

Socially Responsible Investment Gambling Companies Position Paper



Gambling Companies

What is our view on Gambling Companies?

A key aspect of our Socially Responsible Investment (SRI) philosophy is to encourage all companies to strive towards sustainability and high levels of corporate social responsibility. There is a focus on those industries that are addressing the challenges and opportunities of sustainability. There is also a focus on providing a good financial return and so for our SRI funds to invest in a company it needs to be confident that the social and financial returns are acceptable. In some cases, the social and/or environmental costs may mean that we will decide not to invest in certain sectors or industries.

Tobacco, gambling and alcohol are three industries in which many social responsible or ethical investment funds do not invest. For many of those who set up the first ethical funds, eg. the Quakers, the reason for not investing in these industries was based on their moral beliefs.

The AMP Capital Sustainable Funds Team acknowledge that some investors' concerns towards gambling, alcohol and tobacco continue to be based on moral grounds. However, the fund also recognises that many individuals responsibly consume products produced by these industries.

The majority of Australians, approximately 55%, believe that the social issues associated with gambling, alcohol and tobacco are "very important" or "quite important"¹. Sustainable Funds Team shares this view and in particular we are concerned about the extent and distribution of the social costs associated with these industries.

This position paper outlines the basis for the Team's views on our investment in gambling companies, by outlining what we see as the main social costs and benefits of the industry. The paper also outlines under what circumstances we might invest in a company involved in a gambling industry. In summary, our AMP Capital SRI funds require a company to demonstrate a high level of corporate social responsibility, or a "non-material" interest in the industry, before we will consider investing in it.

At present, the Team has not identified a gambling company that meets our corporate social responsibility criteria.

What are the issues with gambling?

In 1999, the Australian Federal Government undertook a Productivity Commission report² into gambling. The following summarises some of the key findings of the Commission and other recent research:

Characteristics and Social Benefits of Gambling in Australia

- 82% of adult Australians engaged in gambling in 1997/98, with 40% of adults described as 'regular' gamblers (gamble at least once a week);
- Gambling venues, such as clubs and casinos, can provide an accessible, comfortable, and safe social environment, especially for women, elderly people and ethnic groups;
- 38% of gamblers state that social reasons were a motivation for gambling, with 13% motivated by the atmosphere/excitement;
- Over 7,000 businesses provide gambling services;
- 37,000 people are employed in businesses where the predominant activity is gambling;
- In 2002/2003 financial year, Government revenue from gambling topped \$3.9 billion, a rise of about \$150 million from the previous year³.
- Gambling taxation revenue accounts for just under 12% of State and Territory government's own-tax revenue, or \$4.4 billion in 1999/2000;
- Excluding tax, gambling expenditure was approximately \$8.9 billion in 1999/2000. (This is not the incremental benefit to the Australian economy as expenditure by gamblers, and the associated positive employment and activity, would have been obtained through expenditure in other activities. Approximately \$500 million was lost by overseas visitors);
- An estimate of the other social benefits of gambling, including intangible benefits to recreational gamblers, less loss for problem gamblers, and tax revenue is between \$4.4bn to \$6.1bn.

Social Costs of Gambling

- Australians wagered \$128.3 billion - \$8,571 per adult in the 2003/2004 financial year and are losing more than \$15.3 billion - an average of \$1,026 per person aged 18 or over and equates to 3.41 per cent of the average household disposable income .

- On a per capita basis, Australia has five times as many gaming machines as the US and Australians spend twice as much per capita than those in Europe or the US;
- While 81-92% of the Australian adult population gamble⁴, 10% of gamblers account for 70% of total expenditure;
- 2.1 % of Australian adults are classified as problem gamblers and it is estimated that “problem gamblers” account for around one-third of total expenditure on gambling in Australia. The annual loss for a problem gambler is \$12,200/yr representing, on average, 20% of household income;
- Incidence of gambling related problems in Australia is considerably higher in the lower socio-economic groups and in younger people, attracting similar number of men and women⁴.
- The incidence of problem gambling is highest for electronic gaming machines and racing, where 43% and 33% of expenditure comes from problem gamblers;
- Problem gambling is likely to commence at an early age (ie 10 years old) and is usually reinforced by family history of gambling⁴.
- For every problem gambler, 5-10 other people can be directly affected, to varying degrees, by the behaviour of the problem gambler, with about 250,000 adults are estimated to have experienced significant harmful effects from gambling during 1999.
- 1 in 10 people with gambling problems reported that they had contemplated suicide In Victoria. Problem gambling contributes to impoverishment, homelessness, psychological problems including stress, loss of trust and depression, relationship breakdown and violence in the home⁵.
- Problem gambling leads to increased crime in the community. In 2001, based on court records, people with gambling problems were convicted of stealing more than \$11.7million in Victoria alone. Also, gamblers with large debts may be committing up to 20% of white-collar crime⁶.
- Gaming machines are more densely located in lower income areas. This can serve to concentrate the social costs in communities that are less able to bear them.
- Estimated total social costs of gambling range between \$1.8bn and \$5.6bn. The range in estimated costs is a result of differences in placing monetary

value to the main intangible social costs, such as distress to family and parents, break-up of relationships and depression and suicide.

