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EXCHANGE WAGERING: QUESTIONS AND ANSWERS

At last, exchange wagering, a wildly successful concept in Europe and elsewhere, is on its way to the U.S. Governor Chris Christie signed a bill earlier this week that, among other things, authorized exchange betting in New Jersey. Once exchange wagering begins in the Garden State, which could happen as soon as the beginning of the 2011 meet at Monmouth Park, New Jersey will be the first state in country to have exchange wagering. What is exchange wagering and what might its advent mean to the racing industry? Here's a look at the questions, issues and answers:

What is Exchange Wagering? Exchange wagering is the generic term for a system of betting where bets or betting propositions are matched among customers, much like eBay matches buyers and sellers. For instance, a customer might offer to book \$100 worth of win wagers on Zenyatta at 2-1 in the Breeders' Cup Classic. If another customer is willing to bet on her at the price, the two bets are matched. The bettor does not have to wager the entire \$100. He or she can bet any amount up to \$100. Once bets are matched, the betting exchange takes a commission; currently Betfair charges the winning bettor anywhere from 2 to 5 percent of their winnings.

What is Betfair? Launched in 2000, Betfair is the dominant player in the world of exchange wagering. Several imitators have come along, but none have come close to matching Betfair's might in terms of the amounts wagered. Betfair claims to have over 3 million customers and total handle of more than \$80 million per week. Betfair is also the owner of TVG.

What are the Next Steps? The bill has authorized the New Jersey Sports and Exposition Authority to establish an exchange wagering program. The NJSEA must now decide who gets the contract to run exchange wagering.

Will Betfair Ultimately Run New Jersey's Betting Exchange? Probably, but not definitely. "At this moment in time, Betfair has the lead on everyone else because they are the ones who are most established and they have already been looking into New Jersey, but it could be anybody," said Tom Luchento, President Standardbred Owners Association of New Jersey.

The NJSEA could create its own betting exchange or contract with a firm other than Betfair. But Creating a betting exchange is very expensive and the NJSEA doesn't have the money to start its own operation and probably doesn't have the expertise itself.

"It could be the state itself (that runs exchange wagering)," said Leo McNamara, Executive Administrator of the Standardbred Owners Association of New Jersey. "The license goes to the Sports Authority and then they can hire a subcontractor to do it. A computer company could come along and build a site. They may not do it as well as Betfair and there are certain built-in advantages to having Betfair, but the Sports Authority could choose to run it themselves."

The NJSEA could also go with BETDAQ or any one of a number of Betfair's competitors, but the disadvantage currently is that the pools are far smaller. For example, in yesterday's 8th race at Gulfstream, BETDAQ, the second-biggest betting exchange in the world based on handle, handled \$2,202, while Betfair handled \$25,778 on the race.

Betfair, which has long been looking to get into the U.S. market, has made it clear that it wants to run the New Jersey betting exchange.

Can You Bet a Horse to Lose on a Betting Exchange? Does That Encourage Race Fixing? Yes and no. Many betting exchange customers prefer to book bets on horses rather than betting on them to win. From the example above, the person who offered to take bets on Zenyatta at 2-1 clearly had an opinion that she would lose the Breeders' Cup Classic. Because he was right, they profited.

There have been cases where races in Europe have come into question because of suspicious betting activity on Betfair. But Betfair polices its exchange diligently and always alerts authorities when something doesn't pass the smell test. Betfair argues that it has worked so hard to ferret out the cheats that it has actually made the game more honest.

Betfair Takes Wagering on All Sorts of Things, Including the NFL. Will U.S. Customers Be Allowed to Bet on More Than Racing? No

Can New Jersey Exchange Wagering Customers Bet on Non-New Jersey Races? Yes. A customer will be able to bet on any track that the NJSEA tracks accepting simulcast wagering on.

What's In It For Racing? Betfair, or whoever comes in, will have to negotiate with the NJSEA and the Thoroughbred and Standardbred horsemen and will have to come to some sort of agreement with all those groups before exchange wagering can begin. The bill doesn't stipulate any type of fees. All it says is that the process is legal. For the betting exchange to actually operate, the operator, the track and the horsemen are going to have to agree on the fees before anything can happen.

The exchange will have to make a monetary contribution to the tracks and to the purse accounts that everyone can agree on. Keep in mind, however, that since Betfair charges the customers so much less than what is the traditional takeout rate at American racetracks, the percentage that goes to the industry will have to be a lot less than what horsemen are used to. That said, Betfair argues that because this is a new type of betting, it has been proven to bring in new handle and revenue where it has been launched. Betfair and other betting exchanges say that they are bringing new customers to racing, and therefore creating handle that doesn't exist.

Betfair has often been criticized for how little it contributes to purse accounts in Europe. Its management appears to understand that the contribution it makes to American racing will have to be significantly more than it is overseas.

"There is no point having a product out there unless it's something the consumer wants," said TVG's CEO Stephen Burn. "At the same time, it has to be something that is viable to the racing industry, whereby we find the right funding level to ensure the maximum amount of money goes back to racing. But it cannot be so much that it compromises the customer experience. We have to find a balance."

How Can Betfair, Which Charges Such Small Commissions in Europe, Afford to Make a Serious Contribution to Purses? By charging New Jersey customers more than it charges non-U.S. customers. "What we would charge in the U.S. would be higher than what we charge elsewhere," Burn said. "But there's a caveat to that. I would propose that Betfair as the operator would give rebates to its best customers. But the takeout here would be higher here than it is in the rest of the world, and that's so racing can get a fair share. This may not be the figure, but let's pretend the commission is 10 percent. Then we might give half that back to a good customer so that they are in fact only paying five percent."

In the Short Term, Will This Have an Big Impact on Purses? Probably not, at least early on. New Jersey is a big state, but there aren't enough horseplayers there for the initial betting activity to be substantial. And as popular as Betfair is, these sort of things usually take time to catch on.

"I'm not very excited about it," said John Forbes, the head of the New Jersey Thoroughbred Horsemen's Association. "I guess if the customers really like it they will bet and we will get some money for purses. We just don't know much about it so far as far as what the handle will be and what their contribution to purses will be."

Will New Jerseyans Be Betting With and Against People From All Over the World? No, at least not initially, and that is a problem. One of the reasons Betfair has been so successful is because it has plenty of liquidity. Want to bet \$5,000 on a horse? That's usually not a problem.

Because only registered account holders of njbets.com can bet against each other, the pools figure to be small, which discourages betting. It would be advantageous if New Jerseyans could participate in world-wide betting exchanges, no matter the exchange company.

When Might Customers in Other States Be Allowed to Bet with Betfair or Other Betting Exchanges? Soon. Exchange wagering will become legal in California on May 1, 2012. With the prospect of signing up thousands of additional customers in California, a U.S.-based betting exchange can begin to accumulate the type of betting activity that will allow big bettors to make a wager. The hope is that other states will see how successful betting exchanges have been in Jersey and California and quickly come on board.

Won't A Betting Exchange Simply Cannibalize Existing Betting? Betfair argues that that does not happen and there is no evidence to support that it damages traditional handle. Rather, they say, it creates new customers.

"We want to attract people back to the sport that have left it or keep people in the sport longer and stop them from having their money taken out at such a rapid rate," Burn said. "I have never seen anyone provide any data to back up the idea that we cannibalize other betting."