**Sally Gainsbury – When games becomes gambling**

>> Welcome to the podcast series of Raising the Bar Sydney. Raising the Bar in 2017 saw 20 University of Sydney academics take their research out of the lecture theatre and into bars across Sydney, all on one night. In this podcast, you'll hear Sally Gainsbury's talk. When Games Become Gambling. Enjoy the talk.

[ Applause ]

>> Thank you everyone for coming out on a Wednesday night. So tonight I'm here to talk to you about gambling and gaming. And these used to be pretty separate distinct activities but they're increasingly converging. And what I mean by convergence of gambling and gaming is that gaming companies are borrowing elements from gambling. And gambling companies are looking at how popular online and social games are, and they're taking aspects of these and gamifying existing and traditional gambling products that wouldn't necessarily be attractive to the millennial generation and a diverse group of consumers. Because Australians are a nation of gamblers, so we actually spend more money per person than any other country in the world. Australians spend about $990 per person per year. Now that's 40% more than the runner-up Singapore and about double the average of most Western countries around the world. But we're also a nation of gamers. So amongst the roughly 50 people here tonight, around 30 of you probably play some form of online or video or mobile game. Something that you do -- I see a few heads nodding. Potentially when you should be working, or doing other activities, or maybe even instead of sleeping, staying up a little bit too late. And these games are generally free to download and free to access. But they feature what are called in-app purchases, which means that you can pay to play, to progress further, to get extra lives, if you don't want to wait overnight. And people are paying to play these games. So one of the more popular versions of online games -- well you might have heard of it, Candy Crush? At the height of its popularity, Candy Crush was making $850,000 per day. Now that's enough to make the gambling companies start paying attention. Because I also speak at a lot of gambling conferences. And you might think well, if Australians are spending so much money, why would gambling companies be interested in changing up their product? It's already so successful? But, at the gambling conferences, there's been a common theme recently across the various sectors whether it's lottery or casino, poker machines, racing. The executives are all concerned that their products that are traditional really haven't changed much. And they're no longer appealing to the millennial generation, the generation that grew up playing skill games and arcade games, having competition and social aspects of their entertainment. And while casinos haven't really changed in the last 50 years, they're still meeting the needs of our parents and our grandparents, but no so much the X [inaudible] Generation. So let me tell you instead about the average gamer in Australia. Sue is 33 years old. She plays online games about three times a day but can easily play for over an hour. She might often play while she's at work, as a distraction, and often while she's doing something else like watching TV. And she plays these casual games. So what do I mean by a casual online game? Well, these are mobile apps that are generally free to download, and they have a huge variety because we're such a diverse consumer group now. So it might be solving word puzzles, farming virtual crops, lining gems up in the right row, or flinging virtual animals around with the catapults. And although they're free to download, they feature what's called in-app purchases. Now, in-app purchases have dramatically changed the mobile entertainment landscape. What it's allowed is for companies to have a longer financial discourse than you would in an upfront sale. So it used to be you'd go into a store and buy a game. There's a set price. Instead now, if we look at the recent trends, average expenditure across the lifetime of a single game player has actually increased by 59% in the last year alone. So Sue is now spending $324 on that online game. Now that's a price tag you probably haven't seen in the iTune Store. You might not pay that upfront. But when you monetize the player across the life of a game, they're spending more money than we've obviously seen previously for traditional games. And the secret source behind these in-app purchases is the countdown clock. Now this is essentially a frustration tax. That instead of waiting overnight for your virtual credits or virtual gems to replenish so you can play a game when you've run out of lives. Instead, you have this frustration and you can be offered for just a small amount to purchase more gems to progress higher in the leader board to unlock those extra levels. And, as I mentioned, people are playing. And when you have 290 million monthly customers, even when people are only playing $5 a time, that's a lot of money. And the gaming companies have actually borrowed an element from gambling here. So rather than hound people repeatedly to spend money within their games to make transactions, they do what gambling companies do. When you walk into a casino, you take your hard-earned cash and you exchange it for casino chips. Or when you open an online banking account, you put money in as a deposit and that way, when you're making your individual bets, either at a casino table or online, you've reduced the salience of that. You're spending money but it doesn't quite seem quite as real as if you were handing over cash every single