

HANA – The Horseplayers Association of North America

Core Player Needs and Wants

We at HANA have conducted multiple surveys that all share a consistent theme: We ask horseplayers to tell us what THEY see as the crucial factors driving their betting behavior.

Horseplayers have consistently named the same three core issues each time they were surveyed.

In order of importance - as ranked by responses from player surveys - the three core things players see as most crucial to their continued participation in racing are:

1. TAKEOUT.
2. ODDS THAT CHANGE AFTER THE BELL.
2. DRUGS.

Dissecting these core issues – The above three core issues can be restated as two core issues:

1. VALUE
2. INTEGRITY

Takeout is a value issue. The takeout helps determine the odds. The odds in turn determine value. We live in a day and age when horseplayers are consumers. Like all consumers we horseplayers demand VALUE when we spend money.

Odds that change after the bell is a value issue. No one wants to bet a horse at 7/2 approaching the gate only to see the odds drop to 8/5 going around the far turn.

Odds that change after the bell is also an integrity issue. When the odds plummet on contending horses during the running of a race it gives the appearance that somebody somewhere is cheating by betting after the bell.

Drugs is an integrity issue. Allowing trainers to get away with slap on the wrist penalties for the Xth career drug positive sends the wrong message to the general public. The overwhelming majority of horseplayers want the game cleaned up.

Exchange Wagering

How It Works

Exchange Wagering is simple. Player A posts an offer on the exchange. The offer could be something as simple as \$2.00 at 4-1 odds on Horse A to Win at Track X Race Y. Player B accepts that offer. The Exchange Provider creates a separate pool between Player A and Player B. After the race goes official the Exchange Provider grades the outcome and pays the winner while deducting a commission.

Exchange Wagering offers players several advantages:

Value

Imagine as a player that after handicapping a race you now have the ability to shop for odds. (I have been told by players from outside the US that more often than not they can find higher odds for the same horse on the exchange than they can on the pari-mutuel tote.)

Odds that Don't Change After the Bell

Imagine as a player what it would feel like after shopping for odds and locking in your bet at the best odds you could find – that you no longer have to worry about your odds getting cut in half during the running of a race.

Additional Choices

Exchange Wagering gives players more choices than they have now.

Using an exchange:

Players can make individual bets on horses to win races.

Players can make individual bets against horses.

Players can make separate bets on or against horses while the race is running.

Players can make separate bets on the outcomes of photo finishes and inquiries.

Exchange Wagering Satisfies Two of the Big Three Core Player Needs and Wants

Exchange Wagering appears to address two of the Big Three Core Player Needs and Wants consistently named by players as crucial to their continued participation in racing: High Takeout and Odds that Do Not Change After the Bell. Exchange Wagering also gives players more choices than they have now.

HANA'S Position on Exchange Wagering

Because of this, we at HANA want to see Exchange Wagering given a chance to succeed.

However, we do have some concerns about exchange wagering.

Questions:

The questions below are based on player needs and wants. We at HANA believe that an exchange will be better received by players (and therefore have a better chance of success) if answers to the following questions are addressed in the rules.

Commission Structure

The questions in this section relate to VALUE.

Q. Will commissions and fees be decided by statute, CHRB rule, or by the individual exchange provider?

Q. If more than one exchange provider is permitted to offer exchange wagering, what will they be allowed to charge?

Q. Will there be a rule that commissions cannot exceed a certain percentage?

Q. Will sliding scales (based on individual player handle) be permitted?

Q. Will exchange providers be permitted to charge extra fees to the biggest winners as Betfair's "premium fee" does now?

Insider Trading

The questions in this section relate to INTEGRITY.

Q. Will insiders be barred from wagering?

Q. Jockeys? Jockey Agents? Trainers? Assistant Trainers? Owners? State Veterinarians? Stewards and other racing officials?

Q. Will owners be barred from betting against their own horses?

Q. Will owners be barred from betting on horses owned by other owners?

Q. Will trainers be barred from betting against horses they train?

Q. Will trainers be barred from betting on horses trained by other trainers?

Q. Will jockeys be barred from betting against horses they are riding?

Q. Will jockeys be barred from betting on horses ridden by opposing jockeys?

Markets

The questions in this section relate to operational aspects of an exchange.

Q. When will markets close?

Q. At a pre-determined post time?

Q. When the gate opens?

Q. Will "in running" betting be allowed?

Q. How fast will races be graded?

For instance, if races are not graded within 10 minutes of completion (before the next simulcast race goes off, players may not be able to bet those next simulcast races.)

Q. What types of wagers will be offered?

- Q. Wagering on horses to win?
- Q. Wagering on horses to lose?
- Q. Wagering on one horse to finish ahead of another?
- Q. Wagering on the outcomes of photo finishes?
- Q. Wagering on the outcomes of objections and inquiries?
- Q. Who will be permitted to wager on the exchange? Californians only? Non-Californians who happen to be physically located within the borders of California?
- Q. Who provides liquidity if ordinary bettors don't?
- Q. Market makers employed by the exchange provider?
- Q. Large bettors who are given low commission rates?
- Q. What if track A wants exchange betting but track B doesn't?
- Q. Will tracks be required to offer exchange wagering?

