervision of the online gambling industry needs to be driven in partnerships with several other organisations. The nature of the online gambling business requires, that some of these competences be held by other enforcement bodies, such as the police or financial intelligence units.

It is important for the NGB and policy maker in the country to note that while the combat framework provides mechanisms and tools to control illegal gambling, its enablers may continue to drive behaviour towards these modes. Enablers such as the economic desperation and vulnerability of the population to economic shocks coupled with a majority youth population who are technological advanced, are all areas outside the control of the NGB. According to the results of the study, other enablers of this growing shadow industry include:

- Lack of awareness of the governing legislation (in case of online gambling).
- Advertising.
- Financial institutions.
- Social media.

Therefore, the current policy stance of prohibition to regulate the industry may not be the best option in the long run, but it can be taken as a starting point to assist the NGB to understand measures that can be used to control the illegal gambling industry.

## 6. FUTURE POLICY OPTIONS

This section will outline the rationale for choosing a particular course of action within the current policy debate. The purpose of the policy brief will therefore, be to allow the NGB to converse with policy makers around the urgency of the current problem and the need to adopt the preferred alternative or course of action to, serve as an impetus for action.

The current policy conundrum faced by policy makers is whether or not to expand gambling by legalising prohibited modes, or to combat the modes by improved regulation. Any policy made must take into account the following:

- Growing problem gambling.
- High levels of poverty.
- Increasing unemployment rate, especially among young people.
- Worrying levels of over-indebtedness, with more credit active consumers having impaired credit.
- Other concerns relating to addiction, such as substance abuse.
- Global trends and benchmarking.

However, before analysing the different policy options available to the NG, it is important to first examine the organisation's institutional capacity in order to ensure that the options recommended are well suited and implementable.

### 6.1. Challenges with the Current Institutional Framework

The NGB's duties and responsibilities are set out in the various national gambling acts. These include: compliance regulation, monitoring of illegal activities, setting of protocols for procedures such as licensing and governance documents, handling national registries and databases, monitoring of advertisements, and combatting illegal activities associated to gambling.

The board has experienced limitations in fulfilling their role as a regulator mostly due to judicial system challenges (which include indistinct definitions of online gambling and inadequate court case requirements) and insufficient resources.

From a policy perspective, the major concern surrounds technical issues found within the Gambling Acts, specifically in terms of definitions of 'online'. As most legal cases are dependent on exact phrasing, cases can be dismissed due to insignificant technicalities such as substituting 'interactive' for 'online'. The concurrent jurisdiction of the NGB and the PLAs through their respective acts has also led to issues, such as one entity believing that certain responsibilities fall within the ambit of other organisations' overall functions. This has led to deficient enforcement of gambling law throughout the country, allowing for illegal gambling operators to function relatively freely.

In terms of resources, the organisation has until most recently been operating without experienced specialists in the form of peace officers to assist with enforcement as stated in Section 76 of the Act. Currently, the NGB has one unit consisting of an average of four individuals dealing with the compliance and enforcement of unregulated gambling for the whole country. These members' expertise varies from law enforcement to technological; however, they perform many different tasks and do not have distinct roles that focus on particular functions. These points indicate that certain positions are not being filled and that some of the current NGB staff resources have to be stretched over different functions.

Further to the previous point, the national authority is lacking in resource capacity, which ensures that the PLAs themselves are left to monitor and enforce illegal gambling. The NGB also currently does not have any communication platform to collaborate with all PLAs. The lack of capacity extends to other professional fields, where the need for experts in processes such as legal cases and technical investigations ensures that the NGB has to rely heavily on external agents. All these factors mentioned herewith point to the fact the NGB is a reactive organisation rather than a proactive one.

Following the idea of resources, another challenge lies in the quality of those resources. The NGB is required (according to Section 65 of the Act) to establish and monitor national systems such as the national self-exclusion register, national central electronic monitoring system, central registry of information, and the national probity register. These registries are not on an online interlinked system, making it difficult to update and share to all parties. In terms of human capital, there are enforcers and investigators that do not have actual law enforcement backgrounds. This leads to problems in legal proceedings as the officers do not fully understand the requirements for successful convictions and the NGB does not have the capacity of these types of professionals (legal) within the entity.

## 6.2. Options Analysis

The strategic option analysis discussed below will be evidence-based, making reference to key elements of the study as such the survey results, consultative process with key stakeholders, and benchmarking exercises.

