

# Use Behavioural Market Design to recalibrate the gambling market

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A note from The Behavioural Insights Team, Feb 2022

**When they work well, markets are powerful drivers of higher living standards. They give suppliers strong incentives to compete to provide the best value for money to consumers, through lower prices, higher quality, and innovation. However, behavioural factors are one reason why markets don't always weed out exploitative practices and why they get stuck in a bad equilibrium where providers don't have incentives to prioritise the best outcomes for consumers and society. The gambling market is underpinned by behavioural factors. For example:**

- **Limited cognitive bandwidth:** it is often in businesses' interests to increase complexity and make it hard for consumers to know if they are getting a good deal - is it really worth opening an account to get 10 free spins? How easy will it be to get my winnings? [People need to spend ~107 minutes per week](#) navigating and comparing options in consumers markets if they want to make good decisions.
- **Frictions:** businesses know that introducing extra hassle puts people off from making a decision. They make certain things really easy, like placing a bet, and other things hard, like withdrawing funds, opting out of marketing messaging, or closing an account.
- **Present bias:** people tend to prefer immediate rewards over waiting for later, larger rewards. You know you should head to sleep or at least put your phone down, but the lure of scrolling is just too tempting. Businesses capitalise on this through introductory offers, push notifications, and time-limited bonuses that can be hard to resist. [This can particularly affect people who experience problem gambling.](#)

**Arguably, incentives are not strong enough for operators to prevent gambling harm other than at the extreme end of problem gambling.** Operators face substantial fines for the worst failures - £1 million fines for clear violations are not uncommon.<sup>1</sup> However, a well-functioning market would go beyond the avoidance of the most serious harms, to instead maximise consumer welfare and well-being. Operators that are the best at doing this should be rewarded. Those that aren't should lose out. This would be reflected throughout operators' activities - from collecting data to monitor how well they are performing on wellbeing metrics across different customers, to the design and testing of product features to enhance welfare.

**Behavioural Market Design is a set of approaches that shapes market incentives toward better market outcomes for consumers and businesses.** Crucially, it does this through understanding and designing for the real-world behaviours of market players. Often these approaches involve bringing a behavioural lens to traditional levers such as information remedies, regulation, and tax, to maximise their impact. **These approaches are underpinned by data analysis and experimentation to test what works to improve consumer outcomes across the market.**

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<sup>1</sup> For example, in 2018, Sky Bet received a £1m fine for sending marketing materials to ~50,000 self-excluded gamblers – a [mistake repeated](#) by the same operator group (Sky Vegas) in late 2021.

# A Toolkit for Behavioural Market Designers

We present four complementary approaches to recalibrate and better align operator incentives to create a safer, enjoyable, and more competitive gambling market (see Annex for further detail, applications and challenges):

- **Experimentation and evidence building** ensures policymaking is driven by valid and robust evidence that promotes best practice across the market. For example, both operators and the regulator should routinely run experiments and monitor data to 1) identify where changes need to happen, and 2) evaluate the impact and cost-effectiveness of potential remedies.
- **Market-based** remedies that [bring consumer pressure to bear on suppliers can be very powerful](#). In the hospitality sector a [one-star increase in Yelp reviews](#) leads to an increase in revenue, primarily for independent businesses. Disclosure remedies, such as reviews, provide consumers with information that is clear, relevant, and timely. Comparison information that is clearly visible and presented at a timely moment on customer satisfaction scores or complaints data could help consumers choose between operators.
- **Regulatory-based** approaches turn the focus directly on operators by calling attention to their performance compared to their competitors (e.g. through bench-marking) or setting expectations around product regulation. This can vary from auditing specific consumer outcomes but allowing operators to decide how best to meet them (e.g. proportion of consumers that understand the odds of winning in slots), to targeting specific areas dependent on risk (e.g. use complaints data to target inspections), to setting standards for how gambling management tools should be accessed and presented.
- **Tax-based** levies can be used to (dis)incentivise operator and consumer behaviour. For example, any future statutory levy could be explicitly designed to reward operators that maximise consumer welfare and minimise harm.

