

TDNA & A

Betfair is the greatest success story in the history of gambling. A betting exchange based in the United Kingdom, it was launched in 2000 and, fewer than nine years later, it has more than 2 million customers and handles in excess of 50 million pounds per week. The website businessinsider.com estimates that Betfair had \$500 million in revenue in 2008, and that the company is worth \$5 billion.

Betfair is the pioneer in the field of betting exchanges. In a betting exchange, customers bet against one another. In horse racing, for example, a customer posts odds on a horse and the amount of money he or she is willing to accept in wagers on that horse. If another customer wants to bet the horse at the posted price, the bets are matched, much as buyers and sellers are matched in traditional stock markets. Betfair accepts wagering on a number of sports and events, everything from horse racing, soccer games, and political elections to whether or not it will snow on Christmas Day in London.

Betfair takes a commission of 2 to 5 percent on all winning wagers.

While Betfair takes betting on American racetracks, it is wary of American laws covering wagering and the Internet, and does not accept customers residing inside the U.S. However, the company has made no secret of its intentions to expand into the U.S. market. Betfair took a step in that direction with its recent purchase of TVG, a racing television channel and advance deposit wagering company, which it bought for \$50 million.

Currently, Betfair is exploring additional steps it can take to eventually allow U.S. customers to wager through the betting exchange format. But how committed is Betfair to entering the U.S. market, and what is its plan of attack?

Will it compensate U.S. tracks for putting on a product on which it takes wagering? So far, it has not done so.

Recently, Greg Nichols, Betfair's managing director of sporting affairs, sat down with the Thoroughbred Daily News to answer those questions and many others. Nichols politely declined to answer some questions, but his comments shed a great deal of light on Betfair's U.S. plans.

Nichols, 50, is a native of Australia who has spent his professional career in horse racing. Prior to joining Betfair, Nichols was the chief executive officer of the British Horse Racing Board. Before that, he was the general manager of Racing Victoria in his native Australia. Nichols's duties at Betfair include efforts to expand the Betfair brand beyond Great Britain and into untapped markets, such as the U.S.

Q: Betfair recently made headlines in the U.S. with its purchase of TVG. What attracted Betfair to TVG, and why did the company feel it was a good acquisition?

A: I believe TVG produces the best racing television in the world, better than Racing UK or attheraces, better than the Australian product. From the standpoint of production values, I think they are very much at the forefront. TVG is a successful company that we intend to make into something highly successful. TVG is the largest ADW player in the market.



Greg Nichols

Getty Images

Q: In some respects, was the purchase of TVG related to Betfair's desire to get a foot in the door when it comes to American racing and the American racing industry?

A: Relying on a traditional method of getting a betting exchange into the U.S. would have been a very exhaustive process. This gives us an opportunity to work with the industry, show our credentials, show our legitimacy, show our integrity and introduce a level of security and integrity to betting that is certainly not evident to me in this country or anywhere else in the world. I think that we represent the pantheon of betting integrity. The business itself was an attractive proposition. The company internationally has a view that if there are possible acquisitions out there, then we will look at them and look at them very vigorously. Ultimately, we believe a betting exchange will come into the U.S., and I think it's fair to say that establishing our credibility is a number one priority. People will see a company that is prepared to share information, share market research and work with people to allow them to accomplish their goals, which in the main are contiguous with ours. We will work with the industry rather than being seen as a rapacious group of people not interested in horse racing. Certainly, the people we have already forged strong relationships with have a different perspective with us compared to people who are unaccustomed to dealing with us. That is an important element--we are warm and fuzzy, a hands-on type of organization and wherever we go we want to, not necessarily be loved, but to be known to be accountable and open.

Q: Because Betfair allows customers to book bets on horses--essentially betting them to lose--there are those who feel it encourages chicanery. Your critics argue that bringing Betfair into the U.S. market will have a negative impact on the integrity of the sport. Do they have a valid argument?

