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Risk or Reward?

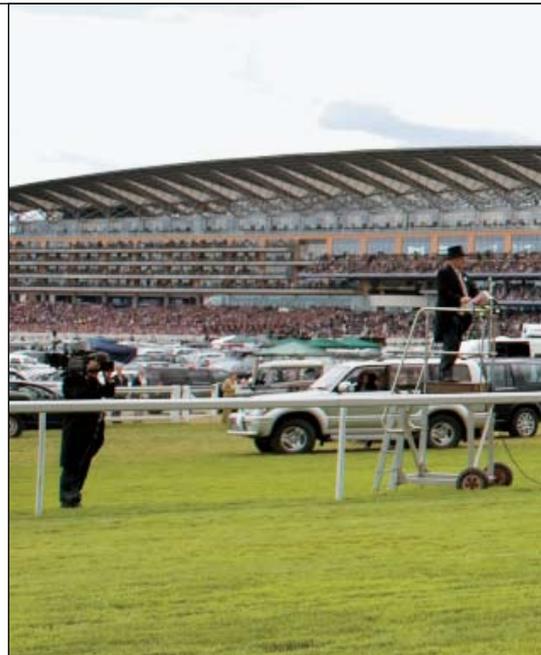




Risk or Reward?

BY BILL FINLEY

The offices are on the banks of the Thames River in the Hammersmith section of London, and the employees scurrying about Betfair's headquarters all pretty much look the same. They are young, casually dressed, and very British. Soccer/football broadcasts or pre-game shows are always blaring away on the many televisions spread across the facility. This is a U.K. company, founded in England, based in England, staffed by Brits.



But the exchange wagering giant wants to be something more. It wants to conquer one of the biggest, most lucrative gambling frontiers there is—America.

“What we have always said is that we would love for Betfair to be in the U.S.,” said the company's chief financial officer Stephen Morana. “We think the product we offer at Betfair would fit in exactly with U.S. punters.

“There is a huge pent-up demand there. We are targeted by lots of people who say, ‘Why can't we do this? When can we come in? We travel and we see what our friends around the world can do with Betfair. When will this come to the U.S.? Betfair is amazing.’ ”

Betfair knows that America can be good for Betfair. But will Betfair be good for America—particularly American horse racing? With the wheels set in motion to bring betting exchanges to New Jersey and California, it's a question that is a front-burner issue for the American racing industry. We know that exchange wagering and, probably, Betfair are coming. We don't know what that means.

“Will it be good or bad for U.S. racing? I just don't know,” said trainer Rick Violette, the president of the New York Thoroughbred Horsemen's Association. “There are just a lot of questions.”

There are, and it's a long list, starting with whether Betfair will create new customers for U.S. racing or just cannibalize the existing pool of players, driving them away from traditional forms of wagering to exchange betting. Will it make the sort of financial contribution to the sport that will satisfy racetrack operators and horsemen? Then there's the integrity issue. Might allowing customers to bet on a horse to lose inevitably give the sport a black eye it can ill afford to have?



PHOTOS COURTESY BETFAIR

The Betfair offices in London; the company handles more transactions a day than all the European stock markets combined



Betfair is a major sponsor of racing in England, as shown here at Ascot

'Greatest Invention in the History of Betting'

It's doubtful that any of these issues were on the minds of Edward Wray and Andrew Black when they hatched what was a brilliant idea: They would do for betting what eBay did for selling consumer goods. No longer would people have to go to their local betting shops or racetracks to wager. Instead, they could bet among one another over the Internet.

With eBay, people might buy or sell cameras. With Betfair, they buy and sell bets. If someone wishes to bet £100 on, say, Zenyatta at 3-1 in the Breeders' Cup Classic (gr. I), all he needs to do is find someone willing to buy or accept that wager. Betfair brings buyers and sellers, bettors and people willing to book bets, together, and makes its money by extracting a commission of 2-5% from winnings.

Betfair was launched in June 2000, initially accepting bets only on horse racing from customers in the United Kingdom. Once a plucky start-up company, it has grown into a global gambling behemoth. Betfair has more than 3 million customers spread across Europe, Canada, Australia, New Zealand, and several other countries. It reports a weekly betting handle in excess of \$80 million and earned a profit of \$125 million during the third quarter of the current fiscal year. It handles more transactions every day than all the European stock markets combined.

It has grown into something much bigger than a horse racing company. Betfair now takes wagering on every sport imaginable, plus the outcomes of elections, reality shows, and more. Want to bet on whether it will snow in London on Christmas Day? Betfair has an exchange for that. It has also branched out into casino games, offering online poker, roulette, blackjack,

and other such games of chance.

