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- Modernizing Lottery Operations and Multi-Jurisdictional Collaboration

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Michael Conforti



Hansjörg Höltkemeier



David Roy



Gerard Caro



Socrates Kokkalis



Kevin Mullally



Moti Malul



Frank Cecchini

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## From the Publisher

Congratulations to **Carole Hedinger**, Executive Director of the New Jersey Lottery and **Bill Jourdain**, Deputy Executive Director of the North Carolina Lottery, the recipients of the Lottery Industry Lifetime Achievement Award! Carole and Bill will be honored in the ceremony at PGRI SMART-Tech NYC on March 21. See Bill's biography on page 14. As the recipient of the 2016 Lottery Industry Lifetime Achievement Award, Carole's bio was published in the Sept 2016 issue of PGRI magazine which can be viewed at [pgridigitallibrary.com](http://pgridigitallibrary.com).

### Value is driven not by invention and creation but by 're-mixing' existing technologies and applying them in new ways.

Congratulations to **Randy Miller** and the entire team at the **North Dakota Lottery** for their fabulous performance in fiscal 2016. The extraordinary 54% year-over-year increase in net funds turned over to their beneficiary was tops in the North America, earning them recognition as the winner of the Sharp Award for Good Causes. Join us at PGRI SMART-Tech NYC to recognize Carole Hedinger, Bill Jourdain, and the North Dakota Lottery for their achievements.

The interviews and articles in this issue reflect the struggle we are having with momentous changes which seem to be converging on us all at one time. And the last three industry conferences (WLS Singapore, NASPL Atlanta, PGRI Miami) also reflect a focus on how to adapt to challenges and exploit opportunities that are coming at us from many different directions. Consumer engagement strategy is segmenting the market into narrower slices, for instance, while the biggest technological and operational opportunities require multi-jurisdictional collaboration, and eventually even global perspectives. Our stakeholders all reside within our own jurisdiction, yet regulatory issues are being influenced at national and even global levels. Strategies to connect with the individual consumer combine with digital campaigns that drive 'viral' sharing that have no geographical or traditional demographic boundaries. Thankfully, the Lottery industry has the benefit of seeing how leaders in other sectors are taking advantage of these opportunities. World Lottery Summit (last one held in Singapore in November. Congrats to Team WLA!) always has world-class keynote speakers from outside our industry to inspire us to think bigger and look outside ourselves for answers to our questions. NASPL Atlanta (held in October, Congrats to Debbie Alford and Team NASPL!) program that was a revelation. Top executives from Coca Cola and UPS, the CEOs of the Atlanta Hawks and Fal-

cons, futurists and rule-breaking media disrupters ... shared next-generation strategies that are being implemented right now.

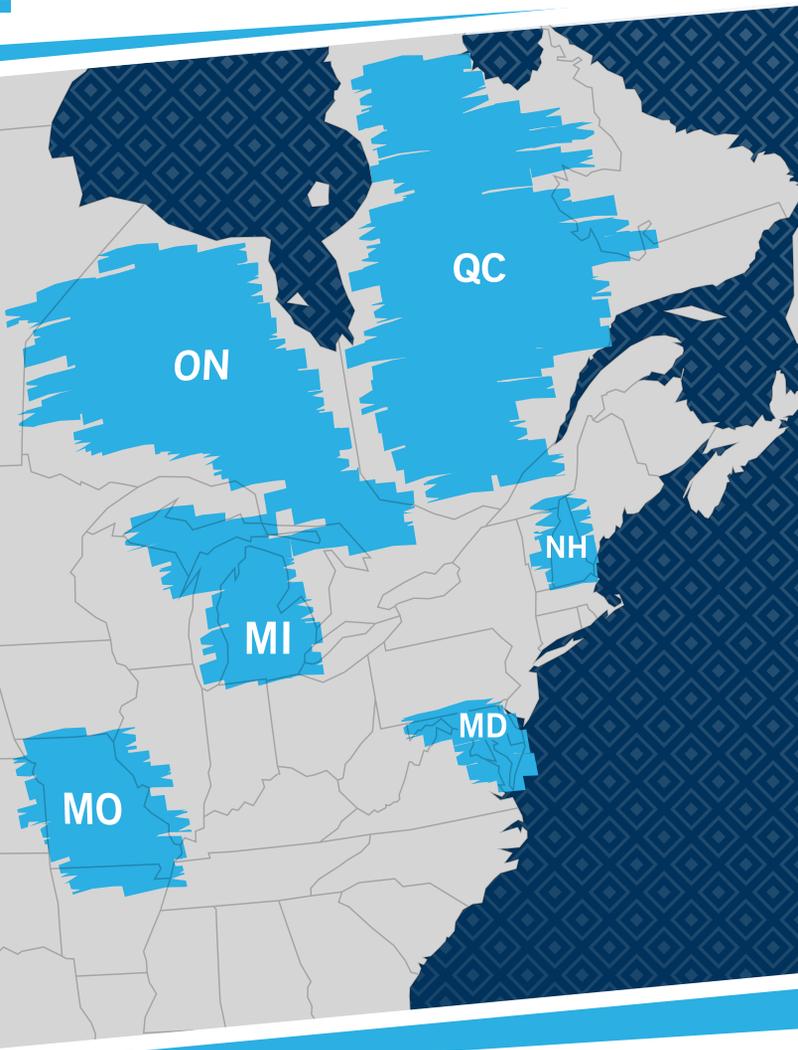
In his most recent book *The Inevitable*, Kevin Kelly provides an interesting take on the 'future-shock' aspect of modern life. His primary thesis is that for all the change that has been thrust upon us over the last twenty years, we are still at the starting line, the beginning of a new era, a time when technological advancements have hardly begun to be applied, a time when the biggest advances are yet to come, and they'll be coming at a faster and faster rate. If this was the industrial revolution, it is like 1785 and we have just witnessed the unveiling of the first steam-powered loom, but have yet to see how it transforms the textile industry, much less how it ushers in two centuries of change and progress. The consolation is that we're all in the same boat, and are each of us empowered with the access and capacity to be the one who makes a difference. Further to that, Kelly explains that the key to innovation is not creating or inventing the Next Big Thing, something completely new and different. The cost of transformational technologies constantly declines so that being a 'late adopter' has the advantage of even lower costs and improved functionality. That is why value is driven not by invention and creation but by 're-mixing' existing technologies and applying them in new ways. The industry pioneers have not only re-mixed the technologies, they have re-mixed strategies and methods of execution. Most of the heavy-lifting has been done for us. We just need to connect the dots for how the experience of others can be applied to our industry. Of course, that last stage does expose 'last-mile' rubber-hits-the-road obstacles that represent opportunities for resolve and fortitude!

PGRI conferences focus on this task of applying technologies and business processes to Lottery that have been successfully applied in other industries. The fact that there are far more similarities between Lottery and other industries than there are differences does not change the fact that Lottery needs to vet every single issue before pulling the trigger to implement a new technology or business process.

We hope to see you at PGRI's SMART-Tech New York. Mark your calendars for March 20, 21, and 22 in NYC for this popular event. Visit [PublicGaming.org](http://PublicGaming.org) for conference info, updates, and registration and room reservations links. ■

**Paul Jason, Publisher**  
**Public Gaming International Magazine**

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# SHARON SHARP 'GOOD CAUSES' AWARD

PRESENTED AT THE PGRI SMART-TECH CONFERENCE,  
NEW YORK, MARCH 21, 2017



**Randy Miller**  
Executive Director,  
North Dakota Lottery



## North Dakota Lottery

Government Lotteries have a special mission, quite unique really. Lotteries operate in a world of business and competition, but their mission is to create funding for good causes. And what a wonderful and special mission that is ... Generating over \$80 Billion Net (over \$250 billion in revenue) world-wide for Good Causes that serve the interests of the general public. Whether it is for education, amateur sports, health, care for the elderly, or even the general fund that is the source of all government services, the recipients of the funds generated by lottery are truly worthy causes.

The Sharon Sharp Award recognizes and honors the lottery which achieved the highest percentage increase in net funds contributed to its beneficiary. Ultimately, this is what we're all in this business to accomplish ... maximizing the funds contributed to lottery beneficiaries. This award is named in honor of a person who is no longer with us but who has done as much as anyone to help this industry to be the best that it can be. Sharon Sharp embraced the true mission of lottery with an enthusiasm that always reminded everyone of just how privileged we are to be a part of this industry. Sharon's focus on the Good Causes that depend upon lottery performance inspired Rebecca Hargrove and Sharon's many friends and colleagues in the industry to name this award after her, to honor Sharon's memory and keep alive a legacy that will hopefully inspire future generations to appreciate the importance of our calling and to never lose sight of its purpose. Congratulations to the Louisiana Lottery Corporation for a fabulous performance, and for your service to Good Causes! ■

Honoring the North Dakota Lottery for producing the Sharpest percentage increase in net funds contributed to its beneficiary:  
**54% Increase in Net funding to Good Causes in Fiscal Year 2016 over FY 2015.**

# MAJOR PETER J. O'CONNELL PGRI LOTTERY INDUSTRY LIFETIME ACHIEVEMENT AWARD



## William T. (Bill) Jourdain

Deputy Executive Director of Finance, Administration, and Security,  
North Carolina Education Lottery

Bill Jourdain began his lottery career almost forty years ago. Hired by the New Jersey Lottery as a staff accountant in 1977, he moved from auditing retailer weekly settlements to becoming a member of the finance team that converted the New Jersey Lottery's manual bookkeeping records to a computerized accounting system, and served on the team that integrated instant game inventory, validation, and accounting into the on-line gaming system. He was a member of the 1983 implementation team for the gaming system conversion and served on the 1993 & 2007 gaming system procurement teams. Bill progressed to become the Controller for the New Jersey Lottery in 2000, and in 2002, he was appointed Deputy Executive Director for the organization. Over the next seven years, Bill served as Acting Executive Director of the New Jersey Lottery during transition periods within state government, bridging the gubernatorial appointment gaps between Executive Directors. Bill served in this capacity until November 2009 when he was hired by Tom Shaheen to become the North Carolina Education Lottery's (NCEL) Deputy Executive Director of Finance and Administration. Bill would also add the Security Department to his overall responsibilities in 2010.

Over the past 7 years Bill has overseen the conversion of the NCEL Lottery's Payroll and Budget and Accounting systems from legacy state systems to ADP and Microsoft AX respectively. Bill also served on the Gaming System and Support Services procurement team for the contract recently awarded in January 2016. Bill is also an active member in the implementation for both the Gaming System and Instant Ticket Production and Distribution conversion projects.

Bill is responsible for the management oversight of 72 lottery employees. The Departments under Bill are responsible for Financial Reporting, Collection, Payroll, Purchasing, Prize Award Payment, Retailer contracts, and the security and integrity of all lottery drawings and operations. Bill's administration department also oversees the management of the North Carolina Education Lottery's six operating facilities throughout North Carolina.

Bill has been married to his wife Noreen for 33 years, and they have 2 sons, Kevin and Patrick. Bill and his family now spend their time between Raleigh and Leland North Carolina, enjoying the beaches and the many golf courses that are available in the State of North Carolina.

Even though Bill and his family now call North Carolina home, they remain avid New York sports fans, especially the Yankees and Giants. ■



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## Hansjörg HÖLTKEMEIER

Chief Executive Officer, Deutsche Klassenlotterie, Berlin  
President, European Lotteries Association (EL)

### The Role of the EL and its Members in a Changing Regulatory and Competitive Landscape



FOR THE BENEFIT OF SOCIETY

**PGRI Introduction:** The business of government-gaming and Lottery is in flux all over the world, but more so in Europe than anywhere else. Lotteries all over the world operate within a political environment that is intended to serve the interests of the people. The EL and its members are tasked with complying with the will and directives of their jurisdictional political infrastructure, discerning the will and directives of the EU Commission, protecting the interests of their stakeholders, and operating a market-driven business. Perhaps more than in recent years, we have good reason to be confident that a judicious approach towards transparency and communication will support progress towards a sustainable future for government-lotteries.

Hansjörg Höltkemeier was elected to the position of President of the European Lottery Association (EL) in June of 2015. He has been a member of the Managing Board and CEO of the Deutsche Klassenlotterie Berlin since 2005, and a member of EL Executive Committee since 2009.

**Paul Jason:** *Can we hope that EU laws will ever become rationalized such that they enable the member states effectively enforce their laws against illegal operators?*

**Hansjörg Höltkemeier:** Rationalization is from my perspective the wrong word. It is more about the common understanding about the competencies and the direction of EU response to EU Commission policy vs. the competence and the rights/duties of the

member-states. While a common market was the main target and idea over years, the subsidiarity-principle is becoming more and more important and accepted by the commission. This is the good news.