### 6.2.1. Option 1: Prohibit

#### Approach

The NGB should continue to prohibit illegal gambling in the country. However, they should do so by improving their enforcement capabilities. In addition, the National Gambling Policy (2016) states that the capacity to regulate online gambling currently is not adequate, but can be streamlined to prevent illegal operations. This would involve the organisation taking a top-down approach.

This would allow the organisation to take a more holistic approach in combatting unregulated gambling by equipping and recruiting key expertise. One such example is the Limpopo Gambling Board which has allocated their compliance and enforcement unit, peace officer powers as provided under the Criminal Prosecutions Act.

In addition, adjustment should be made to the National Gambling Act, as it is silent on penalties of these crimes.

### Rationale

Illegal gambling has infiltrated the gambling industry and in turn caused societal ills such as problem gambling. This approach is perhaps the most probable given an improvement in the law and powers to enforce by NGB officials.

It essentially gives the national regulator and policy maker powers to enforce the law on non-compliant gamblers and operators. In addition, it allows the regulator to impose punishments on perpetrators of the crime.

### Potential Cost

There is a great degree of surveillance required to detect and prove illegality of online gambling.

The difficulty in locating, investigating, and prosecuting online offenders. Also the technological and human capital required to locate offenders is substantial, as are the costs of prosecution and incarceration.

Inefficient use of resources because the market demands it and will therefore happen with or without governments consent.

Loss of potential tax revenue.

There will be a long lead time before the necessary amendments needed to bring the legislation in line with policy that can be affected in the Gambling Act.

### Potential Benefits

Internet can be used anonymously, and the potential exists for abuse by those unable to control their gambling and by underage gamblers.

Privacy can exacerbate problem gambling and provide underage gamblers with the opportunity to use their parents' credit cards, or even their own, to set up Internet gambling accounts.

Prevents money laundering from going through online gambling channels. If government prevents payment to online outlets.

### 6.2.2. Option 2: Legalise

#### Approach

This requires the national regulator to issue operators licenses in order to continue operations. This approach would be similar to that adopted by the Liquor Board requiring that shebeens licences be more formally structured than the free, informal temporary permits previously held. Doing so, will allow the NGB and the gambling industry to receive economic rents from revenues received by operators. As it offers the organisation an opportunity to both control illegal gambling and stimulate the fiscus.

#### Rationale

This approach is not only the most ideal but also the most attractive option for the NGB because it is nearly impossible to effectively prohibit illegal gambling, because of the difficulty in prosecuting. Besides, this the constant innovation of technology ensures that law enforcement remains farther and farther behind.

However, the reality remains the same regardless of how ideal this option is on paper. It is the most challenging because these operators have no incentives to become licensed, as the nature of their activity allows them to escape regulation fairly easily.

Regardless, of whether illegal gambling is good or bad for society, it is better for it to come under some form of legal regulatory control so as to accrue the economic benefits (gambling revenue, tax revenue, employment, decrease the flow of money leaving the jurisdiction), and to better ensure player protection (fair games, responsible gambling practices, etc.). Furthermore, the new gambling revenues could be used for the prevention and treatment of online problem gambling.

Enforcing the law with an inefficient framework on the one hand and highly organised criminal network on the other will be an extremely difficult exercise, where the costs of implementing enforcement will probably outweigh the benefits.

#### Potential Cost

Legalisation of online gambling makes it is too accessible, and it would be too easy for people to lose their money. It opens the door to more fraud than the NGB will know how to handle.

The anonymity of online transactions means that a 13-year old child could take his or her parent's credit or debit card and play without parental knowledge.

Individuals with addictive personalities could potentially lose all of their money. This can add to economic problems of households.

Legalising online gambling can potentially put South Africans into even further debt. The South African population is heavily indebted and most are unable to repay for the loans. This will in turn impact the growth of the economy.

### Potential Benefits

One of the primary benefits of allowing online gambling will introduce competition into a marketplace that is regulated and dominated by licensed providers. Increased competition results in a more efficient allocation of resources as operators attempt to maintain and attract new customers. In addition, regulating online gambling encourages private-sector businesses to develop network capacity and commerce. Not only will this increased competition result in a wider range of gaming activities, but consumers will have cheaper and easier access to these activities. Legalising online gambling, would:

- Contribute to the fiscus.
- Combat illegal gambling by making these modes more accessible.
- Protect the fiscus.
- Protect consumers.