A: I don't believe so. There's been skullduggery around sports since the days of chariot racing at the Coliseum. Wherever there are financial gains to be made there will be people who look to exploit things. Look at Wall Street over the last 10 years. Based on that, you could argue that the level of threat to horse racing by nefarious characters is minimal compared to the financial system. From my personal experience in the UK, where the British Horse Racing Board actually funded the Jockey Club, which was responsible for regulation, I can tell you that when Betfair became more prominent, yes, there was a spike (in suspicious races). But if you speak now to the British Horse Racing Authority, which is responsible for regulation and governance, they will tell you there has been a dramatic decline in instances that have caught their eye.

If you look at the UK at the moment, the amount of cases up for review where jockeys, trainers or anyone else has allegedly been pulling stunts, well, there are very few. This is only anecdotal, but it can be easily verified by contacting the BHA. I believe you will find that these sorts of problems are at an all-time low. Where there is opportunity for financial advantage, there will be some people who will try things, but the beauty of our system is that they will be detected. They will not escape as they previously have, whether that's been with bookmakers in the UK, Ireland or Australia or elsewhere where there are pari-mutuel systems. What we do is detect the perpetrators, and the sport is ultimately better off without them. If people wish to exploit the system, they'll only do it once. They will get caught and they will be out.

Q: What are the means and methods Betfair uses to detect instances where someone might have wagered with an unfair advantage?

A: We have a system called Bet Monitor. It monitors bets in real time, reviewing races and bets as they occur. This is a company that has six billion transactions a year. We have more transactions than all the European stock exchanges put together. That's the degree of sophistication of our technology. We have 400 people working on software development, researching and developing integrity systems and security processes. We take it seriously because without the integrity of the contest we don't have a business. We make this information available to everyone in England. Any sporting organization that we have an integrity memorandum with can access that information. It is a system we are looking to advance beyond its present capability and make a more intrusive and interrogative approach to the monitoring of wagering. That's not just in the U.S.; it's worldwide and it's not just confined to horse racing. It could be golf, tennis, anything that you want it to be. We think that is something we could introduce to the U.S. There are a number of very progressive jurisdictions out there, among them New York and California, that are looking to implement more sophisticated betting monitoring processes, and we intend to engage and hopefully contribute to that debate. Protecting the customers is ultimately in all our best interests.

Q: The U.S. has many ambiguous laws and regulations when it comes to gambling. At least in the area of exchange betting on horse racing, is Betfair convinced that is necessarily illegal in this country right now? Internet wagering on horse racing is, in fact, legal in this country.

A: There has to be a lot of research done on the legal angle. We already have sufficient research to keep libraries filled for a lifetime. We want to establish trust in our credentials with U.S. horse racing. That's the first priority. We will look to educate people as we go along to betting exchanges, but we're not under any illusions that this is something that is going to occur in an immediate time frame. Certainly, the people from the U.S. who have visited our offices in the UK have become our most effusive advocates. I think there will be more people who have positions of influence in U.S. racing who will be exposed to the intricacies of betting exchanges and the novelty of them and will grow to understand that this is a prospect for the future, and one that can add to the eclectic mix of horse racing and not cannibalize horse racing's revenue, but actually provide it with a new and valuable source of revenue.

There are myriad questions that need to be answered concerning any entry into the U.S. market. What I can tell you about Betfair is that we are extremely conservative. We have done analyses in 100-odd countries throughout the world on the various legalities--can you market it, can you bet on it, can you have people on the ground, can you sponsor? We invest a lot of money in acquiring that legal information. The U.S. is a unique country in that you have 39 states that allow horse racing and, in effect, you have 39 countries combined within one system. That obviously creates a number of logistical barriers that make things more difficult. But at the same time it is a vast population with great wealth. I appreciate that times are a little bit tough at the moment, but this is the engine room of world commerce and we need to be involved in a market of this magnitude.

Q: To enter the U.S. market, will Betfair need federal laws to be changed? Will it need to work to have state laws changed?

A: It's going to be very difficult for a British-based company, albeit with tentacles throughout the world, to influence Congress, if indeed that is what is required. I believe efforts will be needed more on a state-by-state basis. There first has to be a lot of legal due diligence undertaken. To achieve anything, you need a consensus among the sport, and that's one of our objectives.