Conclusions on Gambling

Gambling provides a form of entertainment for a large number of Australians, is a significant contributor to the economy but also places a great deal of financial distress and personal ruin for a significant minority of gamblers. A simple comparison of estimated costs and benefits of gambling indicates that gambling may have a net social benefit. However, there is a need for caution in using this simple comparison as a basis for SRI investment. There is a need to consider equity and efficiency issues associated with the distribution of respective costs and benefits and the disproportionate contribution of certain forms of gambling, such as electronic gaming machines, to the social costs.

Community attitudes reflect the doubts about the merits of the net social benefit of gambling, with 70% of Australians considering that gambling does more harm than good and only 30% believing that gambling has provided more opportunities for recreational enjoyment.

For us to potentially consider investing in a gambling company we need to be confident that there is a clear net social benefit, which would require a significant improvement above the current levels of corporate social responsibility demonstrated by the industry. The characteristics we will look for in a responsible gambling company are:

- A marketing focus on entertainment and leisure rather than gambling;
- Compliance with relevant industry Codes of Practice;
- Have responsible advertising and promotion, including risk warnings on advertising;
- Communicate information on the odds of losing;
- Have appropriate harm prevention strategies, such as limit the access to ATMs and credit facilities, limiting cash payouts for large winnings, and spending controls;
- Have established intervention procedures;
- Provide significant support social impact initiatives associated with problem gambling; and
- Have prepared a verified social report.

Gambling Companies

Impact on Investment Decisions

For our Sustainable Future Funds we are looking for companies that are providing a clear social benefit (and strong financial performance). As many gambling companies do not provide a clear social benefit, the Team avoids the gambling industry. In particular, we will not invest in companies that:

- are primarily involved in those areas of gambling associated with high social costs, ie electronic gaming machines, betting or on-line gambling; and
- rely on a strategy that focuses on lower socio-economic groups.

While the gambling industry have significant social costs, the fund may invest in companies, which have a material interest in gambling, if they excel in demonstrating corporate social responsibility. The characteristics of excellent corporate social responsibility we are looking for depend, to some extent, on the nature of the involvement, eg manufacture or retailing, and are discussed above. For those who cannot demonstrate excellent corporate social responsibility, our policy is not to invest in a company that has more than a 10% material interest in one of these industries (measured by a relevant indicator such as investment or sales).

There are a large number of companies that are involved in gambling but whose interest may not be considered material. To assess if a company is considered

“unacceptable”, the AMP Capital Sustainable Funds Team makes a judgement on “materiality” and “level of management responsibility” in each situation.

For example, we regard **development** of electronic gambling machines as more material than the **sale** of lottery tickets by a diversified retailer or a **loan** by a financial institution to such a company within a diversified loan portfolio.

In practice, we have yet to identify a gambling company demonstrating the required level of corporate social responsibility. Therefore, we maintain our negative investment screen for gambling for Australian, Balanced and International Sustainable Future Funds and currently do not invest in a company where gambling constitutes more than 10% of the company’s business.

Endnotes

- 1 “Socially Responsible Investment - Your Questions answered, An information guide for superannuation trustees and fund managers”, <http://www.deh.gov.au/industry/finance/publications/pubs/respon-investment.pdf>
- 2 Productivity Commission 1999, Australia’s Gambling Industries, Report No. 10, AusInfo, Canberra.
Or <http://www.pc.gov.au/inquiry/gambling/finalreport/>
- 3 Sydney Morning Herald 08/07/2004 “Aussie Gambling Passion Grows”
- 4 Report commissioned for Tattersalls by Barrington Centre October 2002
- 5 Uniting Church, Victorian Synod, “It’s a Risky Business: The Impact of Gambling in Families in Victoria”, June 2002
- 6 Alternative Law Journal Vol 27, No 6, December 2002 “Who’s the Addict? – Achieving pokie reform in Victoria” by Paul Ronalds

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