**An in-depth understanding of how consumers and operators make decisions is crucial to designing the right package of measures. What differentiates a ‘good’ market player from a ‘bad’ one? What incentives drive these behaviours? To what extent can consumer pressure push operators to do better?** There is a huge opportunity to recalibrate the gambling market by tailoring traditional economic levers to explicitly account for behavioural factors of market players through these approaches. Embedding strong experimentation powers and capability within the regulator will 1) fast track the most effective means of designing and implementing the remedies, and 2) prime agile regulatory responses to a dynamic and growing market.

## Next steps

The next steps are two-fold: we will 1) gather feedback on these approaches, and 2) establish a framework of behaviours and incentives that define current market performance.

**We welcome your feedback on these approaches** - which do you see as most promising, what key challenges exist to embed them routinely, are there approaches we have missed? We are collecting responses with a view to inform which of the approaches and key questions we prioritise answering in 2022 as part of BIT’s Gambling Policy & Research Unit work programme.

## Annex. Further detail on approaches and application

Evidence-building and experimentation		
Approach	Application	Key challenges to solve
<p><b>Experimentation</b> ensures policymaking is driven by valid and robust evidence that promotes best practice across the market</p> <p>The current <a href="#">evidence base on what works to reduce gambling harm is low</a>. <a href="#">Building capabilities for experimentation</a>, particularly within regulators, is needed for the below remedies to work effectively and to minimise unintended effects.</p> <p>Note that the value of experimentation is distinct from regulation that encourages data sharing to enable product features, such as proportionate <a href="#">affordability checks</a>, or player monitoring — the primary rationale for experimentation is to evaluate what works and inform <a href="#">best practice</a>.</p>	<p><i>What Works Centres:</i> HMG has set-up a <a href="#">network of What Works Centres</a>, facilitating evidence-based decision-making across several policy areas. The Education Endowment Foundation (EEF) have tested over 190 programmes, with 1.3 million children and young people. EEF disseminates evidence directly with schools, via an online <a href="#">toolkit</a>. In 2019, <a href="#">65%</a> of school leaders reported using EEF’s toolkit.</p> <p><i>Gambling:</i> With greater in-house capability, powers and resources, the GC could embed this across their activities. For example, experiments could examine:</p> <ul style="list-style-type: none"> <li>• How best to communicate odds to consumers so that they are better informed.</li> <li>• The impact of presenting operator performance metrics on consumer choice.</li> <li>• How to increase operator uptake of best practice such as using free-text boxes when people set a deposit limit.</li> </ul> <p>GREO could be well placed to oversee a database.</p>	<ul style="list-style-type: none"> <li>• Determine the most effective way to ensure operators participate in trials — incentives, requirements, quotas, or otherwise.</li> <li>• Determine who would be best placed to fund, set-up and manage an open-access evidence repository.</li> <li>• Ensure that ‘what works’ is scaled across the industry by default.</li> </ul>