There are good arguments for both the continued prohibition and legalisation of online gambling. Yet, often the support of either prohibition or legalisation is largely dependent on a particular government, its circumstances and its national mandates. For example, in South Africa, the government's policy stance around online and illegal gambling is driven by the need to protect vulnerable individuals in society.

To-date, the principal and highly undisputable argument presented by opponents of prohibition is that the existence of the internet renders this exercise futile, because the internet is an international network, which can easily offer an instant detour around domestic laws of prohibition, which raises concerns around the practicality of such a policy stance in the long haul. Besides, shortcomings in controlling the medium used for participation, is heavily reliant on technical enforcement, supervision and cooperation. All or most of which requires the cooperation of other institutional bodies. Two of the biggest known enforcement methods that are and can be used to restrict online gambling are the blocking of payments through the use of merchant codes and the blocking of access of gambling sites through the Domain Name System (DNS) filtering and IP (European Commission, 2011).

## 7. CONCLUSION

In South Africa, online gambling is illegal, but has not been subject to a regulatory framework, which dramatically increases the possibility of abuse by both operators and punters. The vulnerability of such a system allows criminals to infiltrate the sector or to manipulate online gambling operations for illegal purposes. The challenges of this industry are also driven by the cross-border nature of online gambling. As discussed in the report, various jurisdictions around the world have adopted different regulatory approaches which can sometimes create gaps that can be misused by criminals.

As a mitigating measure to prevent abuse of the system by operators and punters, the NGB should develop a regulatory approach which is multidimensional and involves elements of supervision, cooperation and enforcement. However, this approach is multi-collaborative and largely depend on the cooperation of other agencies.

Due to the internet being an international network and the heavy reliance on other agencies, it is impossible to achieve 100% regulation through prohibition, so it recommended that the national regulator first focuses on developing and implementing a regulatory framework in line with their current policy stance, such as the one developed in this study. As this will assist both the regulator and policy makers to understand elements within this sector that are within their control.

Keeping in mind that to effectively combat online and illegal gambling, its policy and regulatory measure should ensure that the chosen approach is not only well suited to the market but also the culture, and in line with the development direction of the country as well as the global community of which they are a part. For example, in an economic environment with high levels of unemployment, poverty and inequality as is currently being witnessed in the South African economy, it is common for the population to become more vulnerable to vices like gambling as a survival tool or as an income supplementing measure.

Therefore opponents of the legalisation of online gambling see the nature of this activity as harmful to the population as it promotes issues of problem gambling, addiction, bankruptcy and crime, which also often create increased mitigation costs for regulators and policy makers operating with limited resources. Advocates argue that regulating online gambling properly can minimise risks where persons wishing to set up online gambling operations are subject to scrutiny by licensing authorities thereby decreasing the risk of criminal elements infiltrating the sector. The basis of the argument made by advocates rests on the fact individuals have freedom of choice, which means that regardless of the adopted policy stance by a government, supporters of the activity will find loopholes in the system and continue to participate.

Scrutiny of the economic research on online gambling in other jurisdictions does not reveal a clear-cut consensus as to whether legalising online gambling leads to either gains or losses for an



economy. The main arguments against online gambling is their potential impact on the land-based casinos and the associated industries in the retail, commercial and hospitality industries – fundamentally opposite to the destination-based model followed in South Africa for casinos. Another argument levelled against legalisation is the fact that the benefits in the form of increased government revenue through taxation and licensing fees rarely actualise, such as the case in New Jersey where actual tax revenues from online gambling were 88% below estimates. Along with the social consequences of online gambling that are premised on the anonymity and accessibility of this mode that may facilitate unhealthy gambling participation, the case for legalising online gambling, especially in South Africa where the regulatory framework is currently an insufficient bulwark against the negative aspect of general gambling, is inadequate to warrant a change in policy direction.

This however, may not be the long-term approach considering the direction of society in terms of ICT in terms of accessibility to technology, education in using these technologies, and roll-out of internet connectivity. Overtime, just as in the early 1990s regarding the legalisation of gambling in general, the policy surrounding online gambling may need to be re-evaluated in order to reflect the true preferences of the majority of South Africans. Also, online gambling does not only represent potential competitors for land-based gambling operators. In fact, these operators can be encouraged, such as in the Interactive Gambling Bill that contemplated the idea to require all operators to be based in South Africa, to be based locally that will see the value addition of the activity remain in the country.