The bad news is that this does not help us or the member-states in our daily fight against illegal offers. If we force EU to keep out of the regulation of our sector, we can't push them at the same time to support our

fight or to take its own action in law enforcement. I am nevertheless optimistic, that we will find a solution also for this challenge, as it is not just limited to the lottery industry but essential for all businesses, i.e. that change will happen through digitalization. The initiatives on anti-money-laundering and the actual discussion on sports-integrity in correlation to betting already show the need for a differentiated (subsidiarity) but nevertheless coordinated solution. European Lotteries will push in this direction.

*There are some commercial i-gaming and i-lottery operators, and by extension their suppliers, which do not respect the laws of the 'consumption' jurisdictions where they operate. This is highly disruptive to the gaming industry in general, and damaging to government-lotteries in particular. Do EL member lotteries do business with commercial partners who support the illegal operators? Or do EL members make a point of boycotting those commercial companies who do business with illegal operators?*

**H. Höltkemeier:** This is a good question, but nevertheless difficult to answer. In theory, we would like to divide into the good ones and the bad ones and we might like to play just with friends. But in prac-



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tice, this is much more difficult. Not only because of competition-law which might make it dangerous to boycott companies just because of their client-base. It is critical also from a standpoint of innovation. Think about a young start-up with a brilliant technical solution. Should we deny any business with them, just because their first client is a private one with illegal operations in one or more jurisdictions? Isn't it better to make the deal and to lead the supplier to work "on our side"? And what about long lasting contracts in which the supplier changes its business-model and opens its solution during delivery? I therefore believe that we cannot make one hard and fast rule. If the solution is good, every lottery company and every member has to be free to avail itself of the best solution.

It is another case, if the supplier is systematically offering solutions to support illegal operators or if it is operating illegally itself. A "no-go" is also possible when the supplier is using money from illegal activities to fight legal operators, e.g. in being a member of an association fighting against the lottery-state-monopoly-model. As soon as activities like this are visible, lotteries should stop their relation to such a supplier. It is more a matter of quality (real support of the idea) than one of a technical business relation and it is already a task for EL and its members to get the relevant information to judge on those suppliers.

*What can the EL and its members do to influence the shapers of public and regulatory policy to defend the interests of the beneficiaries of Lottery funding, or to at least enable the more effective enforcement of existing laws?*

**H. Höltkemeier:** It is all about making transparent, what is going on and what might go on in our sector without a strict regulation and powerful law enforcement. We've seen years of illegal expansion under the umbrella of the single market approach, that is mostly linked to business indicators. Indicators and metrics of measurement for addiction, manipulation, and fraud were missing.

This is the point at which EL and its members jumped in. With our former European Lotteries Monitoring System (ELMS, today part of Global Lotteries

Monitoring System), we developed a strong tool to identify manipulations in sports in correlation with betting. Our responsible-gaming-standard is world leading and common initiatives with beneficiaries make visible the things we are already doing on a grassroots-level in sports, culture, and social engagement, while our private competition is focusing on pure sponsoring or "fig-leaf-activities". The last point is very important and growing in its importance, as we have to tell positive stories to motivate politicians and stakeholders to support our way.

This is the reason, why we started to include our members' activities in our communications, such as with the European Week of Sports.

*How do you think the activities in the commercial sector (mergers, acquisitions, the actions of government-operators to move into commercial world, etc.) will affect government-operators in the future?*

**H. Höltkemeier:** My first impulse is to say: "I can't foresee the future. It doesn't even work with predicting the numbers of next week's drawing!" Taking then a closer look to the market, I am still not able to foresee one evolutionary direction, but I do see two sustainable trends, and also a polarization in our sector.

The first trend is commercializing and privatizing. Those jurisdictions which have a long lasting history in betting and gambling tend to open and to drive the market through public tenders. This is a chance for private operators as well as government-operators to enhance their business and to reach better cost- and market-positions through economies-of-scale.

The other trend is the "re-monopolization" of former private operations. Some states define the welfare of their population as the guiding principle for their regulatory model. In this case, the government-operator has to take over some sectors and to learn how to do this businesses successfully. The commercializing seems to lead the race, but the more commercializing takes place and the more the consequences become visible, the more arguments there are for the way of re-monopolizing.

Beside this polarization, we already see

mergers and acquisitions as well as an expansion of suppliers into operations and vice versa in both models. And we recognize a trend towards cooperation between government-operators to optimize the cost-side of their business. This last point is supported by EL, e.g. through strengthened innovation seminars and workshops and through a totally new "information hub" to be introduced in 2017.

*The EL is implementing many changes. How would you describe the mission of the Association and what are some of the top priorities to accomplish that mission?*

**H. Höltkemeier:** EL defends and promotes the model of state-licensed-lotteries for the best benefit of society. EL thereby supports the lottery-values of responsibility, society/sustainability, and integrity, with tools such as GLMS and examples/data to make transparent the negative consequences already visible in those jurisdictions which started a liberalization process some years ago. The focus of EL is to help its members to operate their lotteries for optimal results within their given environment.

And to the second part of your question about how to accomplish these goals: As described before, there is without doubt a trend in some jurisdictions towards commercializing the gambling sector, or at least parts of it, and to regulate and tax it like a typical business in the non-gambling sector. The two main arguments used for that are, first, that it is better to legalize an increasing illegal market for better influence ("to pull operators out of the grey or black zone and into the regulated zone"), and second, to make additional money by applying taxes to the revenues of all operators. Both arguments look like "quick wins" that are attractive to governments and seem to be easier for regulators to implement than to follow the more difficult path of actual law-enforcement (often cross-border) to protect consumers from unlicensed and therefore illegal offers. The long-term consequences of increasing social costs from addiction, gambling-related crime, money-laundering, and fraud, seem to be

Continued on page 52

# The Billion-Dollar Jackpot Draw Day is Coming.

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### Million to Billion

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- Visible up to 100'
- Dotted or solid font style
- Standard red or in multi-color choices



Following is an edited synopsis of the panel discussion held at Lottery Expo on September 13 in Miami. You can view a video of the complete presentation at: [www.PGRItalks.com](http://www.PGRItalks.com).

—Edited by Paul Jason, PGRI.

## PANEL DISCUSSION

### Moderator:

**Gary Grief**

Executive Director, Texas Lottery, President of MUSL

### Panelists:

**Andy Davis**

Chief Financial and IT Officer, Tennessee Education Lottery Corp.

**Tom Delacenserie**

Secretary, Florida Lottery

**Austin Huggins**

Technical Specialist, Publix SuperMarkets

**Paul Riley**

Vice President Product Marketing and Interactive Wagering, IGT

# THE PROMISE OF API (APPLICATION PROGRAMMING INTERFACE) TECHNOLOGY

*Presentations on the urgency to implement APIs were followed by this panel discussion. APIs are the key component to building the IT platform that supports the rapid deployment of technological innovation across the board. How and why will APIs increase Lottery sales and net funds to beneficiaries—what are the costs and risks as well as the benefits to implementation of APIs? This topic was introduced at PGRI Smart-Tech in April 2016, has gained momentum over the past few months, and is now at a point where concrete action-plans are being shaped. It's time to take it "to the next level" - to connect the dots and relate objectives like in-lane sales, cashless transactions, standardized reports and audits for multi-state retailers, and more ... to the technologies that enable them. The key to unlocking the transformative power of APIs is multi-state collaboration and funding. How do we get there?*

**Retailers are mandating how items are to be sold, how they're displayed, how they're stocked, replenished, and paid for. Retailers are leveraging IT to become data-driven enterprises, manage operations, and to adapt to new consumer journeys and interactions.**

In today's rapidly evolving retail landscape, lottery products confront several obstacles for adoption by major, multi-state retailers. The need to address and overcome these obstacles as an industry is becoming more pressing as retailers modernize their cash register equipment and IT systems, and retailers like Wal-Mart, Target, and CVS fundamentally change their relationships with the brands they sell. Retailers are mandating how items are to be sold, how they're displayed, how they're stocked, replenished, and paid for. Retailers are leveraging IT to become data-driven enterprises, manage operations, and to adapt to new consumer journeys and interactions. Consumers demand convenience and retailers are committed to delivering it. As state lotteries, we want to increase brand equity, awareness, ease of purchase and options. There is a solution to enable retailers and Lottery meet their goals: Application Programming Interface. APIs will play a key role in enabling Lottery to keep pace with these important changes in the retail environment. APIs already permeate our lives. It is the software-based language that is the backbone that enables the IT systems of the world to communicate with one another. Lottery needs the standard API to ensure our systems can connect with the world around us, to retailers, to vendors, and to each other.

Retailers strive for operational consistency across their stores in every respect. The methods in which data is transacted needs to employ the same consistency. For the communication language and reporting to vary from state to state creates onerous complexity, costly and time-consuming for both the retailer and the Lottery. There will come a time when the retail community will say, "This is what you need to do if you want to sell in our stores." It's imperative that Lottery not wait to receive the ultimatum. It will need to be done. It's just that the benefits to doing it sooner than later are so compelling that the time to push forward is now.

As an industry, Lottery needs to examine changes that will be needed as a result of adopting a standard API. The nature of those changes will vary from jurisdiction to jurisdiction.

With great knowledge  
**Comes great opportunity**

**Latest  
e-Instants Played:**  
VIP Black

**Loyalty:**  
1,320 points

**Favorite  
Scratch Card:**  
20x the cash

**Average  
Monthly Spend:**  
\$22.8

**Last Purchase:**  
1 week ago

**Age: 43.5**

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Regulatory, policy, accounting, ticket settlement and accounting changes may be required. The good news is that the API is a technological solution that simply enhances communications between retailers and Lottery and so should not impinge on issues that concern policy-makers.

There are multiple partners, vendors, and suppliers, who are stakeholders coming to the table to discuss APIs. Are the necessary contractual and business structures in place to accommodate these partners? Lottery may need to reexamine some of its business agreements to ensure they allow for this type of collaboration. The initiatives may require some adjustments, additions, or amendments to those agreements. It should not be difficult to make those adjustments. There just has to be a commitment from the lotteries to be open to changes, and for the vendor community to be committed to making changes. Too, the value chain will likely smooth a path for new vendors and types of service providers to enter the Lottery world.

are being addressed. Any and all changes must adhere to those standards and preserve the security and integrity of the system. The API initiative must deliver on that promise and it will. International markets have considerable experience with this business model. There is abundant precedence and blueprints for ensuring that the highest security standards are met.

Retailers want to sell more of everything, including lottery products, and we need a solution that is easy for our customers, easy for our associates, and will help us grow sales. Enabling in-lane sales and modernized processes is imperative for retailers. APIs provide the solution, presently lacking, that enables retailers to track and balance inventory, and measure and analyze all their cost centers like labor.

APIs will also facilitate Lottery's expansion into nontraditional locations like quick-service restaurants. There are many non-traditional venues that are looking for ways to entertain their customers. Lottery is an ideal fit which is not being deployed there as much as

**There will come a time when the retail community will say, "This is what you need to do if you want to sell in our stores." It's imperative that Lottery not wait to receive the ultimatum.**

Everyone agrees that Lottery needs to modernize for our customers and our retailers. Insofar as we want a different outcome, we need to do things differently. We have to keep our focus on the endgame, which is something that will benefit everybody in terms of expanded market penetration and shelf space. That endgame will include APIs, and so far better to implement the changes now than to wait for the negative impacts of inaction to continue to build.

A NASPL declaration recently was signed concerning the establishment of a working group on APIs. The working group is charged with defining a broad set of requirements associated with the API that include governance, administrative, legal, security, financial, accounting, and more. The working group includes representatives from ten lotteries and ten vendors who will assist with how they will be addressed. One of the rules changes would impact MUSL's Powerball rule #2 requirement. Further, lottery system providers will be expected to support these common APIs through their software initiatives within every lottery jurisdiction. The hope and expectation is to clarify and act on common-ground solutions that enable implementation across the entire industry.

Security and integrity are mission-critical to everything. Lottery's reputation and brand value are built on zero-tolerance of anything that could compromise security. Collaborating with others on the development and management of IT tools that enable better communications might justifiably raise concerns about security. Security of a product entails more than the physical receipt. It also involves recording the identification of certain components of that sales transaction for processing of a winning ticket. Those concerns

it should. In that way, APIs enable a significant expansion of Lottery's land-based footprint.

To begin to make these critical modernization changes, lottery management, the directors and their key executives, are encouraged to understand how important this initiative is to the industry. Developing operational consistency based on the tools of modern IT communications is key to expanding our network of land-based retailers.