Q: There was \$102,274 wagered on Betfair on the 8th race on Mar. 8 at Turf Paradise, a relatively small American racetrack. That's a lot of money, yet neither Turf Paradise nor Turf Paradise horsemen received any cut from that betting. Is that fair and does Betfair have plans in the works to compensate American tracks and horsemen for allowing wagering on the product they put on?

A: We appreciate that if someone puts the racing product on they're going to be remunerated. We're very close to formalizing deals in two major states, and there should be an announcement on that regard very shortly. Because of the complex nature of the U.S. racing industry and the vast distances involved, it's a matter of going from state 1 through 39. We just haven't gotten around to everyone. The \$102,000 figure is misguided. It's not your conventional handle. There are a lot of people arbitraging their position and taking a very small proposition. To give you an idea, there's a case of one punter in the last Rugby World Cup who, if you took the traditional view of handle, turned over in excess of 500,000 sterling. At any given time, his maximum loss was 400 sterling. If you look at handle, it was 500,000, but he was looking to make a very small cut. He just kept on trading his positions and getting into a situation where he could guarantee a profit.

I imagine a lot of the \$102,000 liquidity on the Turf Paradise race was very much similar. There could have been half dozen players playing the same sort of game, trying to make a very small margin. That's why we don't refer to handle. It's about the exposure.

Q: Presumably, none of that money came from U.S. customers, so no one can argue that you were taking business away from Turf Paradise. However, should you begin accepting U.S. customers, you will, no doubt, be pulling dollars out of the traditional betting pools. What assurances can you give Turf Paradise or anyone else that you won't cannibalize their handle?

A: All we can do is show them the evidence of our impact in the UK, Ireland and Australia. Take the example of the race at Turf Paradise. We are interested in commingling into their pari-mutuel pools. We have 2.2 million worldwide customers, and that's not one single American that we know of. Through Betfair, they will be able to access the Turf Paradise pari-mutuel pools in the future and bet exotics. So it will be a complementary product offering. There are 600,000-odd racing active people in the world that American racing hasn't had to focus on previously because its internal economics made it a reasonably safe and prosperous industry. We think we can bring in untapped interest. American racing is great quality. It has great brand names. There are some great brands that come out of here, like the Kentucky Derby, the Breeders' Cup, the Preakness, the Belmont, the Travers. There are plenty of great brands, and we think we can introduce them to an even broader audience than the one they are accustomed to. At the moment, people like me, who are devotees of the sport, only know those races. We will offer two different products, and Turf Paradise will get access to a very broad group of people they've never had access to. In reality, there is a lot of upside.

In terms of cannibalization, Betfair's ascension coincided with a change in tax laws in 2001 in the UK. (A tax of 9.7 percent on winning wagers made off course was eliminated).

Handle at that stage was about 5.4 billion sterling. Last year, it approximated 11 million sterling. That's without talking into account what was wagered through the betting exchanges. Our liquidity is separate to what the bookmakers turned over. That's not cannibalization. It's an expansion. It's offering customers choice and a more invigorating betting market for people to bet into.

In our minds, people going shopping on Saturdays are our competitors because they're spending money at other retailers and not with us. Racing has to look beyond thinking about only its little congested world we're all accustomed to and say, "who are our competitors, how are we going to beat them, how are we going to get a bigger share of the pie?"

It should not look at the racing cake as it is currently constructed and say, "well, what is going to happen here is that, as the betting exchanges grow, they are going to squeeze our margins elsewhere." That's not what we are about. What we are about is enlivening the market and producing new money. We struck a deal with the UK Tote and, at any given moment, we represent at least 10 percent of the UK Tote business. That's because we've introduced a group of people who are fixed on the betting exchanges and are willing to try the exotics on the pari-mutuel side. Just as there might be cannibalization of the pari-mutuel by the betting exchanges, you could argue that money is flowing into the pari-mutuel pools that ordinarily would have been invested with the betting exchanges. But what is happening is an elevation of the gross revenue derived from wagering. Interview cont. **Interview continued on www.thoroughbreddailynews.com. To read the Betfair Q and A in its entirety, click [here](#). To request a copy by fax, please call 732-747-8060.**