Player Account Balances

The questions in this section relate to HOW SAFE IS THE MONEY SITTING IN MY EXCHANGE ACCOUNT?

- Q. What assurance is there that player account balances are safe?
- Q. Will the exchange provider be required to post a performance bond in an amount greater than or equal to aggregate player account balances?
- Q. Will the exchange provider be required to maintain player account balances separately (in trust) from funds the exchange uses to cover its operating expenses?
- Q. How do players deposit and withdraw money from the exchange?
- Q. Can players make deposits and withdrawals in person at California tracks and OTBs?

Q. Can players make deposits and withdrawals over the telephone?

Q. Can players make deposits and withdrawals over the internet?

Q. How quickly is the exchange provider required to process player withdrawals?

Arguments Against Exchange Wagering

Below are some of the most frequently heard arguments against exchange wagering.

Exchange Wagering Will Enable Large Volume Sophisticated Players to Fleece the Less Sophisticated

Counter argument:

Recent industry estimates suggest that as much as 15 to 20 percent of all North American pari-mutuel thoroughbred handle is generated by just a handful of teams comprised of large volume sophisticated bettors.

If you think pari-mutuel tote wagering somehow protects the less sophisticated against sharks – think again.

Betting on Horses To Lose Will Cause Rampant Cheating

Counter argument:

Betting on horses to lose races is currently taking place in the pari-mutuel pools (every day at every race track in North America.)

Did you know that in races where the post time favorite does not win, the player can (statistically) guarantee substantial pari-mutuel win pool profits (with no handicapping whatsoever) by betting on the favorite to lose?

This is easy to accomplish: Simply bet another horse (or horses) to win!

I recently ran a data query for calendar year 2011. The query is not theoretical. It uses actual results from all thoroughbred races run in North America for calendar year 2011 where the post time favorite did not win the race. The results are further broken out by odds rank (2nd

public choice in the odds, 3rd public choice in the odds, 4th, 5th, 6th, 7th, etc.)

Here's a link to that data study:

http://www.jcapper.com/HANA/ImpactStudy_LosingFavs2011.txt

As you can see, in races where the post time favorite did not win, the player can (statistically) guarantee substantial profits by betting on the 2nd through 7th ranked horses in the odds to win.

Anyone who thinks that betting on horses to lose races does not currently happen in the pari-mutuel pools is being naïve.

It's Easier to Cheat Using an Exchange than Pari-Mutuel Pools

Just the opposite is true.

Cheating (and getting away with it) is easier in the pari-mutuel pools than through an exchange.

Consider the following:

Cheaters can make and cash bets anonymously in the pari-mutuel pools.

Would be cheaters can not make and cash bets anonymously through an exchange.

To get money down through an exchange you first have to open an account and post up money. This creates an audit trail leading back to the would be cheater. All wagers made through an exchange are recorded in databases. This is worrisome to would be cheaters because the entire account history serves as an audit trail that can be handed to police and investigators.

Exchange Wagering Will Cannibalize Pari-mutuel Pools

Just the opposite is true.

Handle data compiled by Betfair shows that in other parts of the world where Exchange Wagering has been introduced, pari-mutuel tote pools have not been cannibalized by Exchange Wagering. In both the UK and Australia, pari-mutuel tote handle has actually grown since exchange wagering was first introduced.

Yet somehow, during the same time period, pari-mutuel tote handle has declined significantly in the US and Canada.

One third of all pari-mutuel handle is WIN-PLACE-SHOW. Two thirds of all pari-mutuel handle is Exotics (Exacta, Daily Double, Trifecta, Superfecta, Pick3, Pick4, Pick5, Pick6, etc.)

Exchange wagering offers variations of win bets only. It does not offer variations of exotic wagers.

Exchange Wagering will not cannibalize or replace the pari-mutuel tote. It will supplement it.

Exchange Wagering Does Not Return a High Enough Percentage of Each \$1.00 Bet toward Purses

This is just another way of saying that the takeout isn't high enough.

Ask yourself the following: How well has ever higher takeout worked for racing over the past 10-12 years?

Last March, while at an industry meeting at Hollywood Park, I witnessed a presentation prepared by track management using handle data from CHRIMMS. One slide in particular caught my attention:

All sources California thoroughbred handle in 2010 (unadjusted for inflation) had shrunk to one half of what it was just nine years earlier in 2001.

Now consider that the TOC and CHRB lobbied the CA Legislature to pass a bill mandating a further takeout increase beginning January 1, 2011. Result? All sources California thoroughbred handle for calendar year 2011 saw a downturn of nearly \$250 million vs. calendar year 2010. The takeout increase made things worse not better.

The evidence suggests that the status quo (insisting on ever higher takeout) is actually the problem.

At the very least (clearly) the status quo is not working.

Exchange Wagering provides a way for racing to reach new (incremental) markets and new price sensitive customers that it can not reach using the status quo.

I see very little downside risk in giving exchange wagering a try. I do, however, see huge potential upside.

Author: Jeff Platt
For HANA 2/08/2012