The call-to-action starts with the vendor community. The lottery industry is very fortunate to have people of the quality that we have in the vendor community. And Lottery depends on them to utilize their resources, know-how, and talents to move the industry forward. The industry needs vision and leadership and Lottery depends on its commercial partners to embrace the need for change and modernization. It will take a combined effort of all stakeholders, vendors and Lottery and retailers alike, to work cooperatively and collaboratively together to unlock the potential that modernization initiatives will deliver. Let's begin the process of bringing ideas and solutions to retailers. Let's begin to test products and solutions and engage our retail partners in the process of helping us to help them. Let's achieve one success and move on to the next step, one positive result and keep building on each step forward until we get to where we need to be. We have already begun the process. Now let's join together and push forward with resolve and commitment to modernizing Lottery and create the foundations for ongoing success. ■

Josh's designs  
create instant  
success.



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**For Josh Franklin of Scientific Games, creating instant games players love is a special talent.** "We continually bring innovative new game art, play styles and printing options to our customers' instants portfolios," he shares. "We work with your product development team to understand how to connect with your players so you can launch the best games in the world."

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## Michael CONFORTI

President, Global Strategic Accounts, Scientific Games

### Think Global, Act Local—Integrating Success Strategies from Global Markets into the Local Gaming Culture and Market-Place

**Paul Jason:** *What can the industry do to unlock entrepreneurial creativity that drives innovation and growth?*

**Michael Conforti:** Everyone agrees on the importance of innovation. Without new products that appeal to the next generation of consumers, without technology-driven enhancements to product distribution and the retail shopping experience, without investing in continual improvement, lottery is in danger of losing its dominant position in the gaming marketplace. Fortunately, the technologies and capabilities to modernize and drive growth are already available; however, these innovations will only be delivered to the market if the procurement process recognizes their value. A shift in government-procurement focus from price to overall value and ROI would incentivize the vendors to deploy innovative solutions that can drive sales and profits for both the lottery and its ultimate beneficiaries. In other words, lottery vendors should be challenged to deliver on metrics focused on net funding for good causes.

*But might the government-procurement officer protest that performance of any kind*

*must be quantifiable and measurable, including the creative aspect of innovation? If performance metrics can't be specified in an RFP/RFQ, there is no way to measure and compare competing bids. How can lotteries assign concrete, measurable metrics and incentives to innovation?*

**M. Conforti:** Government procurement officers have the difficult job of balancing price with the overall value of a given proposal. Many of the evaluation criteria can be based on objective data, such as the company's product and service performance in similarly situated jurisdictions. However, there needs to be a certain degree of subjectivity and flexibility to try new and promising solutions. Contracts can be constructed in such a way that the achievement of stretch goals result in an incremental financial benefit to the vendor. In this construct, the lottery is only absorbing incremental cost in the event the innovation delivers significant benefits. In fact, the cost of innovation to the lottery likely represents only a small fraction of the financial benefits that the innovation will deliver to good causes.

*Lottery's high margins mean that a large portion of every increase in sales goes to the*

*bottom line. So, innovation that drives sales growth would have an extremely high ROI.*

**M. Conforti:** Many lotteries struggle with the challenge of how to get the most value from their business partners. Unfortunately, the challenge is often exacerbated by significant constraints on how a government can run its procurement process. For example, regulations may dictate the weighting of price versus other equally important evaluation criteria. However, if the lottery has some level of discretion in how it procures goods and services, then the RFP should encourage prospective bidders to describe their growth strategy in detail—citing the expected impact of each discrete component of their offer including all options they are invited to propose.

*What is the basis for a qualitative assessment of the bids then?*

**M. Conforti:** A qualified vendor should have a wealth of experience supported by detailed customer case studies that prove the impact of its claims. A qualitative assessment might assign value to the number of similarly sized customers supplied by the vendor; the percentage increase in each of its customer's return to good

causes; the number of new games/play styles in its library, and; the number of new games the vendor commits to developing during the term of the contract.

*I hear two contradictory mantras. One is that lotteries should apply best practices as they are revealed in success strategies (new and innovative promotions and games, new retail optimization strategies, etc.). The other is that success strategies that work in one market don't necessarily work in another because individual markets, business, gaming and pop cultures and sensibilities are uniquely local. So how or why should best practices be applied?*

**M. Conforti:** It's not an either/or scenario. Understanding the cultural nuances of a given jurisdiction is necessary to design the most appealing product portfolio, which is why it is very important to conduct extensive testing before launching any game. There can be significant differences in player profiles even within the same jurisdiction. Take China for example—players from Yunnan Province in the south, Heilongjiang in the far north, and Sichuan in the central region respond quite differently to the same game.

However, despite the importance of tailoring content to cultural nuances, it is very clear that global best practices are still critically important in establishing a strong foundation of high performing games. In China, more than 50 percent of the games are 'shelf games' that are continually reprinted due to nationwide demand. The remaining games are constantly refreshed to reflect both global best practices and a localized look and appeal.

It is important that lotteries continue to push for innovation and work creatively with their vendors to constantly evolve their business model to unlock the full potential of their market.

*What are some examples of innovation in the lottery owner-management structure lotteries that have the potential to drive performance and results?*

**M. Conforti:** A good example of a jurisdiction re-evaluating the approach to its

core business can be found with CAIXA Economica Federal in Brazil. Instant game sales in Brazil were so low that the CAIXA decided to discontinue the business. Instead of giving up on the product category, they decided to revise the supervising regulations to completely reinvent their instant game business model in ways that should dramatically increase sales well above historic norms. Not only is CAIXA increasing prize-payout to well over 60 percent, they have decided to sell a controlling interest in a newly formed instant ticket subsidiary (CAIXA Instantanea), effectively creating a partnership with a qualified entity that should unlock the enormous untapped potential of the Brazilian market while demonstrating the benefits of a public-private partnership.

Globally, the games-of-chance marketplace is becoming more fluid and dynamic. The internet makes more games available to everyone, everywhere. Casinos are within easy driving distance for

most players. Lottery players are exposed to more game entertainment options than ever, and governments are slowly beginning to reduce barriers-to-entry to products that have historically been reserved as part of the lotteries' exclusive domain. These trends represent challenges for government-sponsored lotteries. However, the lottery industry is ideally suited to grow in a more competitive environment, particularly if it embraces innovation and works collaboratively with its vendors. For example, lotteries have the advantage of nearly universal name recognition: a favorable brand, a reputation of integrity, nearly ubiquitously deployed points of sale, entertaining products, and the ability to generate very exciting prizes. The lotteries that thrive in an increasing deregulated marketplace are those most willing to take chances, focus on all manner of retail distribution, and truly engage with their legacy consumers while reaching out to the next generation of players. ■



Following is an edited synopsis of the panel discussion held at Lottery Expo on September 13 in Miami. You can view a video of the complete presentation at: [www.PGRItalks.com](http://www.PGRItalks.com).

—Edited by Paul Jason, PGRI.

## PANEL DISCUSSION

### Moderator:

**Terry Presta**

Executive Director, Kansas Lottery; Chair of the NASPL Retail Subcommittee

### Panelists:

**Andrew Crowe**

Vice President Emerging Markets, Vantiv Entertainment Solutions

**Gardner Gurney**

Director, Division of the Lottery, New York State Gaming Commission

**John Spicknall**

Director of Package Goods and Services, RaceTrac Petroleum, Inc.

**Sue Strouse**

VP Retail Strategy and Business Development, IGT

**Drew Svitko**

Executive Director, Pennsylvania Lottery

# PROVIDING CONSUMER OPTIONS—MAKING LOTTERY AVAILABLE IN A CASHLESS ECONOMY

The best lotteries, like the best businesses, are constantly searching for improvements in their business model to make their products and services more accessible to the consumer. The traditional network of retailers that have served us so well in the past will continue to be our primary connection to the consumer. But there is not only room for improvement, there are big gaps in the channel partner relationship that need to be plugged. Open APIs that facilitate the transmission of data with its retail partners, standardization of business processes to rationalize the support of multi-state retailer relations, application of digital technology to enhance the in-store player experience are just a few of the ways that Lottery can reinforce the foundations of its retail connection to the consumer. Providing multiple payment options to the consumer is another. Commerce at the retail consumer level has moved to a cashless system that is putting cash-based businesses at a severe disadvantage.

**Nobody wants to cannibalize the cash-based transactions by deliberately migrating consumers from cash over to cashless or credit cards. The reason to provide the cashless option is to bring in new consumers who would not have bought the ticket if cashless were not available to them.**

One of the obstacles to online and credit card lottery sales in the past has been the confusion on the part of the merchant banks which process credit card transactions. Ever since the UIGEA criminalized online gambling back in 2007, the merchant banks have been unclear as to how to classify Lottery. Goods and services are classified by SIC codes, of which gambling is one. Being coded as “gambling” places the transaction into a category that severely restricts the merchant banks from even processing the transaction. Thankfully, that has now been clarified such that Lottery has its own merchant category that is separate and different from gambling. That means the merchant banks can now process credit card purchases of lottery tickets without being concerned that they are violating federal laws that prohibit illegal internet gaming. Banks, financial institutions, and payment-processing networks are recognizing Lottery as a legitimate, viable, and relatively low-risk category that they should be supporting. But there’s still work to do. American Express still doesn’t process gaming transactions of any kind anywhere in the world. This creates confusion for some of our retailers, some of whom have reverted to a cash-only sales position.

John Spicknall explains from the retailer point of view: *“We do accept debit for lottery. I expected cashless transactions to grow faster. 85 to 90 percent of our lottery transactions still happen in cash. We accept cashless payments for most products in order to remain convenient to the consumer and competitive with other retailers. That said, the interchange expenses associated with cashless payments are our second largest operating expense behind labor, so any decision to accept cashless payments must deliver benefits to both the consumer and to our bottom-line. When we make decisions like this, we often consider the “total cost of ownership,” meaning we factor in all associated benefits and risks. A retailer’s choice to accept credit as a method of payment could increase sales (In the case of lottery—a retailer could expect a large market basket). On the down-side, it would certainly increase interchange fees, and it would open the retailer up to increased credit card charge-backs (fraudulent*

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*Emil Dimitrov  
National Lottery Bulgaria*



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As digital transactions gain traction and comprise a larger portion of the sales, players' clubs are expected to grow. That will provide more insight into who the customer is and where they're located. That will inform the process of sharpening the messaging and promoting an interactive relationship which is key to an effective responsible gaming program.

transactions). Right now I see EMV as a wild-card for cashless payments. Some convenience retailers are choosing not to adopt EMV technology in favor of faster service. This decision decreases their likelihood of accepting new cashless payment options for lottery.

**Terry Presta:** *"The multi-state chain accounts have mixed feelings about cashless payment methods for Lottery. For instance, Speedway told us a benefit of being a cash-only lottery retailer is that they make so much money on the ATM fees. When the jackpot goes up, everybody withdraws cash from the ATMs and that generates fees for the retailer. Switch those transactions from cash over to credit cards, and the retailer switches from receiving additional ATM-generated income on top of the commission for the ticket sale over to paying a fee to the merchant for processing the credit card lottery transaction."*

Nobody wants to cannibalize the cash-based transactions by deliberately migrating consumers from cash over to cashless or credit cards. The reason to provide the cashless option is to bring in new consumers who would not have bought the ticket if cashless were not available to them. In fact, we need to monitor the activity to get a clear picture of how much of the cash business shifts to credit and becomes subject to transaction fees.

The whole business model that applies to payment processing may well be changing in very big ways in the future. Once Mobile payment processing passes a threshold of widespread consumer adoption, bank withdrawals will not be in cash but in a deposit to your smart-phone. We do not know the exact effect that will have on the fee structure, but we can likely expect it to lower the transaction-processing costs, which should presumably lower the fees, and so therefore be a big benefit to the lottery industry. Lottery products do not deliver a large margin to its retail channel partners, so every single point of payment fees matters a lot. Even a 1% fee constitutes a 20% reduction in profit on a sale that yields 5% commission. That's a lot. Issues surrounding fee structures are integral to the whole "cashless" dialogue. So insofar as the consumer market-place transitions to Mobile payments, that could reduce processing fees and therefore be quite transformational for our industry.

We also want to consider the relationship between cashless transactions, registering the players, and loyalty programs. We focus on the benefits of giving the consumer more payment options. But

other benefits of cashless methods are that they smooth a path for player registration and migrating the players onto the Player Clubs and loyalty programs. Retailers are trying to give rewards for shopping in their locations. They are implementing loyalty programs to drive repeat patronage. As consumers walk into the store, they're already looking at their Mobile app, they're looking through the deals and promotions. They need to go to the next step where they can pay with their Mobile app. We need to be part of that conversation with our retailers. We need to explore ways for us to collaborate with them on promotions, loyalty programs, and Mobile apps.