time, and the game companies do the exact same thing. They sell you whole lots of virtual gems or virtual goals [phonetic] at really different value than you would for real money cash. So, instead of spending 99 cents, you can pay $10 and get 25,000 virtual gems. And that way, when you're [inaudible] them within the games, spending 100 gems here, a 100 gems there, it doesn't quite seem like you're spending real money despite the fact that you've actually paid for those. So how do the games become gambling? Well there's quite a few ways and some are less subtle than others. So, as I mentioned, there's a lot of people playing these online games, and one of the most popular and most profitable of all the mobile gaming genres are social casino games. Now social casino games look just like a gambling product, but they're free to play. So there might be a poker or a blackjack or roulette or a poker machine, and people can actually pay if they run out of virtual credits within the game. They can make these in-app purchases to continue to risk more or to progress further or unlock levels. And people are playing. And you have 290 million social casino players every month now spending money. So where does the gambling come in, though? Because these are free play and you can't actually get any money out of these, so they're not gambling products. But, in 2012, IGT, which is one of the world's largest manufacturers of poker machines -- IGT purchased DoubleDown Casino, an online social casino game, for $500 million. It astonished the market at the time. It's a free play game. What were they thinking? They're a gambling company. Until it started making a lot of money. And at one point, IGT was actually making more money from its free play DoubleDown Casino than from its real online gambling because online gambling's actually illegal in the US. But social casino games can be accessed by anyone. They're not regulated. So then other gambling companies started to buy social casino games until you have where we are now. Where a large proportion of that social casino game market, one of the most popular markets of all online games, is quite -- a large proportion of that is now owned by gambling companies. And when you're looking at the social casino game market that made $3.4 billion last year and is expected to reach $4.4 billion in 2017, it's starting to make a bit more sense. But even that amount of money, which is a lot for a free play game with no redemption value, why is gambling companies paying for these? Because it pales in comparison to where people are betting five dollars at a time as opposed to just betting five dollars a month. There's quite a lot of reasons, though, when you actually take a step back and look at what is it that gambling companies are doing? And this is where we get into what I'm talking about today, which is this idea of how to gamify gambling products. The concepts of addiction by design. What is it that game manufacturers and gambling manufacturers can start doing to design games and apps to get consumers hooked over time and to come back again and again to be enticing? So, if we think about Sue. Well Sue does gamble as well as play games. There is a crossover, common interests. Sue will go to a casino, but when she leaves the casino, the casino then loses track of her. They don't know what she's up to until she happens to come back again. But when Sue downloads the social casino game app on her phone, all of a sudden that app, that's now owned by a gambling company, is starting to provide a lot of information back to the company. So when Sue logs into her social casino game, she might do it using her Facebook account. Because let's face it, it's a lot easier just to remember one password than to go to the trouble of having to log into everything separately. And now that social casino game can talk to her Facebook accounts, and they can find out what she's watching on Netflix. Who she's friends with. What other things she's interested in. What she might be purchasing from their online marketplace. And that's a lot of information that social casino game company, that's owned by a real gambling company, now has about their consumers. Because designing a poker machine is actually pretty complicated. You have to come up with a design. Potentially buy a brand, if you want it branded on that favourite Netflix TV show that Sue likes to watch. You have to build the machine. Ship it out to a casino. Have it approved by regulators. And then see if anyone's actually going to use it or not. But, instead, if you can make a free play version, put it online and see if it's popular before you go to the trouble of making that real money version. And you can work out and do market testing. And while Sue's on social media, she can tell her friends about what she's doing within their game. And because the game has no real money value, the casino company doesn't mind how much she's won. In fact, the social casino games, although they look like real gambling products, have what's called an overinflated payout rate. Which means you're much more likely to win than you would in a real money casino. So now Sue's having fun because she's winning all the time. She's having these positive experience. She's hearing Beethoven's Symphony when she wins. And she's seen coins flying out of the screen despite the fact there's no actual money involved in this. And she's having all these positive associations with the brand. So the next time she walks into that casino and sees a slot machine that looks almost exactly like the one she's been playing online, and in some cases an exact replica because it's