



Jean Jørgensen

Executive Director of the World Lottery Association (WLA)

The WLA membership includes lottery operators from all around the world, which gives Jean Jørgensen a uniquely global perspective on our industry. And that's a good thing because the global markets are being blended together by the elimination of international barriers to free trade and commerce and the technologies that penetrate geographical borders. So we want to know how the problems and opportunities manifest themselves differently in different parts of the world. And what are the commonalities? It is integral to Jean Jørgensen's mission to help his membership get clear on those issues. Visit www.world-lotteries.org for complete info on the WLA.

Public Gaming: Before we get to specific questions, you were appointed to the position of Executive Director of the WLA last October. But, you've been in the industry a long time, haven't you?

Jean Jørgensen: Yes indeed, I have been in the lottery business for 17 years. I began in 1991 as the assistant to the director of the Danish national lottery where I served 14 years; the last ones as acting CEO. Danske Spil has a full range of products from exclusive licenses on draw based games like Lotto; Instants and sports betting with fixed odds to a horse racing tote and slot machines in a regulated but very competitive market. In 2005, my family and I moved to Brussels, Belgium, where I worked with gaming politics and business intelligence as an independent until 2009 where I took over as Executive Director at the WLA in Basel, Switzerland. My academic background is a masters degree in economics and an Executive MBA. Prior to my lottery career, I worked as a fund raiser for the United Nations High Commissioner for Refugees in Geneva, Switzerland.

How influential on the EU Commission is the Parliamentary vote and assertion that member states should retain regulatory rights and not be forced to comply with some pan-European regulatory system imposed by the EU Commission?

J. Jørgensen: In March this year, the EU-Parliament adopted a resolution on "The integrity of online gambling" with an overwhelming majority—544 votes in favour, 36 votes against

and 66 abstentions. It was based on the so-called Schaldemose report which made it clear that online gambling is not an ordinary commercial activity and that the 27 EU members have the right to control and regulate gambling markets within their own borders. The resolution has no direct or immediate legislative implications. However, any future proposals from the EU-Commission, which has the right of initiating EU law proposals, would need the adoption by both the Council and the EU-Parliament. The Parliament's resolution on online gambling clearly demonstrated that its members will not support any proposals from the EU-Commission based exclusively upon internal market principles. This reiterated the members' views from 2006 where gaming was completely taken out of the EU services directive—a directive adopted to promote and advance the free markets for services within the EU. Although we have a newly elected EU-Parliament for the next five year term, nothing indicates that the approach to gambling and its sensitivity has changed. A summary of the 14 pg. Schaldemose report on online gambling can be found at this link: <http://www.europarl.europa.eu/oeil/resume.jsp?id=5680812&eventId=1070535&backToCaller=NO&language=en>

How is this issue playing out around the world? Do other countries like China, Japan, and regions like Africa, South America, Australia, have similar problems clarifying regulatory policy and control over remote Internet gambling operators? Is this an issue that engages the active involvement of the WLA or this not so much a WLA issue?

J. Jørgensen: I believe all regions face the challenges of adjusting their gaming laws to take into account technologies which facilitate easy global access. However, the need and the format for regulatory gaming policies vary from one region to another and differ even within jurisdictions from the same region. The WLA would like to facilitate the exchange of experiences and policies across its global membership. We also emphasize each jurisdiction's right to regulate and control gaming within its borders. Finally, we maintain that that gaming is not just an ordinary economic activity and it doesn't suddenly become one just because technology has advanced. That being said, the WLA does not take any position itself but leaves the role as spokesperson to the regional lottery associations and the individual members. After all, they are in the best position to know about their region's particular circumstances and cultural and historical gaming heritage.

Comments on the EU Commission request for France to loosen restrictions on the gaming operators?

J. Jørgensen: France is one among more than ten EU member states where the EU-Commission over the past many years has claimed the gambling laws should change to allow more competition. What is happening now is that many European jurisdictions adjust their gambling laws in accordance with their cultural background and political desires for public order, consumer protection and, of course, the fact that they are

...continued on page 24

EU member states. The adjustments will facilitate regulation and control of gaming delivered through internet technology but in different formats depending on the countries' objectives. New legislative initiatives range from a complete ban of internet gambling like in Germany to a nationally regulated and controlled partial opening up of some of the gaming services in other member states like France, Spain, Italy, and Denmark.

Tell us about the most important WLA initiatives. What are your top priorities for the next 12 months?