**Drew Svitko:** *"In February (2016), we launched credit and debit sales in about 75 stores as a pilot program with one of our corporate retailers. Our main objective is to learn more about the impacts, and perhaps unanticipated collateral effects, of offering credit and debit. We partnered with Scientific Games to enable the transactions to be processed through the existing lottery terminals. We want to gather a lot of sales data, build and analyze the business case, look at the fees and gain insight and a more precise measure of the impacts. Mainly we want to figure out whether adding credit and debit generates adequate incremental sales to offset the risk of cash cannibalization. Is there enough upside sales growth to offset some portion of our four billion dollars' worth of cash business being subject to that two or three percent transaction fee? We also want to gauge the public reaction and figure out whether the public and other stakeholders are okay with the idea of lottery products being purchased on credit and debit. We have learned that some of our retailers have been accepting credit and debit, not for every transaction, but whenever it makes sense. There's still a lot of learning to do!"*

In the Pennsylvania model, it is integrated so the lottery terminal is telling the credit card terminal the amount to be purchased and that's all figured into the settlement. Further, Pennsylvania will soon begin testing card payments in some of its vending machines. Georgia's approach does not integrate the card reader with the lottery terminal. There are some downstream effects when you do a stand-alone like that. In Georgia, 90 percent of the sales are happening at the airport kiosks. If you compare those airport kiosks to network-wide results, there is an increase of sales, with over half of the card transactions likely being incremental sales.

As digital transactions gain traction and comprise a larger portion of the sales, players' clubs are expected to grow. That will provide more insight into who the customer is and where they're located. That will inform the process of sharpening the messaging and promoting an interactive relationship which is key to an effective responsible gaming program.

The modern world of hospitality, retailing, CPG distribution, and gaming is all about convenience and options for the consumer. The consumer expects everyone to meet the standard of service that is delivered by the very best merchants and service-providers. The bar is set high by the most progressive service and retail organizations, and the consumer is disappointed if any single merchant or service-provider fails to meet that elevated standard of service. Convenience and ubiquitous access to the product are merely the starting points. That's the cost of entry to earning the consumer business. The consumer is telling us how they want to do business and it is up to us to meet their expectations in every way possible. ■

# Is your lottery...



DAY 1

Big fanfare



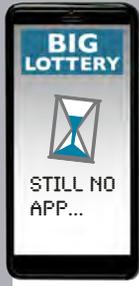
DAY 30

Drawn-out development



DAY 60

Dwindling interest



DAY 120

No market testing



But will players like it...?



DAY 365

Slow to update



DAY 1

Engage players



DAY 28

Simplest product



DAY 42

Regular updates



DAY 56

Respond to feedback



DAY 70

Iterate and learn



DAY 84

Continuous fortnightly updates

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# e-Sports, “Skins,” and the New Sports Betting Market They’re Creating

Wagering on the outcomes of competitive video-gaming is growing. “Skins” are the form of virtual currency that enables the wagering transactions to take place. The implications of this virtual currency could reach beyond the competitive video-gaming market.

Reasonable people might debate whether competitive video gaming is actually a sport, but it has at least one thing in common with football, basketball, and soccer: People like to bet on the outcome. E-sports is the term used to describe wagering on competitive video gaming contests. New website operators are turning this competition into an opportunity for third-parties and spectators to place wagers on the outcomes of these video gaming competitions. Many sports gambling operators already offer wagering on e-sports, but much of it has been unregulated by government agencies. That situation, however, may be changing as legitimate businesses take aggressive action to counteract the rise of unregulated e-sports betting.

E-sports betting is projected to reach \$7.4 billion this year, a small market relative to the broader sports-betting market. But well over 90% of that is unregulated, with less than \$650,000 being wagered at regulated books. And according to some estimates, the unregulated e-sports betting global market is trending toward \$20 billion in the next five years. In Britain, the national gambling commission in July published a report stating its intention to focus on e-sports betting. The commission is particularly concerned with the trading of in-game content—“skins”—which acts as a virtual currency.

According to the UK Gambling Commission Report on Virtual Currencies, eSports, and Social Gaming: (<http://www.gambling-commission.gov.uk/pdf/Discussion-papers/Virtual-currencies-eSports-and-social-gaming-discussion-paper-August-2016.pdf>) “We are also paying close attention to the growing popularity of other forms of virtual currencies or ‘in-game’ items, which can be won, traded, sold or used as virtual currency to gamble with and converted into money or money’s worth. These include digital commodities (such as ‘skins’) which can be won or purchased within the confines of computer games and can then be used as a form of virtual currency on a growing number of gambling websites ... we are referring to in-game items that provide aesthetic upgrades to a player’s game play where those in-game items can also be traded as commodities on a marketplace within a platform operated by the game’s developer or distributor. In some cases, the inventory of the player’s account can be connected to websites where the user can use the ‘skins’ they have bought or won to bet or stake in

*casino style games. These types of ‘skins’ have a monetary value derived from the current market price and can be converted into money. Where ‘skins’ are traded or are tradeable and can therefore act as a de facto virtual currency and facilities for gambling with those items are being offered, we consider that a licence is required.”*

Skins frequently are virtual outfits for game characters or deluxe weapons. They are especially popular among underage gamers who cannot legally place bets. The term “skin” is derived from its function of enabling a change in the appearance of a player’s in-game avatar, weapons, or equipment. These “skins” can then be transferred between players. That condition allows skins to act as a quasi-currency, something like a casino chip. Given the ability to move skins between players, layering a gambling site on top of that ability is a relatively easy task.

The whole concept of “skins” could threaten to disrupt the foundational definition of “gambling.” If an activity involves chance + consideration + prize, then it is considered to be “gambling, and can be regulated and taxed as gambling. Skins essentially create a derivative market that enables an item (in-game content like a virtual weapon or image) that has no monetary value on one medium (i.e. the game itself) to be traded on another medium (a trading desk like <http://store.steampowered.com/>) into cash. In this way, “skins” act as virtual currency. But, by moving the transaction from the gaming website to a different internet location, it potentially disrupts the applicability of the traditional definition of “gambling.” It is primarily used within the player community for the game Counter-Strike: Global Offensive published by prominent video game developer Valve Corporation (<http://www.valvesoftware.com/>). Valve also runs the Steam Marketplace which can be interfaced by third-parties to enable trading, buying, and selling of skins from players’ Steam inventories for real-world or digital currency. Valve is taking legal action against gambling sites that use its software to enable the trading of “skins” in that fashion, sending cease-and-desist notices to 23 website operators that permit gamers to create accounts through unverifiable APIs, which enables the withholding of identifying information.

On a side-note, the UK Gambling Commission has elected to allow licensed online gambling companies to begin accepting virtual currencies like Bitcoin as a payment medium as of October 31, 2016. This new policy allows operators a wide latitude in deciding which digital currencies can be accepted, all while staying within regulations. The UK Gambling Commission is the first significant regulatory force to grant approval for digital currencies. ■

# Breaking Ground & Making Waves



A popular casino brand comes to life, with enchanting social game mechanics in a fun second-chance lottery game.





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WINNING NUMBERS			
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PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE

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**WIN UP TO \$500,000!**



Special events like *Jackpot Party* are always well-received by New York Lottery players, as long as it is a truly unique experience or there is a chance to win money.

- New York Lottery





# 1

In a city known for posh events, a group of lottery winners just experienced the party of a lifetime. New York City was the locale of

the New York Lottery's breakout *Jackpot Party*® *Winners Event* created by Scientific Games.

Combine jackpot and party in the same sentence, and well, you get the picture. The company's popular *Jackpot Party* casino brand made its debut in a lottery instant game and second-chance promotion, and more than delivered on its promise for more chances to play and win.

"The New York Lottery introduced video lottery games in 2004 and *Jackpot Party* was one of the first highly successful and sought after games as it created excitement on the gaming floor whenever players entered bonus rounds. The game appealed to traditional slot players as well as those who enjoy the fun and entertaining element of the 'party' atmosphere it created," said Tim Iacabucci, Director of Research and Game Development for the Lottery. "The *Jackpot Party* theme allowed us to create an eye catching instant game offered at traditional lottery retailers. The game offered a bonus feature on the back of the ticket with Scientific Game's *Scratch My Back*® technology, and gave us a perfect tie-in to award video gaming vouchers redeemable at our nine gaming facilities located throughout New York."

## Instant Success

And so the all-new *Jackpot Party* \$5 instant game arrived on the scene at New York Lottery retailers in early January 2016, boasting a top prize of \$500,000 and a sensational 17 chances to win – including on both sides of the ticket and in the online second-chance sweepstakes. The game topped \$53.8 million in retail sales in 36 weeks.

"We were thrilled about a second chance sweepstakes that offered a grand prize of a VIP luxury trip to New York City rather than sending our players out of state for the experiential prize. The city has a great deal to offer players, and our sweepstakes winners were all very happy," said Dana Idema, Director of Advertising for the New York Lottery. "During the six-month promotion, the *Jackpot Party* second chance

sweepstakes had a total of 327,000 entries by more than 39,000 unique players.

A total of 27 winners from around the state won a fun-filled, VIP weekend in the Big Apple with a guest, topped off by a party that offered the chance to win up to \$25,000 cash.

"Our creative teams put this event together as a fun way for the New York Lottery to extend the instant experience for their players in an exciting, memorable way," said Pam Lee, Vice President, Linked Games at Scientific Games. "From its inception, the festive design of the *Jackpot Party* instant game set the expectation that this would be a fabulous experiential opportunity for New York players."

## Party Central

With a fresh new vibe, the eclectic chic Kimpton Hotel Eventi in Manhattan was party central. In addition to hotel accommodations, winners received \$500 in spending money, a trip to the thrilling, big-city Resort World Casino, their choice of a sight-seeing tour or spa day – all ending with the highly anticipated *Jackpot Party* event Saturday night.

Pumped up by live DJ music, winners got a taste of the good life with hors d'oeuvres, cocktails and a spread of food and desserts that would impress the most rich and famous. The vivacious Yolanda Vega and Gretchen Dizer, from the New York Lottery's draw game team, co-hosted the fun.

The evening peaked when the lucky 27 competed in groups in three different events: Lottery Draw, Scratch with Multiplier, and Wheel Spin. With more than \$27,000 in prizes awarded at the party, participants averaged \$1,000 in prize winnings each. Now that's a party with a purpose.

"Special events like *Jackpot Party* are always well-received by New York Lottery players, as long as it is a truly unique experience or there is a chance to win money," said Idema. "It was a very exciting event for all."

Scientific Games is in talks with several other U.S. lotteries to explore how their players can experience a *Jackpot Party* event to remember.

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## Socrates S. KOKKALIS

Group Deputy CEO & Chief of Products & Services  
INTRALOT

### Modernization that Focuses on the Player Experience

**PGRI Introduction:** Lottery is making huge strides towards meeting the needs of the modern consumer. There is the focus on integrating Mobile into the retail playing experience, on applying best-practices from outside the lottery industry, on innovating at Retail, on creating the seamless player journey amidst the evolution towards the omni-channel model, on innovating game content and business processes ... on so many fronts! For all of these efforts, INTRALOT's strategies remain focused on optimizing the lottery playing experience and journey as well as offering operators flexibility through open and modular central systems that are fully vetted for stability and security.

Socrates Kokkalis has risen through the ranks at INTRALOT in rapid fashion. Joining INTRALOT in 2007, he has served in the Commercial Division, then at INTRALOT Interactive as Business Development Manager, and in 2014 was appointed to his current position to lead the product and services portfolio evolution, and position INTRALOT's clients for long-term sustainable success in the digital era.

**Paul Jason:** *INTRALOT focuses on the government-lottery and sports-betting player. What do you see as the main challenges in these areas?*

**Socrates Kokkalis:** Government Lottery and Sports Betting are strongly regulated business sectors with special characteristics such as dedication of profits to public benefit, which means there is an extended sphere of stakeholders. At the same time there are special require-

ments for responsible gaming, while in the distribution channel there has been a focus on customer-facing POS. For many years, INTRALOT has been particularly well positioned to serve the Retail environment. The challenge now clearly is to re-invent Retail in the digital era of endless connectivity and, most importantly, to integrate the Mobile channel to offer a more entertaining, interactive, and engaging playing experience.