actually owned by the same company. She now transfers those positive experiences over to the gambling product. So we're starting to see how the gambling companies are using these gaming concepts to make their products more attractive to a group who might not previously have been interested in them. But what about these micro-transactions? Because all of these benefits that are coming to the social casino game -- and that's the before Sue even starts to pay to play. So, if we think about these consumers, they're paying one to five dollars, which is fine. But what about the people who are paying more than that? Because we know that sometimes online people do tend to get a bit carried away, purchase things they didn't really want or didn't really think about. Well the same thing happens with online games. So one social casino gaming executive announced at a conference I was at that the top paying player within that online game had paid $250,000 from a single player for a online goal that has no real world redemption value. And the game company knew exactly who that person was. And that's where things start to become a lot less fun. The games become more serious. Because we know Australians also have a large gambling problem. In fact, one percent of Australian adults have extreme gambling problems, and a further four percent have pretty serious problems related to their gambling. And for all of those 1.2 million Australians, around six other people are affected by their gambling. Whether it be their family, their friends, their colleagues. And online games are starting to become problematic as well. It certainly was for this individual. So my colleagues and I wanted to try and understand what is it about social casino games and are they linked to real money gambling? And we started by interviewing people. So we were asking people if every day Australians who play these social casino games what they were doing? Why were they interested in these? And we found that most people were playing for fun, for entertainment, which is fine. Some people were playing social casino games because they wanted to try out gambling but without risking any money. That sort of makes sense. The games do replicate gambling to a degree. But we also found that some people were playing social casino games to practice, to get better at gambling. Which makes a lot less sense, given that gambling by law is actually based on chance. And you can't really actually increase your skill in any way because it's a random game. But we found, for the more competitive gamers, the more competitive gamers were actually thinking that they could get better at this. And then they were thinking well, if I'm going to start paying, if I'm making these micro-transactions, I may as well actually be going to a real money gambling site so I have the possibility of winning. And some of the people we interviewed did appear to have problems related to these games. So unfortunately I did speak to one individual who had spent tens of thousands of dollars within these online free games that have no possibility of paying out any money. Because he fundamentally just really didn't understand that it was a game that didn't have any actual outcomes. He was trying to beat the game. And again, the company knew actually who this individual was. Because it comes back to the fact that these games, unlike gambling, which is one of the most heavily regulated industries in Australia, online games don't have any regulation. There's no one to stop the gaming companies from hooking people in with manipulative design. For changing the algorithms. So that once you've paid you actually progress a little bit less each time. Because you've obviously demonstrated you're a paying player and you're going to have the potential to pay more and more. So then we conducted some surveys. So we surveyed 561 Australians who play social casino games. And we found that 10% of these social casino game players said that the games had actually increased their real money gambling. Now these were distinct groups of individuals. They were younger. They were male. They were more likely to speak a language other than English. And they had mostly paid to play, and that did appear to be a tipping point. That once you've made micro-transactions within the game, you were more likely to increase your gambling as a result. And the people who were increasing their gambling, they were also more likely to be at risk in problem gamblers. And unfortunately we found the same thing amongst adolescents. So of the 561 adolescents we surveyed, 23% had played these social casino games because there are no age restrictions. There's nothing to stop children from accessing these gambling-themed games. And we found, though, instead of 10% of the adults, 28% of the adolescents said that their gambling had increased as a result of playing social casino games. And a full one-third said they actually expected to do better within their real money gambling. They felt they were more likely to win when they went into a casino because they'd had this practice. They developed these skills, which really is a poor reflection of their understanding of how gambling works. So now you have free gambling games that you can make payments in owned by gambling companies attracting a new group of consumers who are fundamentally misunderstanding how gambling products work. So take [inaudible] for gambling companies using that addiction by design, those gamified elements to draw in a new group of consumers who wouldn't previously necessarily be interested in their products.

>> You're listening to Raising the Bar Sydney 2017.