## Market-based (demand-side)

Approach	Application	Key challenges to solve
<p><b>Disclosure remedies</b> are designed to promote well informed decision-making, by delivering information at a timely moment – such as when it can be acted on immediately – in a format that optimises comprehension. When carefully designed, such remedies can be effective and deliver intended results. However, the opposite is true for <a href="#">poorly designed disclosures</a>. Experiments are <a href="#">critical to inform implementation</a>.</p>	<p><i>Energy:</i> Ofgem’s <a href="#">cheaper markets offer letter</a> trial instructed suppliers to test consumer engagement measures. ~140,000 customers were involved – treatment groups were sent a letter with personalised information on cheaper offers, encouraging them to switch. This increased switching from 1% to 3.4%, effectively tripling switching rates.</p> <p><i>Gambling:</i> Consumer comprehension of a game’s absolute risk could be increased by creating a standardised format, which mitigates the common errors consumers can make when processing probability (e.g. by setting all warning labels on EGM and online casino games to a <a href="#">house-edge format</a>).</p>	<ul style="list-style-type: none"> <li>• Determine the information that consumers need to make better decisions in line with their long-term preferences.</li> <li>• Determine how and when to best present this information.</li> </ul>
<p><b>Market transparency</b> leverages accountability to shift firms’ behaviours. This remedy shines a light on how well firms perform relative to each other, making it easy for consumers to access and understand this information. In turn, this enables consumers to select an operator that aligns best with their preferences. Such initiatives can also <a href="#">increase firm incentives</a> to prioritise consumer preferences, resulting in positive outcomes such as improved service quality.</p>	<p><i>Mobile phones:</i> publishing <a href="#">data on theft rates by mobile phone type</a> (i.e. a risk index) was aimed at encouraging manufacturers to make phones more secure.</p> <p><i>Hospitality:</i> <a href="#">Hygiene inspection scores on Yelp</a> drove consumers away from less hygienic restaurants and improved future hygiene scores for these restaurants.</p> <p><i>Gambling:</i> operators could be required to publish data on metrics most relevant to driving consumer choice. For example, N/% customers losing £500+/month, N/% customers excluded due to winning, complaints handling, <a href="#">or others suggested by ABSG</a>.</p>	<ul style="list-style-type: none"> <li>• Determine what features consumers see as most important when choosing an operator and what would make consumers switch operators.</li> <li>• Do the features differ for different segments of customers (e.g. high/low risk)?</li> <li>• Consider the impact that emotional states have on driving consumer choice.</li> </ul>
<p><b>Innovation challenges</b> offer a package of support to overcome upfront costs of developing solutions to address a particular consumer need that market or procurement approaches have failed. They can be <a href="#">funded by the government, a regulator or another third party, and can be overseen internally or by independent organisations</a>.</p>	<p><i>Open Banking:</i> In 2019, <a href="#">Nesta offered £1.5m</a> to help start-up firms develop and scale their ideas around the use of Open Banking. Start-ups had access to a package of grants (of £50,000 or £100,000) and hands-on support from firms specialising in areas such as growth and user testing.</p> <p><i>Gambling:</i> challenges could be used to encourage operators to come up with ways to go beyond tackling harms, towards more positive upstream welfare activities that improve well-being.</p>	<ul style="list-style-type: none"> <li>• Determine what works to make these challenges successful, and how effective challenge outcomes are at delivering wider positive market outcomes, versus organically-driven solutions.</li> </ul>

## Regulatory-based

Approach	Application	Key challenges to solve
<p><b>Benchmarking &amp; best practice</b> involves collecting and sharing operator performance data, to encourage the industry to improve consistency and <a href="#">increase performance where standards are comparably low</a>. This could be effective if the main barrier is operators' lack of knowledge on their relative performance and what best practice looks like and/or if reputational incentives are strong. This has some similarities to market-based approaches above – however, the key difference is that the main audience for data dissemination is operators themselves rather than consumers.</p>	<p><i>Labour markets:</i> In 2017, the <a href="#">GEO</a> mandated that organisations with ≥250 employees were required to report their gender pay gap publicly. <a href="#">Evidence shows this policy has been effective</a> in nudging organisations to reduce their respective pay gaps.</p> <p><i>Gambling:</i> The GC could mandate that operators are regularly assessed against an industry standard. This information could help operators identify means to improve their own safer gambling policies against best practice. Existing initiatives, such as <a href="#">GamCare's Safer Gambling Standards</a>, should be considered and leveraged. Experimentation could inform how best practice and assessment processes evolve.</p>	<ul style="list-style-type: none"> <li>● Determine the data that is needed and how to link with consumer outcomes.</li> <li>● Determine the data operators will pay most attention to.</li> <li>● Consider the role and impact of reputation-based incentives.</li> </ul>
<p><b>Outcomes-based (product) regulation</b> sets specific consumer outcomes related to things like consumer <a href="#">welfare or avoidance of harm</a> but gives firms flexibility to decide how best to meet them. Unlike rule-based remedies, this approach gives firms the flexibility on how to achieve the goals. Performance is assessed through data collection and poor performance is punished.</p>	<p><i>Markets:</i> BEIS is drawing on the principles of <a href="#">outcomes-based approaches</a> to support technological transformation in smart home appliances, and the development of self-driving cars.</p> <p><i>Gambling:</i> The GC could assess operators based on the level of harms caused by their products and platforms. For example, a random selection of operator customers could be assessed on their comprehension of the odds of winning a game that they play, such as slots. Where the comprehension is deemed too low (e.g. 60% do not accurately respond to a multiple choice question), operators are sanctioned.</p>	<ul style="list-style-type: none"> <li>● Determine the data that is needed and how to link with consumer outcomes.</li> <li>● Determine appropriate incentives to motivate operators to pursue these outcomes.</li> </ul>
<p><b>Risk-based (product) regulation</b> involves the targeting of enforcement activity on products at <a href="#">higher-risk</a> of</p>	<p><i>Financial Services:</i> The FCA adopts a proportionate and risk-based approach to its <a href="#">supervision of financial firms</a>,</p>	<ul style="list-style-type: none"> <li>● Determine how best to measure risk and whether it is in line with the <a href="#">GC's</a></li> </ul>