Horse race betting accounts for about one-third of all bets made on Betfair, making it the most popular sport among its customers. However, soccer is closing in fast, and many Betfair executives expect it to overtake racing eventually.

"Betfair is the single greatest invention in the history of betting," Morana said. "One hundred percent the greatest single invention in the history of betting. And if you ask 95% of our customers, they will give you the same answer."

Betfair invented betting exchanges, but many other companies have come along since and copied the idea. Some didn't make it, but companies such as Betdaq and World Bet Exchange have hung in there. Betfair remains easily the largest betting exchange in the world.

It's easy to figure out why Betfair has been so successful. It offered a new and different type of gambling that appealed not only to existing players but also to computer-savvy types and people who enjoy the trading aspects that Betfair, like a stock market, offers. And, with commissions maxed out at 5%, it has given its customers the sort of value that is all but impossible to find at the traditional racetrack, betting shop, or casino.

Betfair says that its "starting price" for horses is typically about 20% higher than it is with the European bookmakers or through the U.K. tote. Betfair's main market is for win

betting, but it also takes bets on "place," which is, generally, equivalent to "show" in this country.

"Even the name of the company, Betfair, says what we do," said chief technology officer Tony McAlister, a Tennessee native brought in to help with the technical challenges faced by a rapidly expanding company. "The founders of this company wanted to create the most fair way for people to bet among one another and take out the middleman as much as possible."



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STEPHEN MORANA



"The founders of Betfair wanted to create the most fair way for people to bet among one another."

TONY McALISTER



Problems with Exchange Wagering

There's little doubt Betfair has been good for the gambler in countries where exchange wagering is legal, and it has been very good for anyone fortunate enough to own a piece of the company. Whether it has been good for racing is a debate that has continued in England since Betfair's 2000 beginnings.

The biggest complaint is that Betfair doesn't give back nearly enough money to racing jurisdictions. The company sends 10% of any money it makes on a British horse race back to the British racing industry.

"I can see the attraction as a punter," said Paul Struthers, the head of communications for the British Horse Racing Authority. "But over here, their average commission is 3%, and we get 10% of that. So, essentially, we're getting 0.3%. That rate of return is the road to ruin. Exchanges were imposed upon us with a financial model in the Levy that we had no choice over and have been fighting bitterly to change."

Betfair executives argue they are simply playing by the rules and paying the British racing industry the same amount as the traditional bookmakers do—10% of their winnings.

"We are an exchange and we make money in slightly different ways, but ultimately it is people betting on horse racing," said Steve Johnson, Betfair's head of horse racing development. "We are a betting operator just like Ladbroke or William Hill. We pay 10% of our profits. They pay 10% of their profits."

Johnson argues that much of the anti-Betfair debate revolves around a misunderstanding of how the company makes its money. Just because £1 million might be matched on a race does not mean Betfair makes 2-5% of that £1 million. Rather, it makes 2-5% on any overall profits bettors might have made on that race.

Because many players are arbitraging and betting the same horse to win and lose while following the ebbs and flows

in the market, a player could supposedly bet thousands on a race but win only a few pounds.

The other big gripe against Betfair is that allowing people to bet on a horse to lose has brought a slew of new integrity problems for the sport. Since 2000 a number of British races have come into question amid allegations that unscrupulous trainers, jockeys, or bettors bet horses to lose based on inside information. It was announced in mid-April that five British jockeys were being investigated for their roles in a "multi-million pound bet-



Betfair is a U.K. company, based in England and staffed by Brits

ting racket" in which insiders were using betting exchanges to wager successfully on horses to lose. In mid-May the British Horse Racing Authority charged 13 individuals with violating the rules of racing in another wagering scandal.

Appearing at the 2011 annual conference of the Association of Racing Commissioners International in New Orleans, Paul Scotney, who heads the investigative unit of the British authority, told those in attendance:

"The reality of this is that, for the corrupt, betting exchanges offer a ready means of plying their trade. The problem this creates is that—as anyone connected with horse racing knows—whilst you can never be sure of a horse winning, you can make it lose. That means the corrupt, misusing inside information, can take advantage of a facility to lay a horse to lose and offer odds on that horse in the knowledge that it is not going to win. That is corrupt, that is fraud, that is cheating.

"Inside information can range from knowledge that the horse is simply not good enough or is injured, not fit or, even worse, through to subverting the jockey to ensure that the horse is ridden in such a way that it does not win."