>> So what else could happen? So we wanted to look at what makes these games fun? What is it about apps that are so popular these days that we use so often? And there are whole teams of developers in Silicon Valley that are dedicated to creating apps that are sticky, that are addictive. They get you coming back again and again every day. But there's a number of common elements, for the most popular of these apps. The gamified concepts that have been so successful. They're easy to use but there's a level of competition of skill. That you can actually increase your progress within them so you feel a sense of achievement. There's a social aspect, and they provide a sense of oasis. A timeout from the daily grind, just to escape into whatever world of these that you prefer. They're habit-forming products. And that's what gets people coming back again and again. These ideas of making my life a little bit better in whatever way it is and being triggered by something that happens every day. Whether it be a negative emotion or a frustration. Something that can make your life a little bit better by using this app, in the short term, at least. When we think about in the land-based operators. So we think back to these executives that are wringing their hands, thinking but the millennials aren't interested in my product. How do I make these appealing when I've got all this regulation that means that by law the game has to be based on chance? And young people want to play things with skill element, with social elements, and competition. How do I put that within a gambling machine? And so let's have a look at those poker machines. So poker machines are actually pretty good habit-forming products in their own rights. And that's because they're based on what's called a random or an intermittent reinforcement schedule. Which means that every time you hit the button, you're never quite sure what's going to happen. And poker machines have lots of small wins over time, so they're fun and exciting. But the jackpots, that big prize, could literally be around the corner and you don't need any education or skill. You could be from any background. You could just walk off the street. It means that anyone could win, and that hope and that dream is what gets people to come back and play these machines and be willing to bet for the possibility of having that life-changing jackpot. And poker machines are successful at forming habits. Because although they're the fourth most popular form of gambling in Australia, they make up two-thirds of all gambling revenue. Poker machines are in every bar in every neighbourhood across the country, with the exception of Western Australia where they're only in casinos. And they're hands down the most problematic form of gambling that we have. Of those problem gamblers, the 1.2 million of them, around 70% have problems related to poker machines. But we know, again from our executives, that the millennials -- that younger generation, the increasingly diverse consumer population we have in Australia -- is they're not really coming into the casinos in the same way. And they're no longer playing traditional poker machines. Because let's face it, after you get a hang of pressing a few buttons, there's not much variation. There's not much skill that you can actually have on these games. So into the second example of how gambling companies are using gamified concepts to be attractive to a new group of consumers. The videogame gambling machine or VGM. Now VGMs are a brand new product that take the skill element of arcade and videogames and combine it with that random payout schedule of slot machines. Now these have various different themes. Again, to attract these diverse consumer group. They might be based on a traditional arcade game, like Frogger or Pacman. They might have word problems you can solve or remember that Candy Crush game? There's a VGM that looks an awful lot like that. They might allow you to shoot zombies or go into a league world where you can have a fantasy sword fight with some sort of superhero. They might allow you to shoot basketball hoops. And they look very different from your traditional poker machines. They might have a joystick or a videogame control. Or they might be flat on a tabletop so that four people can stand around and play altogether in the social aspects. They have leader boards. And these games are already legal and available in casinos, in Los Vegas and Atlantic City, in California and Connecticut. And just in August this year, over at the ICC in Darling Harbour, there were several gaming manufacturers that had displayed these VGMs for the Australian market. And they're now being considered by regulators. And I've actually spoken to several groups of regulators of gambling products. And they're trying to work out should we allow these games? What are the implications of allowing and legalising a videogame gambling machine that's specifically designed to bring new people into gambling and who wouldn't otherwise be involved in what we know can be a harmful product for some people? What are the implications of putting skill into a game that already is misunderstood? Because we know of those problem gamblers that have problems with the poker machines. That they really don't understand how they work. They don't understand the randomness. In fact, one of the first things we do in treatment with problem gamblers is we explain how gaming machines work. Because people think they have some sort of a behaviour they can perform or a strategy or a skill. Some level of superstition. That means that they're more likely to win than is accurate. So we sit people down and we actually explain to them how machines work. But now, if we're going to have machines on the casino floor that are telling people there is actually a level of skill you can have -- just not quite sure how much is skill and how much is chance -- then, where exactly that line is because it's become somewhat blurred. How do you then have a conversation with people who already have irrational thoughts about their level of control, their allusions of control? And what about the young people who already have problematic involvement potentially in online games and are more at risk of online gambling? And we're now introducing a product that's specifically designed to be attractive to this new generation. What are the implications for gambling problems going forward? So that's the second example of how gambling companies are taking gamified concepts and using them to make their products more appealing to a new generation of gamblers. So I [inaudible] a little bit later on a Wednesday night. You might have heard a few surprising things. You might be a little bit surprised or confused or angry or a little bit scared. But the reality is that there are whole teams of people out there who are designing apps and games