



Response to the Select Committee's Call for Evidence on the Social and Economic Impact of the 2005 Gambling Act

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Authors of Submission: Lulu Freemont, Policy Officer

Vicki Shotbolt, CEO

Introduction

Parent Zone is at the forefront of exploring new and emerging forms of gambling and gambling-like behaviours and the impact they can have on children, young people and families. As experts in digital family life, we welcome this timely call for evidence as an opportunity to highlight the ways children are gambling online and the need for policy reform. Our research shows that many children and young people are left unprotected by the existing 2005 Gambling Act.

Our response includes evidence from our 2018 report [‘Skin Gambling: Teenage Britain’s Secret Habit’](#), and our latest report [‘The Rip-Off Games: How the new business model of online gaming exploits children’](#). Both reports demonstrate the widespread phenomenon of children gambling via games.

Our work offers compelling evidence about the ways children gamble online via games - and are nudged to do so. We believe there is an urgent need to recognise that gambling with virtual currency is still gambling, and without updating the 2005 Gambling Act to reflect this digital reality, the Gambling Commission is not able to effectively regulate and children will continue to gamble on unlicensed sites.

The world has changed

Families accept gambling. Games of chance, seaside arcades and occasional flutters on national events are commonplace. According to the Gambling Commission, almost half (46%) of people over the age of 16 responding to their research had participated in gambling in the previous month.¹ Our longstanding relationship with gambling is complex, with families making their own judgements about what is acceptable and what is not. The 2005 Gambling Act provides the context in which they do so. It seeks to prevent gambling being a source of crime or disorder; to ensure that gambling operates in a fair and open way and protects children and other vulnerable people from being harmed or exploited. These aims remain as pertinent now as they were when the legislation was drafted.

However, a great deal has changed. The digital world has opened up new ways to gamble, some of which are particularly attractive to children and difficult for families to navigate. These new forms of gambling are often taking place on unregulated sites away from the scrutiny of both the regulator and parents. They have no age verification, they do not publish their odds and, were they to do so, there is no way for those odds to be verified. By hiding behind the defence of this activity using 'virtual in-game' currencies they continue to flourish and evolve.

Equally troubling is the fact that 46%² of UK children tell us that they could bypass age verification systems if they wanted to. Whilst many adult observers will argue that this is no more than bravado and youthful chutzpah, it would be foolish to imagine that almost half of the youth population is telling a mistruth.

It is in the context of this digital reality that we have no doubt that the primary aims of the 2005 Gambling Act are not being upheld. Children are being harmed and exploited; criminal activity is happening and new forms of gambling are not operating in a fair and open way.

A particular problem with virtual currency

At the centre of the current crisis with young people and gambling - particularly in gaming - is the fact that the Gambling Act does not acknowledge or define virtual currency as a currency. This, in turn, means that loot boxes are not recognised as a form of gambling and sites that facilitate skin gambling but do not allow 'cashing out' of skins are not regulated. The 'prize' element to gambling is defined to mean 'money or money's worth'.³ This sets the parameters in UK gambling law, with traditional cash money being the only form of currency and measure that can be considered money or money's worth, and therefore the only one that can be gambled. The Gambling Commission has aimed to clarify the legislation to account for virtual currency by stating that where virtual currencies 'can be exchanged for cash or traded for items of value, they are considered money or money's worth'.⁴

However, this position still remains within the realms of traditional markets, where cash is seen as representative of money or money's worth. This is inherently problematic because it does not reflect the reality of virtual currencies. These currencies - commonplace in gaming - exist

¹ [Gambling Participation in 2018 - Gambling Commission](#) p.3

² [Skin Gambling: Teenage Britain's Secret Habit - Parent Zone](#) p. 8

³ [Gambling Act 2005 \(c19\) Part 1 - Interpretation of Key Concepts](#) p.4

⁴ [Gambling Commission 'Gambling with digital and virtual currencies'](#).

as virtual items with significant tradable value and value to the owner. Virtual currencies as we more often think of them are also expanding. The world's largest social media platform - Facebook - recently introduced Libra, its own form of digital currency. We are seeing a transition into a world of virtual currency becoming as familiar to the next generation as Pounds, Dollars and Euros. It is when children and young people gamble with these new forms of currency that they do so without the protection of regulation and it is because regulators do not recognise their value that parents do not consider their risk.

Neither fair, nor open

Gambling and gambling-like behaviours in games are particularly problematic not simply because they allow children and young people to gamble online outside of the realms of existing law and beyond parental oversight, but because children often do not understand the consequences of their actions.⁵ The Gambling Commission has recognised this concern emphasising how, often, children find themselves “experiencing gambling in situations where the risks are not always explained”.⁶

Our latest report '[The Rip-Off Games: How the new business model of gaming exploits children](#)', looks at the ways in which children are financially exploited in gaming. It shows that more than 76% of those who play games believe that online video games try to make you spend as much money as possible, and 49% of those believe that the games are only fun when you do. One of the most common ways in which money is made is via loot boxes: mystery objects in virtual treasure chests opened in the hope of securing the desired object. Whilst the gaming industry argues that this is simply the digital equivalent of buying a Kinder Egg, it is disingenuous to dismiss it so lightly. Gamers spent approximately \$30 billion on loot boxes in 2018; this is predicted to rise to \$50 billion over the next five years - hardly comparable to the purchase of a chocolate egg.

