



# Forging a Future for Government-Lotteries in the Face of Increasing Competition from For-Profit Gaming Operators

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Following is a synopsis of the presentation made to the audience at PGRI SMART-Tech on April 6 in New York. It included a large number of slides that illustrated the points, most of which are not included here. View the complete presentation at [www.PGRItalks.com](http://www.PGRItalks.com). *Edited by Paul Jason*

**THE CONTEXT IN EUROPE:** Theoretically, each jurisdiction has an organized regulatory framework in place. It might include a monopoly model, or a single license model, or a multiple license model, or a combination of these. It is this diversity in Europe that makes everything so challenging, especially from a regulatory point of view. The good news is that effective regulations and responsible gaming are increasingly important. Game portfolios, advertising communication, and promotional methods are coming under more and more regulatory control.

The problem is that licensees and authorized operators are facing fierce competition from offshore online operators who do not comply with the laws of the jurisdictions in which they operate, i.e. the “consumptive” markets where the players actually reside. They may be legally licensed in the jurisdiction where they are based, like Gibraltar or Malta, but they operate in other jurisdictions where they are not legally licensed. Further, the jurisdictions where they are licensed have a very low tax rate, sometimes as low as 1% or 2%, and very low fees to acquire the license. So that lower cost-base gives them a big competitive advantage over authorized operators who pay higher taxes and comply with higher standards of operation. Security, integrity, and responsible gaming required in the regulated markets are much higher than the offshore tax havens. Offshore operators do not comply with



rules that limit the kind of advertising, promotion, and marketing communications required in the regulated markets. And they access the regulated markets via the low-cost and ubiquitous channel of the internet. There are methods to block access to the consumers of the regulated markets, but governments and the EU Commission are reluctant to apply them. There are reasons for that, most of which we may not agree with, but it remains a matter of fact that we have to deal with. In the U.S., you are getting a taste of this kind of situation as it applies to Daily Fantasy Sports. Imagine if DFS operators are able to convince state and federal legislators that DFS is not gambling and should not be regulated or taxed as gambling. Not only would that completely reshape the whole world of sports-betting in the U.S., it would open the door for creative operators to develop new play-styles and marketing methods that deliver a games-of-chance player experience and yet fall outside of existing regulatory statutes and restrictions against cross-border commerce of gambling products. You may have seen the ads for Publishers Clearing House that look like they are operating a lottery. That is what has been happening in Europe, on a much larger and diverse scale, for many years now.

That is why it is so important that the community of government-gaming operators build a strong brand and differentiate ourselves from others in the games-of-chance industry. Is Europe in the throws of a disintegration of the state monopoly model for lotteries? Yes and no. In theory the answer is “no,” but in practical reality the market is opening up to new kinds of operators who are disrupting the monopoly model that state lotteries and the good causes they support rely on.

Direct competition from games-of-chance operators is increasing, which means that we clearly must identify our strengths and advantages to compete more effectively. Let’s compare the state lottery model and the for-profit offshore gaming operators, and try to identify our competitive advantages and how we can lever-

# STATE LOTTERIES

**VS**

# FOR-PROFIT GAMING OPERATORS

Balance of business priorities with social, economic and environmental responsibilities	Profit maximization
Long-term shared value	Short-term profitability
Stakeholders engagement	Shareholders satisfaction
Community involvement	Business operations
Homogeneous distribution across entire geographical territory	Selective distribution targeting areas with high density population
Important geographic coverage favoring proximity	Fewer points of sales favoring profit maximization
Support and close collaboration with multiple local small businesses	Big points of sales profit-oriented
Important infrastructure supports retailers	Limited infrastructure available
Free and performing equipment for all retailers	Selective equipment available according to the venues' performance and potential
Mandatory on-going training including Responsible Gaming trainings	No or minimum basic training
Security and integrity of gaming operations	No prescriptions
Player protection	Consumer incentives and inducement
Responsible gaming standards	No prescriptions
Wide assortment of products	Homogeneous assortment with segmented and targeted products
Moderate payout rate	High payout rate
Limited and moderate offers, promotions and bonuses	Generalized promotions and high bonuses
Wide assortment of products	Homogeneous assortment with segmented and targeted products
Products designed for entertainment	Products designed for profitability
Responsible marketing and communication	Aggressive and inductive marketing and communication
<b>Profits distributed to good causes</b>	<b>Profits distributed to shareholders</b>

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age and promote them. My comparison sets the different models alongside four different axes: the values, the products, the distribution of the gaming services, and how we are using our profit, which is the most important differentiator.