<p>harming consumers. This targeted approach could be <a href="#">particularly beneficial for the GC</a>, given their size and limited resource for enforcement compared with industry. In the US, restaurant reviews were used to help health inspectors <a href="#">target where to focus their inspections with discerning accuracy</a>.</p>	<p>targeting firms misconduct is most likely to be significant, or cause most harm – particularly for vulnerable customers.</p> <p><i>Gambling:</i> The GC could use operator data, complaints data (e.g. via Resolver), and social media data to find better, more timely indicators of risk, to dynamically target inspections.</p>	<p><a href="#">existing approach to measuring risk</a>.</p> <ul style="list-style-type: none"> <li>Standardise the measure across the industry.</li> </ul>
<p><b>Rules-based (product) regulation</b> sets out activities that an operator must implement to comply with regulation, such as <a href="#">remote technical standards</a>. This is most relevant to areas where best practice has been established or where minimum requirements are necessary to ensure safeguarding. Consistency in this regard can greatly benefit consumers as they know what to expect or become familiar with a process. These remedies are particularly relevant to gameplay design and safer gambling tools.</p>	<p><i>Financial Services:</i> The FCA uses <a href="#">behavioural experiments to determine whether or not to update their standards</a>, including in research on minimum credit card repayments.</p> <p><i>Gambling:</i> Gameplay – establish <a href="#">remote technical standards</a> that require operators to signpost towards specific support services when a gambler hits a marker (or ideally comes within the threshold) signalling they are at risk of harm.</p> <p>Safer gambling tools – all deposit limits should suggest a default limit that is informed by a gambler’s affordability check (see BIT experimentation on default deposit limits).</p>	<ul style="list-style-type: none"> <li>Experimentation is key to assessing the effectiveness of standards and how consumers respond to them.</li> <li>Implementation by operators may highlight unintended consequences of the guidance. Early industry collaboration or iterative updating may be needed to ensure impact.</li> <li>Evidence gaps will hinder the ability to set quality standards.</li> </ul>

## Tax-based

Approach	Application	Key challenges to solve
<p><b>Taxes</b> or levies work as a financial incentive for operators to adopt safer practices, in order to avoid squeezed margins, or risking lowering demand by passing on costs to customers.</p>	<p><i>Sugar levy:</i> Following the announcement of a sugar levy the volume of sugars sold from soft drinks declined by 30%. The announcement <a href="#">influenced industry to reformulate, and consumer choice</a> - sales of drinks subject to the tax declined 50%, while demand for low/zero-sugar drinks rose 40%.</p> <p><i>Gambling:</i> If a new statutory levy is introduced, there is an opportunity to design it to incentivise practices that enhance customer well-being. For example, the levy could be varied depending on the proportion of an operator’s customer base that are at-risk of gambling harm.</p>	<ul style="list-style-type: none"> <li>Explore how a statutory levy can incorporate behavioural incentives such as in the design of the sugar tax.</li> </ul>