



The Gambling Research Center informs...

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Sports Betting: Monopoly or Concession System – Which Is Better for Society?

The answer to this question requires information on the market participants' behaviour and the expected sports betting market turnover.

What Is the Turnover on the Sports Betting Market?

Statistics on the German sports betting market turnover do not exist. The only known figures are provided by the national sports betting supplier ODDSET; about the turnover of foreign suppliers, nothing is known.

In the press and at hearings such as the CDU-/FDP hearing in Schleswig-Holstein on the new German State Treaty, reference is made to figures which are based on the data of the suppliers themselves. These figures were published by the market research institute Goldmedia.

In October 2010, Goldmedia published a study under the name of: „Update: The German Gaming and Gambling Market in 2015.” On page 14 of this study, Goldmedia mentions as estimated turnover the sum of 7.8 billion euro (online: 3.9 billion euro, betting offices 2.4 euro, black market 1.0 billion euro, ODDSET 0.24 billion euro, horse racing bets 0.25 billion euro). This estimate is based on the data given by the sports betting suppliers.

There is an alternative procedure for calculating the turnover on the sports betting market, which consists in questioning the sports bettors themselves.

Turnover on Sports Betting Market on the Basis of a Representative Population Survey

According to a representative population survey, 3.8 percent of the German population (aged between 16 and 65 years) have placed a sporting bet (including horse racing bets) during the last 12 months (Federal Center for Health Education: *Glücksspielverhalten in Deutschland 2007 und 2009. Ergebnisse aus zwei repräsentativen Bevölkerungsbefragungen*, p. 29). Given a total population of 51.6 million German citizens (aged 16 to 65; source: Federal Statistical

Office Germany: *Statistisches Jahrbuch 2010*, p. 42), this number corresponds to 1.96 million citizens.

The Federal Center for Health Education also has data on the respective sports bettors' expenditures. Unfortunately, the Center has not agreed to publishing or making these data available on request. Hence, the only possibility left is to work out these data in a different way.

In bwin's Annual Report, it is stated that 1.754 million sports bettors make active use of the company's services (Annual Report 2009, p. 29). In the field of sports betting, bwin's gross gaming revenues amount to 226.307 euro (Annual Report 2009, p. 3), which implies an annual gross gaming revenue of 129,02 euro per "active sports bettor." Taking into account a margin of 7.4 percent (comp. Annual Report 2009, p. 3), the "active sports bettor" averagely should invest 1.743,51 euro per year.

If each German citizen was an „active sports bettor“ and invested 1.743,51 euro each year, this would amount to 3.417 billion euro.

This number is likely to be higher than the actual turnover, because one can assume that German citizens who have placed sporting bets during the last twelve months have on average invested much less than bwin's "active sports bettors." On the other hand, it should be considered that a sports bettor may place bets with more than one supplier. This effect might however have little impact if compared to the first. The number of 3.4 billion euro can thus be seen as the upper limit for the actual turnover.

Numbers Make Politics

In the meantime, the figures provided by Goldmedia even form the basis for other research work. To give an example, Deloitte und Touche, an auditing company, have used their figures to formulate various scenarios which predict the expected state revenues (*Studie zum deutschen Sportwettenmarkt*, September 8th). The company's study compares the state revenues in case a) the sports betting monopoly will be maintained in its present form and b) a concession system will be introduced (tax base: revenue or gross profit). The study does not consider a scenario which combines a state monopoly with an internet-based offer.

The decision on whether a concession system for sporting bets will be introduced is essentially a political one. In any case, the level of revenue significantly depends on the actual turnover: If the turnover is overestimated, the actual revenues will be lower than expected.

If the state monopoly is maintained, the government revenue will significantly depend on whether the state is also allowed to supply an internet-based offer. If there is such an offer, the state revenue can be reckoned to be substantially higher with a state monopoly than with a concession system.

Politics should not base decisions on invalid figures or unrealistic scenarios. The German sports betting market might have a maximum turnover of 3.4 billion euro, not 7.8 billion euro. Whenever scenarios on the expected revenues from a concession system are developed, this fact should be considered, and the sum will be reduced by the half.

Monopoly or Concession System?

If the state is allowed to supply an offer on the internet, the state revenue can be reckoned to be much higher than with the available scenarios mentioned above. The more attractive the state offer, the higher the expected state revenue. And the stricter the measures taken against foreign suppliers, the higher the market share of the state supplier and thus the revenues will be.

Besides, it should be considered that, should a concession system come into existence which meets the demands of player protection, and is fiscally controlled by the state – as is the case in France or Italy – new institutions must be created. In France and Italy, all payments made by players can be controlled by the supervisory authorities; and the player accounts are controlled too. Substantial cost is involved because the necessary IT-infrastructure must be provided for. The costs for control and supervising must also be considered.

In the end, government action should not be motivated by revenues themselves, but rather by motives of social welfare. A concession system could also lead to a higher number of pathological gamblers, and thus, the corresponding costs should also be taken account of.

On the other hand, the present situation – an unregulated market for sporting bets – is certainly not sustainable for long. Legal requirements and / or prohibitions that most people do not respect should be reconsidered.

Thus, there is no general answer to the question which alternative – monopoly of concession system – should be preferred from a social welfare point of view. The way in which the various scenarios are put into practice is of vital importance for deciding whether a monopoly or a concession system should be preferred.

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