Betfair's relationship with the U.K. horse racing industry might also suffer from its decision to shift its betting license to Gibraltar. The company argues the move is de-

signed only to cut down on its tax burdens and will not negatively impact the amount it contributes to British racing. But there are fears within the industry that with Betfair now largely operating outside of the U.K. it could be emboldened to contribute even less.

Entry to the U.S. Market?

None of the complaints have sapped Betfair of its momentum. Inside the Hammersmith offices the staff, numbering more than 1,000, works constantly on new designs and innovations to make Betfair bigger, more profitable. That includes figuring out how to invade the U.S. market.

Step one was to buy TVG, an American horse racing network, for \$50 million in January 2009. While TVG itself might be an attractive company to own, it was clear Betfair saw it as something more than a racing network and an advance deposit wagering company. TVG could open doors in the U.S. and build relationships in the racing industry.

"We saw TVG as a stepping-stone," Morana said. "For us, it was a market entry strategy. We have always wanted to be whiter than white, and, having said that, we would wait for the U.S. to open up legally for exchange wagering. There is more and more opinion and weight behind the U.S. starting to re-look at its gambling laws. TVG is a starting point for us."

With Betfair's arrival, TVG has undergone changes, including recent layoffs. The new regime has been more willing than the old operator to work with race-tracks on sponsorships and other promotions, proof, Betfair's Stephen Burn says, that the company is serious about helping U.S. racing.

"Anyone who is a fan of TVG understands the company's outlook," said Burn, CEO of TVG Betfair. "There has been an in-



Betfair purchased TVG for \$50 million in 2009

"I hope we have brought a new spirit of cooperation and collaboration within the industry."

STEPHEN BURN





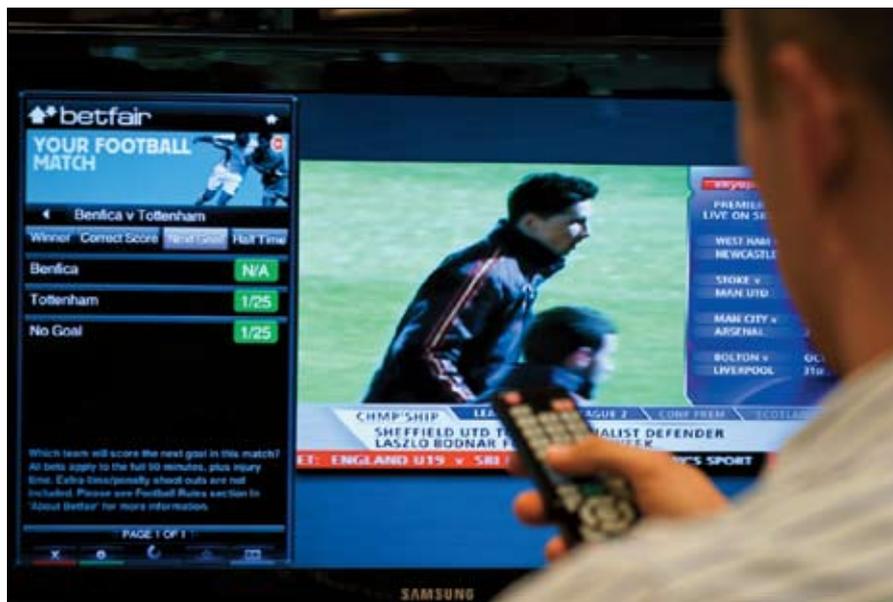
The work place at Betfair is casual; lower right, a look at Betfair's English interface

creased commitment to horse racing since Betfair became involved with TVG. I hope we have been supportive of the racing industry while giving our customers what they want. I also hope we have brought a new spirit of cooperation and collaboration within the industry. I think we've already been a force for good here."

With TVG and without any promises the company will ever be able to take in a single dollar in exchange bets in this country, Betfair nonetheless is pushing forward. In addition to the TVG headquarters in Southern California and a betting hub in Oregon, Betfair has opened offices in San Francisco. It currently has about 30 employees but expects as many as 130 people eventually will work in that office. The San Francisco employees might work on a number of projects, among them TVG-related ones, but the primary function is to prepare Betfair for its foray into the U.S. racing market.

Programmers are already hard at work preparing an Americanized version of Betfair, which may even include different language than the European version.

"Some of what we offer can be perceived as somewhat complex, which is why we are spending a lot of time working with American punters so far as how the thing should look to them," McAlister said. "We've made quite a few changes so far as to how it's going to look as opposed



to how it looks over here in Europe. Some of it is as simple as language; for instance, 'back' and 'lay.' That does not make sense in American lexicon. We changed it to 'for' and 'against' and we put that in front of customers to test it. Will we go to market with that? We don't know yet."