*Even in markets where lottery products are available for purchase online, the lottery player seems to prefer to play at retail. Will the migration of lottery transactions to online accelerate, or will lottery players continue to prefer playing at their local retail store?*

**S. Kokkalis:** For sure there is a growing market for online, but Retail has some unique advantages that we can leverage by evolving it to the digital era. Lottery players will always enjoy the experience of walking into a store, interacting with people, looking at the products, touching the products, and playing the lottery.

The internet has become indispensable to everything we do. As a medium for communications, for getting information, for connecting with friends, and for connecting with Lottery. From our perspective, our focus is on the internet as the medium to drive player engagement.

*INTRALOT has been at the forefront of digitizing the player experience at Retail. What are the new frontiers to be developed in the digital shopping/player experience?*

**S. Kokkalis:** Integrating Mobile into the in-store lottery playing experience is

The challenge now clearly is to re-invent Retail in the digital era of endless connectivity and, most importantly, to integrate the Mobile channel to offer a more entertaining, interactive, and engaging playing experience.

—S. Kokkalis

a top priority. That involves the collaboration of the lottery operator, their technology partner, and the retailer. The benefits for working together to enable the consumer to apply Mobile functionality to the shopping experience are significant.

On the one hand, the player who is Mobile-connected is an engaged player and his experience through interactive features is more entertaining. As an industry, we should be constantly enhancing the value of Mobile lottery apps and functionality to make it worthwhile for the player to engage with lottery.

On the other hand, the benefit to the operator and the retailer is the insight gained into player behavior. Data-analytics begins with capturing the data. The registered player who uses her Mobile is giving us that data with every click-through. None of this information is captured when the player buys a lottery ticket at the store. This is very important in markets like the US where the player can buy lottery products in a non-dedicated Retail shop like a convenience store, in which the retailers do not focus on learning about their player.

Lottery players will always enjoy the experience of walking into a store, interacting with people, looking at the products, touching the products, and playing the lottery.

—S. Kokkalis

The player may have spent no small amount of time looking at the tickets, deciding what to play and going through various stages of the journey towards purchase. But if the transaction remains anonymous with no online interaction, the operator and the retailer are left with no insight into the player's behavior and motivations other than the purchase of a lottery ticket.

The Mobile channel provides critical analytics that help us evolve the game and design more personalized experiences for the player while forming a basis for loyalty and engagement.

**S. Kokkalis:** Digital apps that enhance the user experience are still in their infancy. There is so much potential for Mobile to transform the entire lottery-playing experience, and INTRALOT is going full-speed ahead with products and services to drive player engagement and lottery sales.

Mobile is the device that brings digital functionality into the store. It provides the conduit to deliver Responsible Gaming messaging, tools for the players to manage their accounts, and CRM tools for Lottery to manage its relationship



At the World Lottery Summit in Singapore.

*What is in the pipeline for enhancing the in-store player experience, particularly as it relates to integrating Mobile into the in-store shopping experience?*

with the player. Elimination of paper products will transform the entire process and cost-structure that involves delivery and inventories of paper products. We are also working on enhancing security against fraud and offer POS's the opportunity to focus more on attracting attention, and engaging the consumer, than on stocking bundles of paper products.

For INTRALOT, our content management flagship products and novel CRM systems are at the heart of our strategies

to digitize the Retail environment and draw all the advantages offered by interactivity through the Mobile channel. To enhance loyalty and player experience at the same time.

*How can we drive higher levels of player registration?*

**S. Kokkalis:** Frankly, the challenge is not so much about how to drive higher levels of registration, especially with the younger generation. The challenge is how to retain the engagement of the registered players.

*Isn't it the case that the younger generation is much more willing to provide information online?*

**S. Kokkalis:** They are not only willing to share information online, they want to engage in the online world. Online has become a vital social hub for everyone, and even more for the younger generation. Registering online is something very normal and casual for the younger people. But what is critical is feeling safe that the information is used only for the purpose it is provided for. That they have a transparent interface to select what they want to receive. The digital consumer is quite smart and educated when it comes to sharing info online. They should feel that their privacy is not at risk and that financial information is processed through reliable, secure systems.

*Your product roadmap focuses on a customer driven player journey. But how about the technology that drives your relationship with the operator client?*

**S. Kokkalis:** INTRALOT has traditionally been at the heart of the transaction engine of the lottery at times when a limited number of content verticals were available and closed, proprietary systems were the only option. But times have changed and we are now pleased to be able to support the client's need to integrate additional verticals, game content, or technological solutions from the very best partners available.

So we invested in creating our new platforms in a modular way, restoring full power to the operator to pick what they think is the best product for them or the best supplier.

Integrating the third-party verticals or technology solutions must be executed flawlessly, providing the mission-critical levels of security, integrity, and system stability that this industry depends upon.

**Stability and security of an open modular system are the most critical aspects to guarantee business continuity and growth.**

**—S. Kokkalis**

Stability and security of an open modular system are the most critical aspects to guarantee business continuity and growth. Especially since the majority of our clients' revenues are dedicated to social benefit causes and business disruption has important implications for the society. Therefore, as technological provider, we want to be fully accountable to our client and responsibility for successful integration of third party products should rest with us, the technology supplier, so that our client feels safe with their choices. The power lies solely with the operator but our job is to guide their choices.

INTRALOT operates in 55 jurisdictions around the world. Our services take a wide variety of forms, from providing game content to central server and technological and communications infrastructure, retailer support services, and all combinations of these activities including that of operator where we are responsible for everything. Integrating third-party partners, and ensuring the integrity of the end-to-end performance

is a vital part of the business and truly one of INTRALOT's core competencies.

*Does it get confusing for the players to see a game or product or promotion on their Mobile and then play the game at retail or explain to the retailer what the Lottery is promoting on the Mobile? Or vice-versa?*

**S. Kokkalis:** It just needs to be a top priority to present a consistent face to the player so that they can easily navigate from one channel to another. The user interface must be simple, intuitive and coherent. There needs to be a coherent player-journey that enables the players to migrate from the store POS over to their Mobile and desktop and back again.

INTRALOT's goal is to not only make that player-journey a process that is easy, but to make it entertaining. We want to drive the omni-channel mode of interaction by making it fun for the players. We believe there is huge potential for Lottery to reinvent the whole player experience by thinking of it as a broad player ecosystem that includes much more than the purchase of a lottery ticket. Make everything fun and entertaining, from the point at which the thought of lottery is stimulated by an ad or store POS through every step of interaction with Lottery on all the different consumer touch-points.

In designing this process we also need to bring in the retailer and engage them in promoting and using the tools and advantages of the mobile and digital channel in general.

*There are other challenges in the industry, for example the jackpot fatigue. How does your strategy address such problems?*

**S. Kokkalis:** I guess the answer lies again with making the game more entertaining and by increasing engagement through the interactive elements, especially to address the interests of the younger generation by adding some skill into the process. Overall, I think that the Lottery world and the interactive world need to get closer and learn from each other in order to evolve.

But I think the jackpot attraction has to do a lot with the size of the jackpot. Multi-jurisdictional draws will most likely increase the size of the jackpots and make the game more attractive. There are some issues on which the industry needs to work together with the regulators to find the right answers.

*How might lottery games change and evolve?*

**S. Kokkalis:** The way games are constructed and delivered will be transformed by data-analytics. Presently, play-styles and preferences are defined into very broad categories. Those categories will become narrower and narrower, the games designed to appeal to smaller and smaller market segments of player preferences. Lottery is presently a mass-market product. The future will see the products customized to appeal to the unique preferences of the individual. The entire way we do business and interact with the consumer will become more personalized. The combination of Mobile engagement, data-analytics, and collaboration with our retail partners will transform the lottery player experience.

*How unique or different is Lottery from other sectors? To what extent can 'best-practices' that are being applied in other industries be applied to the Lottery sector?*

... the business process must be managed on a local level, applying practices that are customized to address the specific and unique circumstance of the local environment.

—S. Kokkalis

**S. Kokkalis:** There are many aspects of the lottery industry that vary greatly across geographical regions and from one jurisdiction to another. Differences in gaming cultures, regulatory frameworks, distributional methods, etc., abound. And certainly there are differ-

ences in the ways that lotteries are organized operationally to divide tasks and business processes between the operator, the commercial and technology partners, local businesses, retailers, and so on. In that sense, the business process must be managed on a local level, applying practices that are customized to address the specific and unique circumstance of the local environment.

But localization does not rule out the universal technological features or marketing aspects that derive from best-practice analysis from our own or from other industries.

Lottery can and should be looking outside its own industry to see how 'best-practices' are being applied, in the FMCG sector for example. INTRALOT has already adopted many of the 'best-practices' that have worked so well to modernize the Telecom industry. The technological sophistication and innovation applied in Telecom gives us a blueprint for the direction in which our industry can evolve. The manner and methods of creating massive consumer adoption of new devices and services in such a short period of time is also something we can learn from. In fact, we feel that this must be done for Lottery to retain the loyalty of the consumer who is coming to expect the highest standards and newest prod-

ucts because that is what they are being given by other industry sectors.

A modular central system that we discussed earlier provides a great advantage in supplying a universal but flexible core system that is tested for stability, efficiency and, most critically, security on which to

integrate softer parts that offer the localized and personalized aspects of the offering crafted to the needs and preferences of the operators. A modular central system can also prioritize factors that have to do with culture, game tradition, and other evidence from the market analysis.

*What is your opinion on API and how it can be applied to facilitate development of new games and technologies and enhance efficiencies?*

**S. Kokkalis:** Application programming interface is part of the open modular system approach. Lotteries may still feel they are monopolies but they do face competition and they should follow the trends of the broader sector and focus on offering competitive, attractive, and entertaining products. Certainly there is a need for a much broader set of options today and APIs can address these needs and be instrumental towards personalizing the player experience.

*So how would you like to summarize your main message?*

**S. Kokkalis:** I would say that our goal is to give the power to the operator to integrate best-of-breed solutions onto a single reference point in a controlled, organized and reliable way that will provide stability and security. At the same time the content and its delivery have to be entertaining and interactive in order to make the product attractive while allowing us to generate data that will feed our analytics tools to constantly improve and evolve our offering.

From a marketing point of view, our central strategy is to offer to the operator the toolset to know their players. From a technology point of view, it is to guarantee flexibility and evolution through modular, stable and secure platforms. ■

# How “Skill-Based” Gaming Might Reshape the Modern Games-of-Chance Market-Place

Classifying Daily Fantasy Sports and poker as “skill-games,” i.e. not gambling, creates a category of wager-based games that may end up not being regulated and taxed as ‘gambling.’

The Malta Gaming Authority (MGA) stated that operators of Daily Fantasy Sports (DFS) will not be required to obtain a gambling license. This makes Malta the first European country to create a specific skill-game license. The MGA stated that DFS should not be considered a gambling activity and skill-based games should be differentiated in terms of licensing and regulation.

In its report (<http://www.mga.org.mt/skill-games-fantasy-sports-focus/>), “The Authority stated that in view of the element of skill and knowledge involved in fantasy sports, such an activity should be differentiated from games of chance in terms of licensing and regulation. This relates specifically to Fantasy Sports where players choose virtual representations of real-life athletes, where the value and points attributed to an athlete reflect the athletes’ performance in actual sporting events, and where the outcome is supposedly determined more by skill and knowledge rather than by chance. The Authority also took the position that such games still warrant regulatory intervention which is appropriate and proportionate to address the level of risk presented to the consumer.”

The implications of this differentiation between “skill-based” gaming from gambling could be quite interesting and relevant to all jurisdictions operating in the EU. Poker has already been a subject of this “skill versus chance” discussion. If the EU Commission decides to allow this distinction, how will the distinction between “skill-based” and chance be defined? How much skill is required for it to be classified as a “skill-based” game? And how can the degree of skill be measured with any kind of precision, or the kind of clarity as to be serviceable for lawmakers and regulators?

The MGA suggests: “A specific licence for such games of mixed skill and chance should help consumers differentiate between such games and gambling. A test that could be implemented is that if a skilled player is able to win more than 56% of his matches, then the game is one of skill, rather than chance.” They do not explain why 56% is preferable to 55% or 57%, or address any of the other obvious questions that arise from this idea.

Advocates for re-classifying poker as a skill-based game that should be regulated differently than other wager-based games-of-chance, and not subjected to the same constraints and taxes as “gambling,” now have a new “Trojan horse” in Daily Fantasy Sports. Insofar as games that involve elements of both skill and

chance can be classified as something other than gambling, the door is open for game developers and operators to usher in a whole new era of skill-based money-games. The popularity of non-money recreational games has exploded in recent years. “Smart-slots” and a whole new generation of video-gaming Augmented Reality experiences and skill-based play-styles are also gaining popularity. Overlaying a wagering feature onto these new game-styles could reshape the whole gaming landscape and consumer market-place.