## 8. RECOMMENDATIONS

It is imperative to synthesise the study outcomes in order to detect any notable inadequacies that may be present in features of the industry. The objective of this section is to address the deficiencies by providing precise technical and socio-economically targeted recommendations.

### 8.1. Technical Recommendation Framework

The NGB has found the online gambling environment immensely difficult to prohibit, as it is transnational in nature and accessible in all forms of communication devices, such as phones, computers, etc. the nature of online environment has a negative impact on efficient enforcement and supervision, also stemming from a lack of technical and legal means to enforce national laws. Main challenges to controlling the online industry as researched by the National Responsible Gambling Programme (NRGP) (2009) include:

- Accessibility - Any person can gamble on any form for unlimited rewards and prizes, from any location with internet access.
- Costs - Gambling will be cheaper because there are lower capital costs and taxes, and expensive regulation can be legally avoided.
- Ease of payments - Payment can be made through the charging mechanism for cell-phones and through cryptocurrencies<sup>6</sup> offered by Bitcoin.

A recommendation framework is supplied below with the current situation of each problem area, recommended action plan and corresponding proposed resources required to achieve the plan. Research inputs on the determined problem areas are included in the action plan with a specific focus on legislation, institutional capacity, etc. However, for the purposes of this report, only the action is cited below.

#### Legislation

Amend current laws to ensure interactive, internet and other terminology used can be substituted for online in legal proceedings.

Adjust other laws so that focus shifts to enforcement of illegal gambling to assign more resources for enforcement, legal procedures, etc.

Change law to rather outline uniform criteria for processes/duties so that PLAs can concentrate on enforcement more to ensure that standards are met. These criteria must include the following areas:

- Research;

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<sup>6</sup> A cryptocurrency (or crypto currency or crypto asset) is a medium of exchange using cryptography to secure the transaction; they are a subset of alternative currencies, or specifically of digital currencies.

- Awareness;
- Treatment;
- Financial counselling of winners.

### Institutional Capacity

Improve volume of enforcers in each province and ensure they have the tools needed (LGB enforcement team used as a model) to combat online gambling effectively.

Assign all enforcers peace officer powers.

Assign enforcers legal authority to conduct raids without warrants or to compile necessary legal documents for raids.

Create gambling-specialised courts, and appoint and train prosecutors aligned to gambling related cases so that the board does not rely on external agencies.

Appoint/train enforcers with experience in law enforcement, arrest procedure and criminal procedure.

Collaborate with major banking institutes to stop online gambling transaction processes.

Collaborate with domain regulators to restrict domestic access to sites. /Collaborate with banking institutes to ensure that fraud is countered and collaborate with domain regulators to ensure that licensed domestic sites are used.

### Collaboration Mediums

Form forums, which include representatives from the NGB, PLAs, and all other significant agencies that support the enforcement of illegal gambling.

Inter-link national registries so that all relevant parties (NGB, PLAs, casinos, etc.) are able to access them from any web capable device and they are able to update them.

Establish an illegal operator registrar to keep track of those detained and those in operation.

### Advertising

PLAs should use powers to set advertising standards to ensure that exposure is limited (particularly to the youth) and penalties are adequate to disincentivise ad operators.

Awareness

Create an awareness campaign that runs constantly on some form of media and on slots, contingency betting and card gambling sites (most played). The campaign must have two distinct aims:

- Online gambling legislation and its penalties for obstruction.
- Problem gambling, its consequences and treatment options.

Problem Gambling

Work with operators to include initial self-set restrictions in registration for online gambling sites.

**8.2. Socio-economic Recommendation Framework**

Ways to mitigate, the survivalist type of gambling that happens in most informal-areas around South Africa, will be provided. Although recommendations are proposed the team recognises some of the required policy action goes beyond the mandate of the NGB, but looks where the sector as a whole can contribute.

The following action plan requires attention for the impact of the illegal gambling industry to be better controlled. The current picture is painted and used as basis for the developed recommended action plan to be achieved.

Awareness

Market and create awareness around responsible gambling and available programmes. Using posters, banners and billboards to advertise the NRGP at local community centres, taxi ranks etc.

Create educational roadshows in local communities. To educate them about the risks of illegal gambling, the likelihood of winning, importance of budgeting, indicators of problem gambling and the effect on young people.

Problem Gambling

Create an awareness campaign on problem gambling, its consequences and treatment options, which runs constantly on some form of media.

Youth Gambling

Create an initiative or incentive for regulated gambling facilities to absorb individuals from these communities into the formal economy, through job creation.

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