Spending so much time, money, and energy on a country where the core product is borderline illegal might not sound like a good strategy, but Betfair executives figured it was only a matter of time before barriers started to fall, and they were right.

In January, New Jersey Gov. Chris Christie signed into law a bill legalizing exchange wagering in the state. The bill calls for the New Jersey Sports and Exposition Authority to contract with an exchange wagering operator. New Jersey exchange wagering has been put on the back burner while the state and the NJSEA have tried to iron out the problems surrounding Monmouth Park and the Meadowlands. Christie has said both tracks lose money and the state, no longer willing to subsidize them, has now leased them to private interests.



When New Jersey racing officials are ready to address the exchange wagering question, there is no guarantee Betfair will be chosen. The NJSEA will first ask for requests for proposals and then choose a winner of the exchange wagering sweepstakes. According to NJSEA president and CEO Dennis Robinson, several companies will be considered and judged on a number of factors.

"It's not a commodity; it's a request for proposal," Robinson said. "It's not just about the lowest-priced bidder; it has to do with what's in the best interest of the business, taking into account many different criteria, price being just one of them. Obviously, we've had discussions with Betfair on a number of issues. We work with TVG on a regular basis and have a contract with them. We are familiar with Betfair and know a lot of their executives, but there's certainly more than one company that can provide exchange wagering services."

Burn said it might take until early 2012 before exchange wagering begins in New Jersey.

California is also on target to start exchange betting in May 2012, presumably after it has begun in New Jersey. Del Mar president and general manager Craig Fravel said he has not seen any steps made toward beginning exchange wagering in the state since the approval of legislation, and said he would be surprised if it began before 2013.

Government Restrictions

Two states out of 50 are one small step in a bigger plan in which Betfair sees itself operating throughout the U.S.

"If something is launched and it is successful, I will be relatively confident that a number of states will want to try it and jump on board the bandwagon and make the product available for their residents," Burn said. "We have had contact with and conversations with regulators in a number of states, but much will depend on how well we do here. If people want it and it works, I think everyone will want it."

Assuming Betfair wins the New Jersey contract and starts the first-ever legal U.S. betting exchange, it's likely American customers will experience a different type of Betfair, one that could be seen as less appealing than the model currently existing in the rest of the world.

Betfair has always erred on the side of caution when it comes to regulations and laws. If there are any gray areas, Betfair won't go near something. Its legal team believes that under the strictest interpretation of U.S. gambling laws, U.S. betting pools must be restricted to U.S. residents. Others, including U.S. and Canadian racetracks that exchange simulcast signals, have interpreted the laws differently, but Betfair will not allow any future U.S. customers to bet into its global pools.



Betfair's race sponsorships have expanded into the United States through its purchase of TVG

That probably wouldn't be a problem if a large number of states were to come on board at once. But with "Betfair America" potentially limited to New Jersey residents at the outset, it's hard to imagine the pools having much liquidity. One of the reasons Betfair is so much more popular among gamblers than its competitors is that getting a large wager matched is rarely a problem. The pools are often huge.

They could be facing a very different situation in the U.S. Unless U.S. and non-U.S. pools can merge, Betfair might be left to hope that a lot of non-New Jersey and/or California residents figure out a way to establish addresses in those states and sign up.

"There are a number of sophisticated customers out there who will probably find a way of setting themselves up in New Jersey and basing themselves there," Betfair's Johnson said.

It's also clear U.S. customers will have to pay higher commissions than their counterparts. Betfair knows that horsemen, racing commissions, politicians, and racetrack operators can stand in the way of their plans to infiltrate the U.S. market and that winning those entities over will likely mean paying the sport more than they traditionally put into racing elsewhere. The more they have to pay the U.S. racing industry, the less it makes economic sense to charge the American customer as little as 2-5%.

"In my estimation there is no prospect of our betting exchange product being launched in the U.S. and it being as competitively priced for the fan as it is outside the U.S.," Burn said. "The reason for that is the racing industry here is not prepared to

take that leap of faith. I might want that to happen because we are inherently a fan-friendly company, but I don't think that it will. What will happen here is that we will come in with a higher proposition for a commission rate, maybe as much as double what we have in the rest of the world."

Burn said an American Betfair would look to rebate its best customers, effectively driving their commission down to something near the established 2-5% level.

That Betfair expects to pay a higher share of its profits to U.S. racing interests than it does British racing interests might quiet some critics. The British Horse Racing Authority's Paul Struthers said it's vital that the U.S. industry strike a good deal for itself when it comes to Betfair.