## What Constitutes Gambling? Skill Games Expand the Traditional Definition

Gambling has been traditionally defined as a game that requires players to risk something of value for a prize that is awarded based on the outcome of an uncertain event: Consideration + Chance + Prize, and it needs to include all three. You place your bets, you spin the wheel, you roll the dice, you play the cards your dealt, you pick your lotto numbers ... and hope the outcome is favorable and rewarding.

This traditional definition is changing, however, with the legalization of skill-based gaming in jurisdictions like Nevada and New Jersey in the U.S. By reducing the degree of chance involved in a game, skill-based gaming threatens to undermine the foundational definition of gambling. The scope of gaming laws may be expanding in the U.S., but they are still being regulated and taxed as gambling.

Potentially more interesting is the prospect of Daily Fantasy Sports being legalized as an economic activity that is not gambling, with operators not being required to obtain a license to offer gambling, not being subject to the higher standards and scrutiny that applies to the rest of the wager-games industry, and not being required to pay the higher taxation rate of the other gambling sectors. This creates a wagering-based activity that is not regulated and taxed as gambling. The implications for the entire industry including Lottery could be profound. If DFS is classified as not gambling, then why shouldn’t sports-betting and e-sports and poker be classified as not gambling? The skill-based platform may ultimately provide a richer canvass to integrate features and game attributes that are even more appealing to the modern consumer than random-based games. Less demanding regulatory environment, lower taxes, and potentially more entertaining and appealing to the consumer: skill-based gaming may have a promising future. But gaming businesses that depend on regulatory control and consumer protection will likely be disrupted. ■

# HARNESSING THE POWER OF UNDERSTANDING TO ACCELERATE LOTTERY GROWTH



As IGT prepares to launch “For the Win: A Global Study of Player Motivations,” Gerard Caro, Senior Director of Insights360, IGT’s research division, discussed his tenure in the research industry and gave his thoughts on how insights can help lotteries accelerate profits.



## What are the goals of Insights360?

Foresight into consumer behavior and retailer needs can accelerate lottery growth. Insights360 helps lottery customers harness actionable consumer and retail insights across all aspects of their businesses, enabling more efficient decision-making. The group and its partners uncover emerging trends that guide technology and game product development with the goal of keeping lottery games and the transaction experience relevant and engaging.

## How expansive is the group?

Insights360 is comprised of dedicated market research professionals spread across gaming disciplines and geographies. We have team members in the lottery, gaming, and social gaming fields. The cross-disciplinary interaction enhances the sharing of gaming industry research assets such as the Gaming Player Panel.

We embrace a global perspective and leverage our worldwide experience, benchmarks, and best practices to tailor research protocols to local needs. This includes using the most appropriate and effective methodologies from varying technology, geographic, and psychographic perspectives. One simple example is fielding in-home interviews in less developed markets and on-line and mobile

surveys in more developed markets while keeping core survey questions consistent.

Another resource is our arsenal of best-in-class independent market research partners. We work with a dozen firms with offices worldwide. Collaborating with research experts on a daily basis creates true partnerships that bring about the most statistically robust and accurate methodologies and sample plans to the lottery and gaming industry.

## IGT Market Research Footprint

Projects completed for 12 months ending June 30, 2016

	Americas	International	Total
Studies	260	62	322
Markets/Cities	468	136	604
Sample (Players and Retailers)	144,417	80,469	224,886

## How many studies does Insights360 conduct in a year?

During the 12 months ending June 30, 2016, we engaged more than 210,000 consumers and approximately 15,000 retailers in 604 cities. The resulting 322 research reports provided our customers and IGT management with a robust database of market learnings that are used for benchmarking and for deep understanding beyond single-study data.



Gerard Caro kicking off a Research Workshop

## What trends are you seeing across the 322 studies conducted last year?

Our partnership with Foresight Factory and ORC International keeps IGT on the forefront of consumer and technology trends. Also, our synthesis of learnings from our recent studies point to several trends such as:

- “The Dream” still exists, albeit bigger in terms of jackpot and prize levels, particularly in mature markets.
- The fast pace instilled by interactive devices is expected in gaming with growing desire for instant gratification and shortened attention spans boding well for instant win games.
- A dwindling interest and participation in draw games because these games require waiting “long periods” for results, and poor odds result in longer waiting periods for a winning experience.
- Technologically, many players, and particularly younger adults, want lottery to catch up with cashless payments and interactive gaming.
- Worrisome generational differences on attitudes and participation levels, with the average age of the lottery player getting older (now 52 in North America and possibly older in Europe and parts of Asia).

## What methodologies/approaches has Insights360 pioneered?

Although most of our research uses tried and true methodologies, 2016 was an exceptionally busy year for trying new research methodologies. Last year we conducted several surveys delivered on mobile devices. This methodology works best for simpler quick surveys, and it is perfect for interactive games played on mobile devices or websites. We also use mobile phones to conduct ethnographies. Respondents are asked to text messages and take pictures and videos of themselves before, during, and after a lottery transaction. Since respondents provide feedback individually through their mobile devices, there is absolutely no group generated bias, and the feedback is remarkably in-depth and honest.

We also pioneered a product-testing method that dramatically heightens the experiential nature of what research participants do while

they evaluate new game concepts. In the beta test, approximately 1,000 players were exposed to a new game concept over a 10-day period, experiencing 40 lottery draws, and subjected to losses, near wins, and wins based on actual odds. The resulting feedback is more relevant since it is based on many experiences and not just on seeing a concept only once.

## How has your background in Consumer Package Goods (CPG) impacted your personal perspective on research within the lottery industry?

I’ve worked on a wide spectrum of consumer brands from “low interest” Bully Toilet Bowl Cleaners, Hefty Trash Bags, and French’s Mustard to “high interest” brands such as J Roget Champagne, Sun Country Wine Coolers, and Ray Ban Sunglasses.

Believe it or not, there are many parallels to the lottery industry and certainly to market research as the methodologies are similar. One perspective “borrowed” from traditional CPG categories that I’ve tried to evangelize is to rely more on quantitative methodologies for portfolio expansion and other decisions. A dozen or so years ago lottery research was almost only qualitative, with a 90/10 Qual/Quant split. Today it’s closer to 40/60 Qual/Quant. That’s good because quantitative results are statistically projectable to a lottery’s consumer marketplace, while qualitative results are not. That said, there’s a place for qualitative methodologies for deeper understanding of “the whys” and emotions.

## How has the research discipline changed over the years?

There have been developments in usability and biofeedback, but the internet is the most impactful change with more surveys done online every year. This factor has expanded the reach for sample, made surveys less costly and faster to execute, driving more market based decision making. Online has created new methodologies like online focus groups, community blogs and digital ethnography resulting in marketer’s ability to get closer to the time-strapped consumer. That said, the new platform has remained grounded in sound research statistics and analytic techniques.

## Tell us about the Research Exchange meetings.

Pioneered by IGT, our annual Research Exchange meetings allow lottery research professionals from around the globe to meet and share ideas. The first Exchange was held in October 2009 at IGT’s headquarters in Providence, Rhode Island. The objectives for the Research Exchange then and now haven’t changed. They are to:

- Offer Lottery researchers worldwide a venue to meet *Who’s Who in the Research Zoo* in order to expand their professional and personal networks.
- Share and discuss their research programs, methodologies, successes, and challenges.
- Leave with new insights on how to improve market research efforts (including confidence levels, methods, and costs).

- Identify commonalities and differences (lottery, vendor, research firms) for better coordination and deliverables.
- Get exposure to new methodologies presented by third parties.

Although we've hosted six Exchanges in Rhode Island since 2009, it became challenging for lotteries from outside the U.S. to attend because of travel costs. The answer was to have the Research Exchange go to them with IGT hosting the first International Market Research Exchange outside of London in October 2016. We're now planning the next Exchange to be held in April 2017 in Lakeland, Florida, hosted at IGT's Instant Ticket Printing facility.



Providence Market Research Exchange 2015 (top); Windsor UK Research Exchange 2016

### What mix of research do you recommend for a lottery to insightfully manage its business?

There is no black box. The research mix should be aligned to support the lottery's overall business objectives. One staple of an effective research plan is the continuous Tracker with data reported semi-annually or quarterly to provide progress, or early warning signals, on Key Performance Indicators (KPIs). Others, such as game concept testing, consumer segmentation, retailer audits, and more, should be aligned with the needs and timing of the business. I also recommend studies that uncover shopper barriers, motivators, and emotional drivers for lottery play. These insights have a lifespan of three-five years, so they can be used over multiple fiscal-year marketing plans.

### Can research accurately predict the success or failure of a new product?

Research can accurately predict product trial, but not necessarily its long-term success. Research is usually much more accurate at telling us what NOT to do! And, with approximately 85% of new consumer products failing within 18 months of launch - that also

makes research very valuable. It's much more challenging to predict ongoing market performance since it's very difficult for research respondents to accurately foresee their ongoing spending behavior. This is aggravated when researching products that have a high impulse component such as lottery games, including the impact of mega jackpots on purchase behavior!

**There is no black box.**  
The research mix should be aligned to support the lottery's overall business objectives.

### What studies are coming up in 2017 that you are excited about?

I get excited about every research study, but we have a few exceptional ones coming up this year. The "For the Win: A Global Study of Player Motivations" was fielded in 10 countries with more than 8,000 adult players and non-players. It will help lottery marketers and product managers gain a deeper understanding of the primary emotions and need states that drive non-lottery and lottery gaming. Stay tuned for the insights to be published throughout the year.

The Insights360 team will also continue evaluating game ideas that come from our FutureGame™ development process. We are using a quantitative and "large sample qualitative" approach in six countries to evaluate more than 20 new FutureGame concepts that include draw, instant, hybrid, interactive, and monitor games. Developing a new protocol to test more than 20 draws games at once is an exponential departure from the industry norm of testing three-five draw games per study. The results are due June 2017 followed shortly thereafter by customer meetings to review results.

We are excited to share the learnings from these studies with our customers to identify player insights and new game concepts that can have a positive impact on Lottery Business Plans. We know that FY18 is going to be a challenging year given the \$1.6B jackpot of 2016 and we are committed to helping our customers achieve their YOY profit goals.

*For questions regarding Insights360's annual Research Exchange or its upcoming studies contact Gerard Caro at [gerard.caro@IGT.com](mailto:gerard.caro@IGT.com).*





# Transforming the Slot Machine into a Multi-Purpose Gaming and Consumer Services Kiosk

Tom Nieman, Vice President of Worldwide Marketing, JCM Global

As the industry considers ways to update the definition of gaming with new products and services that will attract millennials, the reality today is as it has always been: The majority of young adults do not have very much disposable income. They are paying off their college tuition, starting families, and their lifestyles and recreational options are filled with a huge diversity of recreational activities. So there is even more intense competition for a millennial gaming market that is very limited in size. As operators and manufactures invest in ways to create new player experiences, innovate or reinvent the games themselves, they are even going so far as to create entirely new categories like skill-based gaming and variable percentageing ... all with the purpose of attracting millennials, while at the same time, continuing to serve their existing non-millennial customer base.

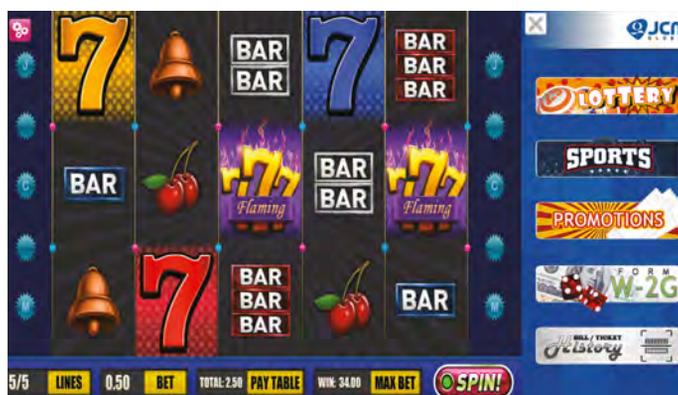
At JCM, we took a step back and asked how could operators better leverage the most incredible asset this industry already has—the massive footprint of tens of thousands of slot machines. These devices are already bought and paid for, and they already have the attention and engagement of millions of consumers.

Instead of figuring out how to launch new products and

struggle through the high-cost and unprofitable introduction and growth stages of the product life cycle, why not instead figure out how to extend the mature stage of the product life-cycle? This is the stage that is most profitable. The costs of product development, launch, building the brand, acquiring the early adopters, and investing to drive for mass-market acceptance are in the past. Slot machines are in this product life-cycle stage where all these costs have already been borne and now you have a product with mass-market appeal. It's time to innovate for the purpose of reaping the rewards from decades of investment and massive consumer engagement.