**VALUES:** We need to clarify for ourselves and for everyone else what we stand for. We comply with rules and obligations as do many others in the commercial world. But government-lotteries go much further than that. The heart of our business includes social and environmental responsibilities as equal to our mission to generate profit for good causes. Instead of maximizing profits for shareholders, we want to optimize outcomes for all stakeholders, which includes the general public. Our focus on long-term shared value with society at large and stakeholder engagement is something that is unique to our industry.

Responsible gaming, for instance, is a priority not because it is required of us but because it is part of our DNA and commitment to the values we share with society. Our competitors from Malta and Gibraltar focus on profit maximization with little consideration for the impact they have on society, or even the players. Their promotional style is aggressive to the point of being irresponsible. We should integrate the values of social responsibility, integrity, and transparency into our brands as much as we can.

**PRODUCTS:** Our goal is to provide a safe and secure destination for consumers who want to play recreational games-of-chance. Our mission is to meet the needs of society, which includes everyone, all consumers everywhere within our jurisdiction. To that end, we provide a wide portfolio of products. Some of Lottery's products are more profitable than others, but all of them serve a purpose of meeting the needs of society for a safe and legal option for consumers who want to play games-of-chance. Maximizing profit by focusing aggressive promotions on a limited number of highly profitable products is not our way. You can look at the promotions of commercial betting operators to see how that is exactly their method. It is not good for society and it encourages problem gambling. They give bonuses for additional plays, even giving away free product to entice new players to play more.

As the president of the WLA, now is a good time to mention the WLA Responsible Gaming Certification. The process of getting certified informs us on how games should and should not be promoted and teaches us the operational procedures for ensuring that we stay true to our commitment to Responsible Gaming. It includes a marketing and publicity code of conduct that are applied to our advertising and promotional activities. It explains the importance of requiring our stakeholders, commercial part-

ners, and external agencies to sign up and apply the same codes of conduct. Raising the standards for the entire industry is a very important part of our agenda.

(Examples of what should not be done are displayed on the slides, from Unibet and Ladbrokes advertisements. These are certainly not the only offshore operators who employ these kinds of super-aggressive promotional tactics.)

**DISTRIBUTION AND GAMING SERVICES:** Lottery's method of distribution, relying on a wide network of retail stores, is all about proximity to the community and service to our players. This promotes shared values, collaboration with a large number of small businesses, and a close affiliation with the welfare of the communities that we serve. Offshore operators have very few points of distribution, often only one, out of which they promote online gambling, and focusing on high-density, lower income population centers. This promotes profit maximization with very little concern for the values or welfare of the communities where the players reside. And Lottery's profits are shared in the form of commissions to the retailers, whereas online operators have no investment in and share no profits with the businesses of the community.

**PROFITS:** To my mind, this is really the number one differentiator. The profit of government-gaming is used to support good causes as opposed to enriching shareholders. In Italy, the UK, Australia, and other places, the licensees are private companies which do garner a portion of the profits for private shareholders. But the portion is very small, highly controlled, and the entire model is still based on the goal of channeling income to good causes and delivering optimal outcomes for society. An estimated \$78 billion U.S. dollars was distributed by 160 WLA members worldwide to good causes in 2014. Commercial operators pay taxes, but the amount they pay is a tiny fraction of the GGR—as low as 1% in some jurisdictions. And lobbyists for offshore operators are working tirelessly to get the taxes lowered everywhere. If the government-gaming model that depends on monopoly protection breaks down, it could result in \$78 billion being transferred from good causes over to private shareholders. At the very least, it will result in market share being shifted from Lottery over to illegal operators. Is that really what is best for society? That is the decision that faces the shapers of public and regulatory policy. So, we need to work tirelessly to make sure they understand the implications of the decisions they are making! ■