J. Jørgensen: To make sure our 140 member lotteries, 41 associate members (suppliers) and our valuable contributors feel they get value for money. We strive to create the best possible platform for the membership to exchange ideas and experiences which in turn should help them excel and grow their business. The platform is built on five service areas. The WLA Convention and Tradeshow is one such key area where we have two major upcoming events: The World Meet 09 in Chile, Santiago 26-29 October, organized in cooperation with CIBELAE and hosted by Chilena de Beneficencia; and the WLA 2010 Convention and Trade Show in Brisbane, 31 October to 5th November 2010, hosted by Golden Casket. I trust both of them will provide both hard core business insights and excellent opportunities for professional networking in great and inspiring environments. The second service area is training and education, where the WLA assists the regional associations in planning and conducting seminars for its members. The third area is communication through our WLA magazine and WLA website. The fourth area is the development and management of standards of security and responsible gaming and finally a group of services which includes the collection of statistics and other business intelligence related issues. Consolidating our services in these areas hopefully represents value to the membership and also to potential new members. I realize that not all lotteries have the same opportunities to engage equally in all activities (due to different factors like travel constraints). This, however, does not lower the value of demonstrating good "family relations" to both internal and external stakeholders through a WLA membership

The WLA and the regional associations have various certification programs to attest to the superior performance standards met in areas like Responsible Gaming and Security. Vendors get certified for things like "Quality Assurance Best Practices" and other performance qualifiers. What exactly is the purpose

of the certification?

J. Jørgensen: The WLA has a newly completed standard for responsible gaming and a long standing one for security and risk management. The purpose of a certification process is two-fold. Most importantly, the lottery systematically scrutinizes its processes in the relevant area. Is it performing well or perhaps even excellently, or maybe not so well? For responsible gaming, the lottery looks at its training of staff members; training of retailers and treatment referral just to mention three of the ten action areas. Secondly and again using the example of the WLA responsible gaming certification, the lottery gets an evaluation of its practice and advice on where to improve it. This is given by the WLA Independent Assessment Panel of experts in various areas of corporate social responsibility. The visible proof to employees and outside stakeholders that the operator has systematically reviewed its processes and has been assessed by outside CSR experts is the certificate. It's similar to the diploma you receive when you graduate from, for example, a business school. The certificate not only shows you passed but also your family relations as mentioned earlier. You become a member of the family that graduated from that particular business school. The WLA certificate shows your family relationship with the world's best lottery operators which in itself is valuable. I certainly think this is relevant for regulators and policy makers and I do believe that operators not following the best practice will be asked why not and what they do instead. The other example is the WLA Security Certification Standard which has been in existence for more than a decade. Today, some 35 lotteries are certified and I trust more will come. The procedures have been changed this year to get WLA security certified. Earlier, only two companies could do the WLA security audit and they were both situated in Europe. Now, any accrediting institution with good knowledge of the lottery business may seek the WLA's approval that it can perform the WLA security certification. This should make it easier and less costly particular for lotteries outside Europe to be certified. To your question of why it matters: it is typically used as a requirement for being part of a block game like, for example, Euromillions.

Prize Payout Percentage. We do know that increasing the prize payout percentage increases sales and net profits. I would think that the operative question isn't just whether it increases net profits, but by how much does it increase net profits.

J. Jørgensen: That's exactly right because

it's not enough to have a modest increase in net profits combined with a big increase in sales. In general, the public, and the policy-makers, would rather not have sales go up more than necessary. They would expect you to deliver a big increase in net profits for a relatively smaller increase in sales. And that's not always easy to accomplish. For instance, at the Danish Lottery, Danske Spil, we felt compelled to increase the prize payout because our research indicated that competition was seriously impacting our sales. We succeeded at increasing sales volume, in fact we doubled sales which were more than we expected. But at the end of the day what was left for good causes was more or less the same as before. The retailers loved us of course. Their commissions doubled. It should be pointed out, though, that it is entirely possible, likely even, that had we not increased the prize payout that sales would have declined more and that would have been very bad. My point is that I do not consider it a simple foregone conclusion that increasing prize payouts produces a robust increase in net profits to good causes. And remember; once prize payouts have been increased there is no return to the old structure. You can't decrease prize payouts, certainly not in the increasingly competitive environment. I would emphatically say that to decrease prize payout percentage does have the very predictable result of crippling the image and perception of value and fun for the players and results in a decrease in net profits to good causes. That we do know, so we can't reduce payout percentage. Nothing can be worse than weakening your value proposition, especially since competition for both the entertainment dollar and the gaming dollar is certain to continue its upward climb. It's a question of balance and appreciating that increasing the top line does come with the potential increase of problem gaming.

That's why lotteries truly are the best operated gaming organizations in the world, isn't it? This balancing act, managing the variety of sometimes conflicting public service objectives, is what the WLA lottery operators do better than anyone.

J. Jørgensen: That's exactly right. Gaming and wagering is a form of recreation that is quite obviously different from any other because of those conflicting objectives. Operating a business to comply with such a mixed bag of objectives is difficult and actually something that lottery operators can be quite proud of. The willingness and ability to stay tuned in to the will of the political constituencies while performing to the highest

...continued on page 32

resources on the goal of increasing net profit as opposed to just top-line sales.

So that means focusing on lotto?

T. Rich: Exactly, for now. We will always sell more scratch tickets than we do lotto tickets. It's a delicate balance, because our marketing plan is comprehensive and geared towards selling all of our products. But we can do a little extra to create a sense of excitement, newness, and urgency in the way we market the high-margin products.

Like Hot Lotto?