Let's drill down. Think of the slot machine as an incredible user interface—Millions of consumers engaged with tens of thousands of devices which are connected to central servers that deliver game-playing experiences. The industry has already recognized and leveraged the power of this global consumer

connection, using the devices to develop CRM-based (Customer Relationship Management) interaction with the players and otherwise enhancing the overall player experience. Just think about the billions of dollars that this already built-out technological infrastructure and network of consumer touch-points constitutes! Think of the value it



delivers in terms of already vetted security and IT and server processing capacity for delivering mass-market consumer experiences. That includes games that people love to play and now other services like ordering refreshments and managing a more rewarding interactive relationship. Our conviction is that we have just scratched the surface of value to be extracted from this massive footprint of consumer connection devices known as slot-machines.

Think of slot machines and JCM's bill-validating technology as input and output devices. The bill-validator has contact image-sensing, the ability to see and capture the entire image, whether that's currency, a TITO ticket, or a driver's license. Whatever I want to insert into it can be captured and processed, and the data removed and archived as needed.

Building on the capabilities of the bill validator, JCM has now taken the entire printer side of this system to a new level of sophistication and functionality. The JCM GEN5 is the critical element that revolutionizes the output side of this input-output system. Now the system can provide TITO tickets, as well as all varieties of wagering services - whether it's a sports book wager ticket, a lottery ticket, a promotional coupon, even a tax form. The possibilities are endless.

The player, the most critical stakeholder, is now provided the convenience of conducting all manner of transactions at this singular input-output device otherwise known as a slot-machine. Too, all the functionality that resides on the slot-machine input-output device is delivered via NFC (near-field communication) /Bluetooth LE and executes an app directly to the player's smart phone. This is to say, the player connects his or her smart phone to only one machine at a time digitally. It is a single connection into the device (in front of me). Then when the player leaves the proximity of the one machine, the connection automatically terminates. This means we no longer need to interrupt the player experience and force them to walk across the room to buy chips, exchange currency for tickets, place a \$20 wager on their favorite sport franchise, cash-out, or report and record winnings to tax authorities.

The concept is simple. We bring all this functionality that provides a radically enhanced consumer convenience, right to the input-output device, right to the slot-machine. That is the genesis of FUZION. JCM's incredible team of young, creative, and enthusiastic inventors converted an idea into this fabulous solution in record time.

We need to keep in mind that the solution requires a collaborative effort. FUZION is a peripheral component that integrates with the back-end casino management system to transform the slot-machine into a multi-purpose input-output consumer services device. So it needs the cooperation and collaborative effort of IGT, Bally, Aristocrat, Konami, and all the manufacturers of slot-machines.

Augmenting the installed base of slot-machines to deliver a



greatly enhanced player experience truly is a game-changer. Thankfully, our partners in the manufacturing community and on the casino and operator sides of the business are embracing our vision for turning the slot-machine into a multi-purpose gaming and consumer services kiosk. Additionally, early dialog with regulators and lottery officials appear to share the same level of enthusiasm. They are to extend distribution of their current product to a strategically targeted audience, like slot players. ■





## Frank CECCHINI

Chief Executive Officer, NOVOMATIC Lottery Solutions

### Expanding the Footprint of Low-Volume POS's: The Responsible Way to Grow the Lottery Business



**PGRI Introduction:** A lottery's retail network is responsible for the vast majority of sales while at the same time

being one of its biggest costs. Purpose built terminals requiring dedicated communication lines take time to install and are increasingly unpopular for the counter space they take up; and of course installing, de-installing and maintaining terminals piles on the costs.

"Retail Optimization" typically focuses on increasing the productivity of individual stores to maximize revenues while eliminating those shops that do not make enough profit to justify the cost of the hardware and services. This effectively encourages retailers to sell more to the same clients reducing costs by shrinking the lottery's footprint. The NOVOMATIC Lottery Solutions (NLS) philosophy is different. Instead of reducing the terminal estate to reduce costs, NLS believes it is better to increase the number of POS's and widen the footprint to increase sales in a more responsible way! To do this effectively it is essential that we reduce the cost of POS hardware and support infrastructure to significantly reduce the POS sales break-even threshold. Opening up a whole new world of thousands of non-traditional trade-styles and POS's expanding access to lottery products = More people playing lottery. This is the responsible way to drive sales. More people playing smaller amounts adding up to higher sales. Made possible by APIs (Application Programming Interface) open to all vendor, technology, and channel partners.

**Paul Jason:** *"Digitization of Retail" isn't just about enabling Mobile in addition to the lottery terminals. It's really about obliterating the necessity to rely on terminals dedicated to lottery transactions.*

**Frank Cecchini:** Let's not obliterate anything, just create new options, a whole new world of options, to replace the high-cost infrastructure of dedicated terminals and communication networks. Even while the whole world has transformed around us over the past fifteen years alone, the lottery product has been distributed in the same way for decades. Reliance on terminals and infrastructure dedicated to processing lottery transactions is not only a technologically obsolete model with bloated cost-structure that cripples our ability to expand the retail footprint—it has interfered with the ability for Lottery to progress on other fronts that are vital to progress and innovation. Lottery is the only industry we can think of that has not modernized to facilitate communications between IT systems. Modernizing with API (Application Programming Interface) technol-

ogy would facilitate the standardized reporting, auditing, and other back office business process tasks required by our retail partners. It would smooth a path for the low-cost integration of third-party content and technology solutions. It would unlock a whole new world of modern logistics, communications, and distribution capabilities. And this would absolutely translate immediately into increased sales and funding for the good causes that Lottery supports. Lottery does not need to reinvent the games. People love the games. The low-hanging fruit path to increased sales is simply to modernize with APIs and open the Lottery up to innovation that would triple or quadruple the retail footprint.

*There would seem to be two sides to the equation of POS profitability. Revenue minus cost-of-sales and prize-payout = profit. Lower the cost-of-sales lowers the break-even point of POS profitability, and that opens up the possibility of more trade-styles to sell lottery products.*

**F. Cecchini:** Exactly. And the focus of “Retail Optimization” is much more on the revenue component to that equation. How to increase the productivity of the retailer, etc. All that really means is how to sell more to the customers who go into the individual store. And that typically translates into how to sell more to the core customers who are already playing a lot. You know, from a sales point of view, the ROI to drive more sales through the existing base is the most profitable focus for your marketing spend, right? It is always easier to try to get your current customers to spend more than it is to acquire a new customer. The problem is that is totally inconsistent with the values of Responsible Gaming. The RG approach isn’t to figure out how to get the \$100 a week player to go to \$125. RG is about how to spread that player-ship over more and more people so that you

have large numbers of player who spend \$25 a week.

Unfortunately, that is not an option when you have the cost of the terminal, the high cost of connecting the terminal to the central server, the cost of managing the terminal, and everything else that goes into the current distributional infrastructure. In fact, the current system causes operators and vendors to discuss penalizing or even dropping retailers who fall below a threshold where their sales do not cover the high costs of supporting the retailer. That is ridiculous. The solution to this is to lower the cost-of-sales, not increase the focus on selling more to the core players which is the result of current “Retail Optimization” initiatives. Shrink the footprint to focus on driving

“Reliance on terminals and infrastructure dedicated to processing lottery transactions is not only a technologically obsolete model with bloated cost-structure that cripples our ability to expand the retail footprint—it has interfered with the ability for Lottery to progress on other fronts that are vital to progress and innovation.”

high-volume retailers and sell more to core players is not the sustainable strategy that lotteries should focus on.

Lotteries should explore new options to dramatically cut the cost-of-sales and explode the footprint to a huge size. That can be done in an affordable way by increasing the varieties of trade-styles and POS venues so that you add thousands of retailers with smaller revenue streams that would be profitable for the Lottery and the retailer because the sales and distribution process is so much more efficient. That in a nutshell is NLS’s value proposition.

*Make lottery more accessible to huge segments of the market that are not currently playing the lottery.*

**F. Cecchini:** Absolutely. Lottery products should be as ubiquitous as other consumer products. Fewer and fewer people are going into convenience stores. And this trend applies even more to Millennials. That is one reason why Lottery is falling off the radar of the next generation of consumers.

*Some lotteries do not sell online. But all lotteries are beginning to embrace the potential for social media to drive consumer engagement.*

**F. Cecchini:** We have seen a fabulous presentation at the last NASPL conference by the vice president of marketing for Coca Cola. They don’t sell the product online, at least not directly. Their business model is just like Lottery’s. They are driving consumers to retail stores to buy their product. Yet, they are all over social media. Their Facebook and Twitter initiatives are amazing. Engage the consumer on social media and drive sales at Retail. Social media does require a higher level of creativity and a sometimes a longer time-line to gain traction. But the costs of implementing beta tests are low and the ROI on successful initiatives are totally off-the-

charts. The impact on sustainable player engagement and loyalty is in an entirely different universe from conventional advertising like billboards and TV spots which have a short-term impact.

And we're talking about a soft-drink! How do you generate social media engagement with a soft-drink? Lottery products, games that people love to play, represent a hugely more powerful content platform than any other consumer product. Facebook in particular is a grossly under-utilized platform to build a social media connection with Lottery. Everyone wants more content, more opportunity to connect with like-minded people, more opportunity to share their interests. Lotteries are already implementing Facebook strategies but I feel we are just scratching the surface of its potential to build lottery player communities with clever campaigns that create fun and excitement. Notice how those Coca Cola campaigns were whacky out-of-the-box ideas. That's what gets people going, especially young adults, and that is what Lottery can do.

*It occurs to me that promoting a social component to the game also aligns with a Responsible Gaming agenda to get more people to play a smaller amount.*

**F. Cecchini:** Of course. Like El Gordo in Spain. Lots of people join together to buy lottery tickets. It becomes a fun exercise in social-bonding. Nobody spends much. It is more about the fun of playing together, being part of a social event that invites everyone to talk about what they might do if they won. The RG component is not just about lots of people playing small amounts of money. It's also about lots of people playing lottery for the entertainment and socially fun aspect of the game. Deriving entertainment value apart from the dream of winning a life-changing jackpot should be a vital part of Lottery's sustainability strategy going forward.

*More POS's selling to more people would relieve some of the pressure to drive sales by increasing the price of the tickets.*

**F. Cecchini:** I believe there are now \$100 scratchcard tickets with 75% payout; this level of prize payout and win value is akin to a slot machine. It drives sales but takes the focus off of being a fun diversionary recreation. Players who buy a \$50 or \$100 ticket have one thing in mind. Buying a couple \$2 tickets when you are checking out of the grocery store, or checking into a hotel, or maybe passing by a kiosk at the airport, or even better, joining with a community of friends on Facebook to pool your \$5 play with 100 other people ... now that is what Lottery is all about. Fun, recreational, and harmless. And combined with a business plan to reduce the cost-of-sales and explode the number of POS's, it will result in driving sales growth in responsible fashion.

*As you mentioned, the technology that enables this kind of flexibility is the APIs (Application Programming Interface).*

**F. Cecchini:** The whole purpose of the API is to facilitate communications between IT systems. It simply establishes the common language and the interface that enables lotteries, retailers, and their technology providers to send and receive data. By definition, the goal is for the API to be open and enable content, technology, and solution providers to connect with the Lottery, the retailers, and with each other. The security is effectively applied at the points of transmission and receipt. The API is not a new or untested technology. It has been around for years and is widely used in almost every industry in existence. Except the Lottery industry. The methods to implement API for Lottery are being explored now as we speak. Our concern is that the API be configured to support the entire industry and not result in

even more barriers to entry for innovation and new technology.

The operative word is "open." Security is always a mission-critical component to everything a lottery does. APIs have been deployed for years in the financial services industry, defense and intelligence agencies, and others with the highest mission-critical security standards. So the need for security should not be used as a reason to impede access by vendors and technology providers with innovative solutions to offer.

Getting to grips with API's is a vital step for lotteries. It needs to be done to meet the needs of retailers for more efficient transaction of data and reporting. It also needs to be done to open up an entire new world of solutions that lower the cost-of-sales by enabling new ways to sell lottery products. There is an incredible potential for Lottery to expand its POS footprint, add thousands of new POS's. But it depends on the implementation of APIs to enable modern communications that connect the lottery operator to the POS's. The alternative is to be stuck with the legacy system of terminals and communication systems dedicated to serve only Lottery. The cost of this obsolete infrastructure prevents the kind of progress that delivers a sustainable pathway to growth, expansion of player-ship, and effective application of the most basic Responsible Gaming standards. Further, the API is key to the implementation of any kind of omnichannel model that includes a variety of channel partners and POS's.