"What's clear is that the U.S. has a huge advantage over us in how to deal with exchanges," he said. "In the U.S., the racing bodies have a real opportunity to get the funding level right—one that sees a fair return paid back to the sport from Betfair whilst engaging punters at a competitive take-out rate."

But when it comes to a split among participants, what is fair? What will work? How that revenue is apportioned will be hotly debated in the months and years ahead, and the how this issue is resolved will likely decide whether Betfair is to conquer the U.S. or is stymied by horsemen's groups, track operators, and politicians sympathetic to racing. ■

In Part II in the June 11 issue, Bill Finley looks at the opportunities and obstacles of allowing exchange wagering in the United States.



Risk or Reward?

BY BILL FINLEY

An innovative betting system called pari-mutuel wagering was introduced to the United States in 1927. Instead of bets being made with bookmakers, every dollar bet would go into a pool, the racetrack would take its cut, and the remainder would be paid to those holding winning wagers. Eighty-four years later, little has changed. People bet. Tracks take their cut, and that cut is used to pay purses, operate tracks, and generate profits. It may not be the perfect system, but the American racing industry has grown comfortable with it and with the expectation of receiving a healthy portion of every dollar wagered.

Will exchange wagering grow or simply cannibalize U.S. horse racing's existing handle?



The lobby of the Betfair offices in London

Should Betfair or any other company operate a betting exchange in the United States, the racing industry will have to accept that the company will never pay the same rates customary for pari-mutuel gambling. If Betfair's commission rate peaks at 10%, that is still far less than the 15-25% now traditionally taken out of the betting pools before winners are paid under the pari-mutuel system. With a smaller pie, there could be less to go around for everybody.

Negotiations over how much exchange wagering companies will pay back to racing have not begun, and Betfair, the world's leading wagering exchange concern and the owners of racing network TVG, has yet to show its hand. Ask any Betfair executive what he thinks the company should pay tracks and horsemen and it's not easy to get a specific answer.

PHOTOS COURTESY BETFAIR



Betfair makes inroads to the United States through its purchase of TVG

“Betfair wants horsemen’s support, but they’re not going to get horsemen’s support until they figure out a way to support the live racing product,” said Bob Reeves, chairman of the National Horsemen’s Benevolent and Protective Association’s Wagering and Alternative Gaming Committee. “If we don’t support the live racing product, before long we’re not going to have a product to wager on. I think there is a sweet spot somewhere where everyone can be happy, but we’re not close to that sweet spot with their existing model. The amount of money they’re offering back to support live horse racing is not enough. When I say live horse racing, I’m talking about more than purses. Horsemen realize that we need racetracks to do well, and any time we speak about not supporting live horse racing I am talking about them supporting horsemen and racetracks.”

Back at Betfair headquarters in London, they have heard all the arguments from the U.S. critics and they have heard them numerous times. Betfair executives insist the doubters are missing the point. The real story, they say, is that exchange wagering is a powerful, healthy product that gets bigger every day and appeals to a much wider audience than traditional forms of betting ever could. They argue American racing might just need Betfair more than Betfair needs American racing.

The New Gamblers

Steve Johnson, Betfair’s head of horse racing development, doesn’t look like someone you’d find on a typical day at a typical

Bill Finley’s entire report “Risk & Reward?” on exchange betting is available as a PDF download on BloodHorse.com.



“The amount of money they’re offering back to support live horse racing is not enough.”

BOB REEVES



American racetrack. He's young, polished, tech savvy, and probably wouldn't be caught dead whiling away his hours at an OTB. He's fairly representative of a demographic that has virtually escaped the grasp of the American racing industry.

But he does bet on the races in England—with Betfair. And he says there are millions of others out there just like him, potential Betfair customers that probably never would have discovered horse racing if not for exchange wagering. People such as Johnson are the face of Betfair's spin—that it won't cannibalize any racetrack's existing business but instead enhance it.

"One of our strongest arguments is that people who are interacting with this sport and betting platform are the ones American racing has been trying to bring in for years," Johnson said. "We have a lot more than people who are passionate about horse racing. We have a number of customers who are very sophisticated when it comes to technology and trading. This is almost the same to them as trading stocks. To them, it's just numbers. But they are engaging in the sport. They are betting and they are creating liquidity. We have brought these guys in.

"Then there is a whole younger crowd that sees this almost like a computer game. The action is on their TV, and they are watching the numbers. That's exciting to them. If it weren't for Betfair, they'd just be playing computer games or doing something else that is exciting on the computer."