T. Rich: That's correct. Powerball always has some good runs, but in this past fiscal year, we didn't have the normal huge jackpots until May. The year before, we had a \$318 million jackpot. So we acted quickly to promote and sample Hot Lotto. We did more sampling and more driving people into the on-line business with Hot Lotto and that seemed to offset the lack of big Powerball jackpots. Now, this year the jackpots are starting to grow again and we think Powerball will be really strong, but I think what you mentioned a little bit ago is true about the entrepreneurial spirit as our organization recognizes changes in the market conditions and reacts more quickly. We don't want to be lazy and think that we're tied into just implementing our six-month plan. If we

need to adjust, we'll adjust sooner and smarter.

Do you think we're in the second half of this recessionary cycle and that we will start seeing some concrete signs of pulling out of the recession?

T. Rich: Everyone refers to the unemployment rate as being high and therefore making it hard to sell. I think that instead of 8 percent unemployment, we should think of it as a 92 percent employment rate. That's 92 percent of the people who are able to buy and our job is to appeal to them and get them to turn to lottery for entertainment and the opportunity to dream and imagine what it would be like to win a million dollars.

You've obviously brought a wealth of business management experience into your role. How did you get up to speed so quickly on all the industry specific skill-sets and knowledge?

T. Rich: As a new CEO, the first step is to earn respect rather than demand respect. We had a really good team here already. They'd been through a lot of difficult times, so getting a clear sense of mission and purpose, building out the team, and getting about the business of executing are all we had to do and that's what we've done. With the experience of this veteran team, I was able to just listen, ask a few good questions, support the staff with whatever tools and direction they needed,

and all the while learn the business myself. The Lottery Directors' meetings also have been really great for me. There is a great group that is leading the U.S. lottery industry and I am fortunate to be able to learn from them. Besides, they're all a lot of fun, which makes being in this business so exciting. So as much as I talk about all the different ways to generate bottom-line income, this really is a sales business. That's my background and so I love that aspect of it. And what's not to love about lottery?

You do have a great team there in Ken Brickman, Mary Neubauer, Larry Loss, Brenda Loy, Joe Hrdlicka and Joe Diaz, and the whole team, and I know there are others there that I should be mentioning. But I'm sure they're really excited and pleased with the leadership that you've brought, and so congratulations to you for that.

T. Rich: The true test for me will be how everyone feels about our success a year from now. You know, every day we work hard to gain the respect and every day we're talking about what's happening today, how do we move ahead? It's always trying to evaluate and work together as a team. But we're really working hard on new ideas and making sure that we have some new things in the pipeline at all times that meet our goals, and the No. 1 goal is bottom-line proceeds to support good causes. ♦

Jean Jørgensen Interview ...continued from page 24

standards in all the conventional matters of running a business is really the most valuable skill set that a gaming operator can have. That's not to say that a private commercial enterprise can't also acquire those skills because we know that they can. Actually, some of the best performing lottery entities in the world are privately held and operate under exclusive licenses from governments. Our political leaders just need to be aware of the nature of this business and the complexity of fulfilling this mixed bag of public service objectives. I generally think they are. In Europe, the EU Commission is pushing to open the markets up to free market competition but both the Council and the EU-Parliament—which are the policy deciding bodies—have been very cautious and highly aware of the sensitivity of this area as illustrated by the Schaldemose report mentioned earlier. The member states need to be allowed to determine the terms and conditions and tax rates to operate to ensure their gaming policy objectives. Those typically include the prevention of crime, consumer protection and funds for good causes.

Will there ever be resolution between the EU Commission and the member states as to how the gaming industry should be regulated?

J. Jørgensen: A lot can be said about this topic. But I will limit myself to one observation. I do not see equilibrium or a single agreed upon way of regulating the markets for the next three to five years. There will be many different models. There will be those member states that try to maintain a legal monopoly. This is permissible under EU law. There are just a number of conditions that need to be fulfilled in order to do that. Then there will be a more liberal 'license and regulate' model like you see in the United Kingdom. Italy has implemented what is called a "controlled opening" and other jurisdictions like France and Denmark are also taking this route. This route is about licensing more than one operator in a given game category but having strict regulatory standards and perhaps a higher tax rate to comply with. Philippe Vlaemminck wrote about that in your last issue. Everyone is going their own way and we will have a patch-

work. And that is fine because different nations have different needs, cultural backgrounds and different priorities and they should be able to decide for themselves how they want the gaming industry to operate in their country. That being said, it would be beneficial to everyone if the EU member states could agree on some of the aspects on cross border Internet gambling to protect vulnerable groups and to enforce the member states' rights to regulate and control gambling. The Council now has a working group on gaming and more meetings have been planned in this second half of 2009 under the Swedish Presidency.

One last thing on this topic...the 67 WLA lotteries in Europe are directly responsible for contributing literally billions of euro to good causes. Actions that would clearly result in the massive transfer of billions of euro from good causes over to private interests would not be welcomed by many EU citizens and it would not progress the economic and social developments of the European Union. ♦