

'EXCHANGE' RATES A CHANCE

A fight is brewing in California over AB2414, a bill currently before the state's legislature that would, among other things, bump up the percentage of takeout on certain exotic bets.



Stephen Burn

More significantly, AB2414 could pave the way for a new type of wagering platform in the U.S.: exchange wagering. Made popular in Great Britain and Australia by operations like Betfair, exchange wagering is a system in which bettors can wagering against each other on things like which horse will win--or even lose--a race

(*click [here](#) for a detailed description of betting exchanges*).

The California Horse Racing Board (CHRB), Thoroughbred Owners of California (TOC), and California Thoroughbred Breeders Association (CTBA) all support the bill. But the measure has its opponents, too. Magna Entertainment, which owns Santa Anita Park and Golden Gate Fields, as well as the advanced deposit wagering (ADW) service XpressBet, and Churchill Downs, Inc., which owns the ADW TwinSpires.com, have come out against it.

One company keeping a close eye on the proceedings is Betfair, which established a presence in the U.S. when it purchased TVG, the television network and ADW, in January of 2009 for \$50 million. Earlier this week, the *TDN's* Lucas Marquardt sat down to a phone interview with Stephen Burn, director of Horse Racing at Betfair and CEO of TVG, to talk about AB2414, funding purses through exchange wagering, and his personal feelings on racing.

This bill has caused a good deal of controversy in recent days, including a strong denouncement by Magna and Churchill Downs.

I think it's important to keep in mind that this is a consensus bill, first and foremost. There's been a lot of work put into by an awful lot of people, starting a significant time ago. And there's really only one organization that has any kind of California base at all that is objecting to the bill as it currently stands, and that's Magna. The only other opponent that I'm aware of is Churchill Downs.

Magna, throughout the process, have been involved in helping to draft the bill, and have seen earlier versions to it and various amendments to it since probably April, I think, when they were first circulated. So it feels a little scurrilous and disingenuous to try and suggest something's being crafted at the last minute.

All the bill is, AB2414, is an enabler for a betting exchange to be brought into California at such a time when the racing establishment and the operator can come together and agree on the particulars. It doesn't matter if the legislature authorizes a betting exchange; nothing can happen if the CHRB isn't comfortable with the rules and regulations, without the owners agreeing to terms that suit them, without the track operators or fairs agreeing to terms. Lots of factions in the industry will have to come together subsequently on the commercial and regulatory model.

The thing is, if Magna doesn't want this at their tracks, they never have to have it. Not only do they have a full veto on their own tracks, but they could stop exchange betting in the state when their track is operating. There are a number of safeguards built in. Their main motivation is to secure their business model as much as possible. I don't blame them for it, and we certainly understand what they're doing--I just wish they were being honest about what they're doing. Churchill just paid a significant amount of money for YouBet, and they have TwinSpires, and that's the main competitor to TVG's ADW business. And obviously Magna has ExpressBet.

Can you talk about Betfair's roll in helping put it together?

We've been working on what became AB2414 probably since February with the California racing establishment. We were invited to participate. I happened to be at a meeting in Sacramento in February; initially I went as an observer. But one of the people suggested a betting exchange might be a good idea. In fact, the first person to speak and propose a betting exchange in California was Ron Charles, who at the time was the president of Santa Anita and the representative of Magna on the ground. So the idea of a betting exchange didn't come from anyone at Betfair or TVG at that meeting in Sacramento, it came from Ron Charles, who was the first person to articulate it as an interesting idea.

It was just one of several ideas thrown out there. There were ideas about slots, or variants on slots or a casino game, that were always going to be non-starters because there were too many people that would object to that. Over the course of the spring and early summer, different factions of the racing industry talked about what they'd like to see happen.

I think it was primarily the CHRB and TOC that nurtured these through the various bits of the process. All through, the only involvement we had, really, was two-fold.