Betfair can back up its argument that it is attracting a young audience to its product. Its internal studies have found that



"We believe that taking a little from the customer over a longer period of time will ultimately be a benefit to the industry much more so than taking a lot from the customer over a short period of time."

STEPHEN BURN

81% of its customers are under 50 and 31% of its customers are under 30. Only 7% are over 60.

An Innovative Business Model...

Stephen Burn, chief executive officer of TVG Betfair, argues that the American racing industry has to stop focusing so much on handle and takeout and open its mind to new ways of producing revenue.

"People in the U.S. are addicted to the concept of handle and takeout and think that's the only model that works," he said. "We bring something different to the marketplace. We talk about commission and gross revenue and finding ways of putting money back into the sport through ways other than old-fashioned handle. We believe that taking a little from the customer over a longer period of time will ultimately be a benefit to the industry much more so than taking a lot from the customer over a short period of time."

It's all part of what Betfair says is at the core of its corporate philosophy—Betfair

succeeds only if racing is healthy and popular. They say it is in their best interests to work tirelessly to promote and grow the industry.

Betfair is proud that it is the second-biggest sponsor of racing and racing events in the United Kingdom, trailing only the Tote. Betfair's sponsorship deals include one with Ascot, which helped push the purse of the King George VI and Queen Elizabeth Stakes (Eng-I) to £1 million. Recent marketing efforts have included partnering with top steeplechase trainer Paul Nicholls, who, among other things, writes a blog for Betfair in which he attempts to give an accurate assessment of his horses' chances. He also serves as a goodwill ambassador for Betfair, with his duties including meeting and greeting customers at the races or at his stables. Betfair is expected to reach a similar deal with a flat trainer in the near future.

"We're trying to evolve so far as what we give our customers," said racing marketing manager Stephen Kennelly. "With Paul, he has 30,000 followers on his Facebook page, and people can go to dinner with him or go to his yard. Our customers love it."

They also love what is called "in-running betting." When Betfair's founder created a betting exchange for horse racing, someone shortly thereafter figured out there was no reason why the exchange had to close once the horses left the gate.

The exchange doesn't close until the first horse passes the wire, which has created an entirely new way of betting on a race. If a horse that traditionally goes to the front starts lagging behind the field, its odds will rise dramatically as the race starts to unfold. If that same horse starts to make a move toward the lead, the odds will fall with every stride as it gets closer to the front. Want to bet on a horse that has a five-length lead at the eighth pole? You can do that—but count on taking odds in the neighborhood of 1-10.

Betfair has produced a video tracking the price on Zenyatta during the 2009 Breeders' Cup Classic (gr. I). She starts the race at 4-1 (she was 5-2 in the U.S. pari-mutuel pools). As she falls farther behind the leaders, her price went up to 8-1. It doesn't



FREYR JONES

Harbinger is shown here winning the 2010 King George VI and Queen Elizabeth Stakes, a race now worth £1 million because of Betfair's sponsorship

change much until she starts to make her move entering the far turn. As it does, the price steadily drops until it goes down to 1-1 as she moves abreast of the leaders. Anyone who kept the faith when it came to Zenyatta as she fell well behind the leader could have bet her to win at 8-1.

Betfair executives report that as much as 40% of the total market on a race is bet after the horses leave the gate. With the exceptions of major races such as the Breeders' Cup World Championships, in-running betting is currently unavailable on U.S. races, but Betfair hopes to make it a staple of exchange wagering here.

"Who says you have to stop betting just because the race started?" said Tony McAlister, Betfair's chief technology officer. "When I got over here and saw you could do that, I was shocked. I said, 'What do you mean you don't have to stop when they're off?' My user experience team has shown this to a lot of people in the U.S. and most of them say it is really cool, but they ask if it is legal. It certainly is in the U.K."

...With New Risks

Betfair is always creating new ways for people to bet and new things for them to bet on, which also means new ways for people to cheat. In early April, Betfair's integrity team was wrapping up its latest investigation. It involved not horse racing but a reality TV show. Betfair's integrity team, which consists of eight people, uncovered a scheme whereby Virgin Media employees were placing bets on the outcome of the show "X Factor" based on inside knowledge of viewers' voting. The bets were nullified and the employees were fired.

It hasn't just been reality shows. Champion jockey Kieren Fallon was at the center of a Betfair-related betting scandal in which it was alleged he held back horses so gamblers who had bet on them to lose through Betfair would profit. Another scandal involved jockey Dean McKeown and trainer Paul Blockley, who, like Fallon, were accused of conspiring to lose races on purpose so their bettor cronies could win on Betfair. McKeown and Blockley allegedly were part of a scheme in which bettors won £61,909 based on inside information that the McKeown-trained horses were certain to lose.