The question of whether loot boxes are linked to problem gambling behaviour is vexed. David Zendle argues in his research that the link is 'neither small, nor trivial'.⁷ We suggest a precautionary approach that parents would understand and expect. Our position is that loot boxes are clearly 'gambling-like behaviour' albeit with virtual currencies. Whether they are leading to problem gambling behaviour may be contested but there can be little doubt that they are neither fair, nor open. They do not publish odds, there are often coercive techniques used to encourage purchase and they use multiple techniques to obfuscate real-world monetary value.

Criminal and disorderly

In 2018, Parent Zone investigated the phenomenon of skin gambling. We did so because a young person told us that it was commonplace in his school. We started our research in schools, working with teachers and young people to arrange discussion sessions to confirm

⁵[Gambling Commission 'Children are experiencing gambling without understanding the consequences'](#)

⁶ *ibid.*

⁷ Zendle D, Cairns P (2019) Correction: Video game loot boxes are linked to problem gambling: Results of a large-scale survey PLOS ONE 14 (3)
[\[https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0206767\]](https://journals.plos.org/plosone/article?id=10.1371/journal.pone.0206767)

whether it was indeed a widespread phenomenon. The schools we approached were all open to supporting our work, telling us that we could talk to their pupils whilst ensuring us that ‘gambling wasn’t an issue’ in their school. They were always proved wrong. We were shocked to discover that skin gambling - using virtual items to gamble on sites set up specifically for that purpose - was indeed commonplace.

We followed our qualitative research with quantitative research that showed that nearly a third of young people knew about skin gambling and **10% of children across the UK aged 13-18 had gambled skins in some form** amounting to **448,778 children**.⁸ The sites involved do not allow players to cash in their skins relying instead on a complicated ecosystem to sidestep the law. The casino games on these sites are high frequency and astonishingly compulsive. Gamblers can place a new bet as regularly as every 30 seconds. Whilst the gambling commission recognises skin gambling as a form of gambling this activity continues to flourish leaving Parent Zone - and the professionals and families we work with - wondering why this criminal activity is being allowed to continue.

The UK is lagging behind when it should be leading the way

Whilst there is no international consensus on newer manifestations of gambling, there is a lot to be learned from other jurisdictions, particularly the ones which already regulate loot boxes and have a broad definition of gambling which encompasses virtual currency.

The Netherlands has declared some loot boxes to be gambling, with the Dutch gaming authority finding that the content of loot boxes was determined by chance and crucially, the prizes could be traded outside of the game, meaning they have a market value.⁹ Despite not resolving the virtual currency issue with the market value being a crucial factor, under Dutch law, the onus of responsibility falls on the gaming industry with these games now needing a gambling license.

In Belgium, the Gaming Commission has decided that loot boxes are a form of gambling and subject to Belgian gambling laws. They have chosen not to focus on the “ability to convert virtual items and currency into real-world currency, and instead focus on the actual gambling aspects itself”.¹⁰ This largely aligns with our view - and the view of many young people - that gambling with virtual currency is exactly the same as any other form of gambling, and UK legislation should account for this.

Holding the gaming industry to account for the facilitation of skin gambling and loot boxes is our strongest ask of policy-makers.

⁸ [Skin Gambling: Teenage Britain’s Secret Habit - Parent Zone](#) p.5.

⁹ Eurogamer ‘The Netherlands declares some loot boxes are gambling’, 2018.
[\[https://www.eurogamer.net/articles/2018-04-19-the-netherlands-declares-some-loot-boxes-are-gambling\]](https://www.eurogamer.net/articles/2018-04-19-the-netherlands-declares-some-loot-boxes-are-gambling)

¹⁰ Alex Knoop ‘Loot Crates: Where the Difference Between ‘Gaming’ and ‘Gambling’ is Simply Two Letters’.

A woeful lack of public education and awareness

Legislation and regulation is vital. It provides the protections that families rely on to keep their children safe and lays the foundations from which social norms can grow. However, it is rarely enough. Children need to develop the skills and knowledge needed to navigate their own way through peer pressure and tempting risky behaviours and parents need to understand what they need to do to support them.

Our work with parents and young people, often reminds us of the enormous gap between parental perceptions of children's online activity and children's realities. This is never more evident than when we explore new forms of gambling. Parents and the professionals that work with children - including teachers - have almost no understanding of the ways in which children are gambling online and are particularly baffled by new gambling forms like skin gambling.

Recommendations

The Gambling Act should be updated to include the gambling of virtual currency including virtual items purchased or won in games. This would reflect the reality of how children and young people are using new forms of currency to gamble in a digital age. The Gambling Commission would be empowered to follow its normal licensing and age-verification procedures and parents would be nudged to look more closely at their child's online gambling like behaviours.

A significant investment is needed to educate parents, professionals and young people on the risks associated with new forms of gambling.

The UK needs an independent inquiry into whether loot boxes should come under gambling legislation. We should draw on the experiences of other countries to frame our own legislation and make good on the aims of the 2005 Gambling Act.