We were approached two months ago or so and asked what our position would be if there's a price hike (increase in takeout on wagering)--if they were to put up exotics by two or three percent--what percentage would TVG be looking for for its ADW business. And I made it absolutely clear that if the motivation for putting up the price for consumers was to redirect that money to purses, that all of the money that was being leveraged from consumers should go directly to purses. I couldn't speak for the rest of the ADW businesses, but TVG wouldn't be looking to take any slice out of that action at all.

On the betting exchange side, it's something we've obviously worked on independently for a considerable amount of time within different states at different times. In this instance, we worked very closely with the racing establishment to try and craft something the industry could feel comfortable with and confident about.

One of the biggest concerns in the U.S. about exchange wagering is how tracks and horsemen will be compensated. How does it work in Britain, for instance?

In Britain, we're obliged to pay 10 percent of our revenues to British racing. That's by statute. It's not unique to Betfair--we pay the same as all the rest of the horse racing betting industry there. But we go a little further than all of the rest of the betting industry in the UK. We're the only major UK betting company that voluntarily that pays its international revenues that are struck on bets on British horse racing back into the sport directly.

We also put money back into racing. We're the second biggest sponsor of the sport in Britain. The Tote--the state-owned pari-mutuel business that has a monopoly and is obliged to put all there profits back into the sport--is the biggest sponsor of UK racing, and we're the next biggest sponsor. We sponsor things like the G1 King George V S. at Royal Ascot, and in a two-year period every single race track in Britain, because we have a grassroots commitment to racing. And we want to do the right thing by the sport.

We own a racing club and have a string of race horses that our customers get to have a stake in. We try to find imaginative and creative ways to boost the brand, but also to support racing.

We want to find the optimal pricing model that works for the sport, for the horse owners, ultimately the breeder, so that the right money goes back into purses or wherever it's required in order to help the sport prosper. Because without a healthy sport, we don't have a business. But also, crucially, we need to make sure something is competitively priced for the customer, the bettor. In the U.S., we're are probably only talking about the win wagers. We're not talking about cannibalizing the Pick 6 pools or whatever. It's a model that works on the win, place and show markets. It's not very good going into other markets beyond that.

Perhaps from a lack of understanding, some here in the U.S. look at exchange wagering as something that could attract an undesirable element to the windows.

Betfair is particularly proud of its audit trail. We've been pioneers in the world on trying to shine a spotlight on nefarious activities in the horse racing industry, or indeed in any other sports betting industry. It is absolutely paramount to us that cheats aren't allowed to prosper, so we developed something call the Bet Monitor with British Racing, and we give access to the regulators to our trading when they have any concerns about betting patterns. There is a full and explicit audit trail, and that data can be shared with them.

Ironically, on the integrity side, it's the sort of thing I want to bring to more pari-mutuel wagering in the U.S. I have some concerns about the origin of money that are being put into tote pools. For instance, there's no audit trail right now. Anyone could effectively walk about to a track window with \$100,000 in cash, and no one is going to ask where that money came from. We take issues like fraud and money laundering incredibly seriously. We welcome regulation, because we think, ultimately, customers get a degree of comfort when that happens.

Parting thoughts?

Honestly, passionately, looking you in the eye over a telephone, I'm a horse bettor and an owner of very bad horses. I've kept them going for a very long time and they're absolutely hopeless, but I do it enthusiastically and I completely love it. And I don't ever want to be in a situation where I do things underhandedly with racing. I want to do something for the long-term good of the sport. This is not a silver bullet. It's not going to cure or kill or fix all the problems that we have in the U.S. and elsewhere, but it is potentially an exciting tool that I think is worth a shot. It might just galvanize people and give them the same buzz about racing that I get every time I go to the track by offering the kind of product and innovation that younger people seem to be attracted by. It was a real sense of excitement to it, and I think we have a proven track record in markets where we've operated, and not cannibalizing the "old-fashioned" betting products. The UK totes sitting alongside us have grown 54 percent since Betfair came along, and that was an ailing, dying business.



Visit the [TDN Q&A archive](#) for a series of in-depth one-on-one interviews with interesting figures in the industry.