Betting a horse to lose is a foreign concept to U.S. racing regulators and it makes many people nervous.

"By betting horses to lose, there are serious questions with this when it comes to maintaining the integrity of wagering," said trainer Rick Violette, who is president of the New York Thoroughbred Horsemen's Association. "It's a serious hurdle to leap. It just opens up a door that sometimes I don't suppose we should venture into. We have enough issues to deal with right now that we don't need to put another potential



With exchange wagering, one can bet on the outcome of a race...even during the race

target on our backs. I'm not sure if this is the right time to do this."

Betfair doesn't run from the scandals. Rather, it tends to publicize its role in catching miscreants and emphasizes the lengths to which it goes to catchers.

"We can help clean up the sport," said Susie Sourwine, who heads Betfair's business development-international racing division. "Thanks to us, the bad guys get caught."

Betfair has memoranda of understanding with several sporting organizations, including the British Horseracing Authority and the U.S.-based Thoroughbred Racing Protective Bureau. Betfair's integrity team constantly monitors the exchange wagering markets for unusual betting activity. If it sees something suspicious, it will alert authorities and, when necessary, turn over the names of the individuals under question and their betting records.

"Prosecutions act as a deterrent," Sourwine said. "That's very important. People have seen that if they try something, we will catch them because we have the systems and tools to do so."

Though Betfair has handled tens of millions of dollars on U.S. racing, it has never seen any suspicious activities when it comes to American races. The Kentucky Horse Racing Commission asked Betfair to look into the Life At Ten Breeders' Cup situation to see if any unusual bets were made on her to lose. Betfair concluded there was nothing suspicious with its market on the Breeders' Cup Ladies' Classic (gr. I).

Betfair Is Only One Exchange Option

As U.S. racetracks continue to consider exchange-wagering options, integrity is just one of many issues that will have to go under the microscope. The other is whether to enter into an agreement with Betfair and not some other exchange. It's not out of the question

that an existing U.S.-based company, say Churchill Downs, might create a betting exchange of its own.

McAlister believes the U.S. racing industry will come to the conclusion that Betfair is the only way to go.

"One of the biggest issues is liquidity," he said. "You and I could go off and build another eBay," he said. "But they have all the buyers and sellers, so what good would it do us? Other exchanges have a hard time dealing on the scale that we do. We are just a different animal. Are there other ones? Sure. But that's like saying a little league pitcher is the same as a big league pitcher because they're both pitchers. Yes, they are both pitchers, but it's not nearly the same thing."

That's part of McAlister's job. Like everyone working at Betfair, whether in the U.S., England, or anyplace else on the globe, they want Americans to know not only is Betfair the right choice for Americans but that betting exchanges bring an awful lot of positives to the table.

But the real reason Betfair wants to be here is that the company understands the unlimited revenue potential the U.S. offers. The prospect of taking horseracing bets is enticing enough. Imagine how much money a betting exchange might make some day if it were allowed to take bets from U.S. residents on other sports.

"If we could also get into sports betting in the U.S., I think it would be like



"Who says you have to stop betting just because the race started?"

TONY McALISTER



the whole thing were on steroids,” McAlister said. “Sports betting is huge in the States. Everyone is doing it, and what we do is a perfect fit. But the horse racing business in America is big, and if all we can do there is run the exchange on racing, then that would be huge for us and a great market to be in.”

Lessons From Overseas

Betfair has obvious reasons for wanting to set up its shop in the U.S., but that doesn't mean what is good for Betfair is good for the U.S. horse racing industry, according to horsemen and racetrack operators.

“My concerns are the same two fundamental concerns that everyone is expressing,” said Craig Fravel, Del Mar's president and general manager. “Number one is the absence of a business model that would contain sufficient assurance of not cannibalizing the existing pari-mutuel sources of revenue. I say that recognizing the U.S. pari-mutuel model is so much different than the wagering and purse funding and commission models in the United Kingdom. I am sure the existing models they work with in Europe would not work here from a business standpoint. The second issue is allowing someone to lay (money against) a horse. That is clearly a very significant one.”