and gambling products that are designed to be addictive. That are specifically designed to get people coming back again and again, to be psychologically rewarding and to be used compulsively. And we have to try and work out what are the features? What is it that makes these games be used again and again? And regulators are still playing catch-up. They're not quite sure what to do about these products. How do you classify a game that has virtual goals? It looks like gambling but there's no real money payout, but people are still putting money in. And where is the line in a gambling product that tells you how much is chance and how much is skill? How do you classify these products when the lines between them that were previously so distinct are now being blurred? And what are the ethics of the companies, these teams of people who are coming up with the apps and the games? How are they making their decisions? Is it based on a business decision? Is there going to be some regulatory oversight that requires online games? Which we know are problematic for some people. There are several examples of people paying tens if not hundreds of thousands of dollars within social casino games. Where are the requirements for businesses to intervene [inaudible] requirements for gambling companies? And do we so often need to think about as we do whenever there is new technology, do we need to think about the children? Well, in this case, maybe we do. Because we now have online games that are free to access to anyone of any age that are now teaching young people about gambling. But they're misinforming them. So young people are thinking they're likely to win. They're having a really positive experience. They're feeling that this is how gambling is if I start paying for real money. And there are plenty of gambling sites that will take money from someone without any age verification. Or when those people become of age, you can enter a casino, already with misinformed thoughts and irrational understanding of how games work. Are we setting ourselves up for a new generation of potential problem gamblers? Or problem gamers? But the takeaway lesson for tonight isn't all doom and gloom because you are now empowered consumers who've learnt something tonight. Because you have the knowledge and you have the ability to do what can defeat a predatory app, and it's pretty simple. It's called critical reasoning and judgement . And it's up to you as the consumer to start to question products. To critically appraise the features that you see within apps that you're reaching for and to think about why do I keep coming back to that? What is it about it? So the next time you're playing a game, or an app, and you feel a rush of adrenaline because you've just beat the clock. Or you feel a sense of satisfaction and achievement because you've progressed through a level. Or someone's liked something you've done through social media. Or you feel a sense of satisfaction because all of a sudden you're seeing gold flying out at you. And you're hearing Beethoven's Symphony, and all these really positive feelings and affirmations are giving you this endorsement that you really so desperately want. A timeout from your monotonous life otherwise. Or a timeout from work. Or just a break. Something to keep you going when you've got other more less exciting things to do. And you keep finding yourself opening that app day in and day out, even though you're not quite sure why you are. You're repeatedly drawn to it. You start to think about the design elements. And when you're feeling really frustrated because you've just progressed to the next level, and it's further than you've ever got within the game. But you're on your last life, and you have to wait overnight to get your credits and you're going to have to start from the beginning again. Unless you just pay a little amount right now. Just a small step. Then you can start thinking about how the games were designed and what are the elements that make that game so addictive? So compulsive. That keep you coming back time and time again. And when you go into a gambling venue and you see a new machine that has a leader boards and social aspects. No joystick. And you think that's pretty cool. That looks interesting. And you can start thinking about why that was designed as well and who it was designed for. And none of this is to say there's anything wrong with playing games or anything wrong with gambling, if you're an adult, provided that you're the one making the choice. That's you're in control, and you're not being manipulated or coerced or persuaded or nudged. That you're still in control. Because staying up a little bit late, having a guilty pleasure, a favourite game that, you know, you will admit to shamefully, that's fine. But when you start finding yourself not telling people about what you're doing. Or spending more time and money than you really can afford and hiding what you're doing. That's when you might need to start thinking about getting help. But what can you do tonight? You might be feeling a little bit guilty. Maybe you feel like opening up that game that you'd forgotten about. And now you can't wait to go home and see how far you're really are going to progress because what do I know? It's fun. But what can you do as that empowered consumer? We are now in an age where the consumer has more power than ever before. You have a voice. That social media that's so powerful that's being used by the companies to get in touch with each and every one of you, you can use that right back. If you see something, an aspect of a game that you don't think is appropriate, that you think is manipulative, you can share that with others. You can share it directly with the company via social media. You can write a blog. You can write a tweet. You can do a podcast. You can tell other people. And you can vote in the most powerful way possible. You can delete the app. And you can stop spending money. Because products are only successful if consumers use them. And you are that group. So I want to thank you very much for coming out on a Wednesday night. Lots of other talks going on. And I'm really pleased to be able to be here with you tonight and share a little bit of the research that I do, and my colleagues do, with you. And some of the insights that I've gained. And so, thank you all very much [inaudible] with me, and I'd be very happy to answer any questions.

[ Applause ]

>> Thanks for listening to the podcast series Raising the Bar Sydney. If you want to hear more, search for Raising the Bar Sydney on your podcast app. For more free talks and forums from the University of Sydney, as well as even more great ideas, visit www.sydney.edu.au/sydneyideas. Sydney Ideas brings leading thinkers from Australia and the world to the Sydney community. Thanks for listening and look out for Raising the Bar in 2018.