Fravel and other U.S. racing executives are no doubt monitoring the fluctuations in the purse structures in countries that allow Betfair and other forms of exchange wagering versus those that don't. A case

History of Purses in Great Britain vs. France

Year	Great Britain (Flat racing only)		France (Flat racing only)	
2009	€ 82,771,992	\$119,264,000	€ 108,354,306	\$156,124,000
2008	€ 72,090,067	\$103,872,000	€ 106,306,453	\$153,174,000
2007	€ 86,078,812	\$124,028,000	€ 99,944,503	\$144,007,000
2006	€ 98,637,035	\$142,123,000	€ 95,655,142	\$137,827,000
2005	€ 92,647,600	\$133,493,000	€ 91,211,945	\$131,425,000
2004	€ 91,316,821	\$131,576,000	€ 87,482,308	\$126,051,000
2003	€ 87,358,478	\$125,872,000	€ 82,895,088	\$119,441,000
2002	€ 85,918,492	\$123,797,000	€ 80,969,332	\$116,666,000
2001	€ 80,531,840	\$116,036,000	€ 75,852,346	\$109,293,000

CONVERSION RATE AS OF JUNE 2, 2011
€1 = \$1.44
SOURCE: INTERNATIONAL FEDERATION OF HORSERACING AUTHORITIES

study of two major European racing jurisdictions, France and Great Britain, paints a picture that is certainly not favorable to exchange wagering, at least when it comes to its impact on purses and the health of the industries. Betfair is not legal in France.

When Betfair started, the purses for flat racing in France were a bit behind those in the United Kingdom. According to figures compiled by the International Federation of Horseracing Authorities, \$124 million was paid out for flat racing purses in Great Britain in 2002 as compared to \$117 million that same year in France.

By 2005 the gap had narrowed. Purses in Great Britain were \$133 million that year versus \$131 million in France. Since 2005 the two countries have gone in opposite directions. In 2009, the most recent year in which figures are available from the IFHA, purses in Great Britain were down to \$119 million. In France they had risen to \$156 million. So between 2005 and 2009, as Betfair continued to grow, purses declined 10.6% in Great Britain while simultaneously increasing 18.8% in France.

Has Betfair's continuing emergence contributed to cuts in purses in the U.K. and is France an example of how a racing industry can do just fine without Betfair? Betfair head of horse racing development Johnson says things aren't quite what they seem when it comes to Great Britain, France, and Betfair.

“Firstly, it isn't accurate to say the racing industry in France is thriving,” he said. “It is my understanding that in recent years they have

begun to see the same challenges the sport faces in other jurisdictions. Indeed, the French authorities are already revisiting their recently introduced gambling legislation because it isn't working out as hoped.

“The U.K. is an intensely competitive gambling environment with more and more bettors attracted to soccer and other sports. One of the prime reasons racing has been able to hold on to the market share it has is specifically because of the attractiveness to customers of the Betfair model. Without it, the sport would be struggling to appeal to bettors even more than it is currently.”

Perhaps the most compelling pro-Betfair argument is this: American horse racing needs something new. After all the numbers are tabulated, all the possible revenue splits discussed, and the integrity problems examined and re-examined, that will always be Betfair's greatest selling point. If not Betfair, then what? What else is out there that might give horse racing the shot in the arm it clearly needs?

“Anything is on the table,” said trainer Violette. “I think we should look at everything and under every rock to see what might help sustain the industry moving forward. With the way things are I am game for anything. Put it through all kinds of tests and rigors and questions and get answers. If we can beat it up and build it back up and come out with a better way of doing things, then I am all for it.”

Though English, Burn probably understands the dilemmas facing U.S. racing as well as anyone else. He is based in California, and his job is not just to preach the gospel of Betfair but also to get new customers for TVG and increase its bottom line. He is struggling toward the same goals as everyone else working in the U.S. racing game. He can't see how anyone here wouldn't be receptive to what Betfair offers.

“Other than Betfair, I don't see anyone articulating any innovation so far as U.S. horse racing is concerned,” Burn said. “We have some ideas and some innovations, some things we think might work. What's wrong with giving it a shot and seeing if it does? The worst thing that can happen is that we'll fall flat on our faces and be laughed out of America. I passionately believe that U.S. racing has a future. By no stretch of the imagination do I think we are the key to it, but I do think we are a tool that can be utilized by the sport to see what can be done to grow the pie.

“I struggle to see what the fear is on the industry side when it comes to us. Right now, all we have is everybody holding hands and walking on the edge heading to oblivion.”

Will Betfair help veer racing away from that “edge heading to oblivion” or drive it over? The debate is heating up. 

“By betting to lose, there are serious questions when it comes to maintaining the integrity of wagering.”

RICK VIOLETTE



“I am sure the existing models they work with in Europe would not work here from a business standpoint.”

CRAIG FRAVEL