*How might the API agenda be moved forward?*

**F. Cecchini:** APIs are standard operating procedure for all industries. The Lottery's RFP should require an API solution that provides access to the database, to the transaction engine, to the central system. The supplier would propose the API solution that enables others, like retailers and technology providers, to connect to

“Lotteries should explore new options to dramatically cut the cost-of-sales and explode the footprint to a huge size. That can be done in an affordable way by increasing the varieties of trade-styles and POS venues so that you add thousands of retailers with smaller revenue streams that would be profitable for the Lottery and the retailer because the sales and distribution process is so much more efficient. That in a nutshell is NLS’s value proposition.”

the system. The required documentation is provided to all who want to connect. There is minimal additional programming, no additional software—there are just parameters that need to be met for everything to work. Honestly, it is simple, it is already in wide use, and it costs very little. And there is no need to add layers of costly and complicating steps to enable this enhanced level of connectivity.

NLS publishes the software instructions and rules for others to integrate with APIs that serve Danske Spil, Open Bet, BCLC, and many others. It is a simple, straightforward, line-by-line instruction for every stage of the interaction with the transaction engine and back office. It’s low-cost, it’s published, and it’s available to whomsoever needs it. Even the writing of the API takes less than three weeks.

*The current focus of the API dialogue is on enabling a modernization of Lottery’s methods of supporting its retailers.*

**F. Cecchini:** As it should be. Retail is not going away. In fact, it is modernizing and working mightily to carve out a big role for itself in the consumer market of the future. But if the lotteries do not modernize with APIs that open up new methods for connecting with the modern retailer, and for expanding its retail footprint, our current retail-focused model will become irrelevant in ten years.

*RFPs in U.S. jurisdictions often require that the bidder have successful implementations in other states. That would preclude vendors who may have an established record of success outside of the U.S.*

**F. Cecchini:** Clearly. And that is unique to the U.S. Everywhere else applies a more sensible approach towards the process of encouraging competition and smoothing a path for innovation. The RFPs in the U.S. presume a legacy model of high-cost infrastructure to support dedicated terminals. Why not open it up to new models that would dramatically lower the cost-of-sales, simplifying the whole process for selling lottery products and enabling an expansion of POSs? The result would be a massive expansion of player-ship, more people playing smaller amounts of money, increased sales, and the more sustainable and responsible long-term growth strategy.

It would not be hard to amend RFPs to invite a wider variety of solutions that will drive sales, profitability, increased player-ship, and Responsible Gaming. Everyone talks about innovation, but precluding technology and solutions that have established track records outside of the U.S. is clearly an anti-innovation agenda. The current system is not delivering optimal results but the RFP specs that block innovation effectively forces the continuance of sub-optimal performance.

*What should be done about it?*

**F. Cecchini:** Lotteries should remove the requirements for pre-existing implementations in the U.S. and allow us to make a proposal and provide the evidence to back up our claims. They should invite vendors to bid and tell their story, show their successful track record even if it is outside the U.S., show why their proposal would deliver the best results. Obviously, that would not place any requirements on which bidder should be selected. It is so simple, so do-able, does not cost the Lottery anything, and just opens up their options to a wider variety of solutions and competitive proposals. No downside, only upside.

Lottery has never been in a better place to build the foundations for sustainable growth and ongoing success. Its brand value and network of retail partners is unique and can’t be replicated by anyone in the games-of-chance industry. Likewise its massive consumer base of active players. These are the assets that take generations to create and Lottery already has them. The future is bright indeed! ■



## Kevin MULLALLY

Vice President of Government Relations and General Counsel  
GLI® (Gaming Laboratories International)

[www.gaminglabs.com](http://www.gaminglabs.com)

### Applying Research and Technology to Enhance the Impact of Responsible Gaming Programs



**PGRI Introduction:** GLI skill sets and expertise have always set the highest standards for testing of security and all manner of IT functions. Advising and consulting with operators, regulators, the community of commercial suppliers, and the shapers of public policy on all levels is what informs GLI's ability to apply a broadly holistic view to the challenges we face as an industry. In recent years, GLI has evolved from being the premier testing lab into being a broad-based, full-service consultant that helps the gaming industry apply technology to optimize performance and results. Being highly engaged with the organizations that promote Responsible Gaming (RG), Kevin Mullally is on the forefront of translating research into concrete value-added action plans to enhance the real-world impact of Responsible Gaming programs.

**Paul Jason:** *How have GLI skill sets and expertise been applied to help your clients meet the highest performance standards and achieve higher levels of certification from the trade associations (WLA, EL, NASPL, and others)?*

**Kevin Mullally:** Integrity of Information Technology (IT) systems and security are very much a key part of an effective Responsible Gaming program. The WLA initiatives to certify its members for security and control involve analyzing the strengths and weaknesses of the IT systems, clarifying the ways to improve security, and ensuring

a level of security that protect both the consumer and the operator. An effective Responsible Gaming program also involves a high degree of technical infrastructure and expertise. GLI's role in assisting with the WLA's RG certification process has evolved as our clients began to see that protection of the consumer is not just about messaging that encourages responsible play. It involves technical security to protect the consumer and application of technical tools to promote responsible play.

*GLI has extensive experience with regulators all around the world. And your own personal*

*experience includes authoring the first self-exclusion program in the United States as well as chairing various committees that address the issue of RG. How does this inform your expertise in RG and your service to clients?*

**K. Mullally:** Responsible Gaming is an issue that I'm very passionate about. I have been chairing the National Council on Problem Gambling Policy Committee and on the board of the National Center for Responsible Gaming for many years. Discussions with lotteries and gaming regulators revealed a need for third-party agents to assess the effectiveness of RG programs. Most RG programs were established many years ago, and many have not upgraded to include some of the tools that apply well-defined metrics to measure the effectiveness of the various components to their RG program. GLI can conduct program audits that involve analyzing the program offerings and administrative practices, identify and measure how well they align with the most recent research applying to problem gambling, and how efficiently they are being administered. Since most jurisdictions have an RG program already, the goal is to improve the existing program to optimize its impact and effectiveness.

*Lottery directors are working to integrate a focus on RG into the culture of each department of the entire organization, i.e. all aspects of game development, brand messaging, marketing, retailer support and all aspects of operations.*

**K. Mullally:** I absolutely agree with that. There are systematic ways to make sure that goal is being accomplished. There are ways to evaluate if the training of internal staff and lottery vendors has achieved the desired results and whether all stakeholders are receiving consistent RG messaging. Some operators have competing messaging, with the lottery having one brand for their responsible gaming and educational initiatives and casinos having another and maybe racetracks or sports books having yet another. We feel that it is vital for the RG platform, brand and promotional methods to be common to all the stakeholders and channel partners. Different stakeholders offer different games through different channels of distribution to different consumer markets, and therefore, pursue their business objectives differently. But, they should still coordinate their resources and messaging to execute a singular vision as it applies to RG. The details of implementation may vary, but the enterprise mission of RG should be embraced equally by all stakeholders.

GLI is helping its clients migrate away from a task-based “check the box” approach (Got a hotline? Check. Got a self-exclusion program? Check. Public awareness and outreach program? Check.) toward a results-based approach. A few years ago, it may have been adequate to simply demonstrate that you are doing these things. Now, policy-makers want to see concrete evidence of the impacts these initiatives are producing. GLI is identifying best practices, clarifying how they apply (or do not apply) to the specific needs, circumstance, and objectives of the operator or jurisdiction, and developing the tools to measure outcomes. These are all business and technological processes. The disciplines and tools we apply to IT systems analyses can be applied to all varieties of the business pro-

cesses, including those that support an effective RG program.

*Isn't it difficult to measure the effectiveness of RG initiatives? How do you do it?*

**K. Mullally:** Some business processes and activities lend themselves better to concrete metrics to measure, but there are always ways to measure any activity. For instance, an RG program can deploy mystery shoppers who go into a gaming establishment and ask questions. How do the customer-facing clerks respond when asked what can be done about a gambling problem? You can conduct all the training you want, but unless that translates into the desired behavior from your employees and customer-facing staff and partners, then you're not being successful. It is important to have an independent third party ensure that educational messages to employees are actually getting communicated to patrons and to otherwise monitor and measure the outcomes that you are trying to produce.

*The trade Associations like WLA, NASPL and EL offer certification programs to help their members elevate their level of RG. Describe GLI's service to help operators evaluate the degree to which they are achieving the desired results.*

**K. Mullally:** GLI can perform those audits and assist with the certification process. Further, we can advise on how audits can be customized to the needs and circumstances of the jurisdictions. There are differences between the games they offer, gaming cultures, market-places, policy objectives and the specific ways RG programs are implemented and administrated. Some RG features are universal and should be applied everywhere. Other RG program features, however, should be tailored according to the specific requirements of the individual jurisdiction.

*How is GLI's understanding of the ways in which gaming products and cultures, distributional channels, and policy objectives integrated into a holistic and systematic RG action-plan?*

**K. Mullally:** Lotteries don't operate in a silo. There are aspects of lottery that make

it different from other forms of gaming, and there are aspects of the jurisdiction in which the lottery operates that are different from other jurisdictions. There are national and even local regulations, but there are also supra-national regulatory frameworks, like the EU Commission and Court of Justice and the U.S. federal government and Department of Justice. The jurisdictional gaming commission may oversee only the lottery, or it may oversee commercial casinos, sports betting and other game categories. The players, however, do not distinguish between these various entities that govern the industry. They don't know and wouldn't care about the process of formulating an RG program. So, the challenge is to develop the integrated approach that is most likely to connect with and impact the behavior of the players.

*What is the biggest challenge when it comes to applying research insights to the real world?*

**K. Mullally:** We are very good at translating geek-speak into the language of regulators and policy makers. We synthesize and explain high-level research and very technical concepts in terms that make them understandable and usable to the regulator.

GLI's long-time involvement in and contributions to the research community is a cornerstone to the growth and evolution of our services. GLI's role is to convert the research intelligence into real-world applications. GLI is a founding member of the International Institute for Gaming Regulation at the University of Nevada in Las Vegas. We're a long-time contributor to the National Center for Responsible Gaming as well as long-time active member of the National Council on Problem Gaming, NASPL, the World Lottery Association, and the European Lottery Association. GLI has a deep understanding and respect for the importance of research into problem gambling, and our ability to align policy with that research has been acquired over years of experience.

Technology is playing an increasingly vital role in giving players tools to help manage their behavior. That is GLI's core strength. We help our clients seamlessly integrate technology into the game in ways

that enhance and do not detract from the player experience.

*I would think it must be hard to get the attention of policy-shapers, to get them to take the time to consider the dramatic economic impacts that their decisions have on the games-of-chance industry.*

**K. Mullally:** Mark Twain observed that “It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.” We have all played games which gives us an understanding of what games are and how they operate. That may lead to presumptions about how the industry operates that, as Mark Twain said, “just ain’t true.” We present the facts which may contradict well-established public views. An example of that is the notion that Internet gaming can’t be regulated. GLI takes no position on the issue of whether or how Internet gambling should be legalized and regulated. We do, though, take an outspoken position when it comes to the trafficking of disinformation.

GLI’s job is to speak the language and get the message across at many different levels. Some need more technical detail, and others need to focus on the conclusions. We want to facilitate understanding at the staff level, at the policy maker level and at the bureaucratic level. My previous service as chief of staff to a senator gives me a big appreciation for the complexity of the issues and challenges they confront every day. Our mission is to shine a bright light on the facts, enabling a clear understanding of the pros and cons to the different options. We are technocrats who focus on clarifying the facts without bias or recommendations, to empower our clients with the best information and let policy-shapers derive conclusions. This process smooths the path for policy-shapers to also focus clearly and on the facts, objectively weigh the implications and render the best decisions.

*Government lotteries can’t lobby for themselves like commercial operators in the games-of-chance industry do. How can government lottery as an industry garner support for their mission and the interests of the good causes that lottery supports, from the shapers of public policy and other stakeholders?*

**K. Mullally:** I think we all have a role to play. We can all work together to make sure the success stories are known by all. The Associations (WLA, EL, NASPL, APLA, CIBELAE), GLI and publications like PGRI provide a good platform for informing the various stakeholders about the positive contributions of government lotteries to society. We can work harder to gain more exposure for the success stories and how they benefit the consumer, lottery beneficiaries and society. We need to celebrate the successes of the lotteries being run as businesses and being encouraged to evolve, make decisions, respond to market forces and consumer demand, create more entertaining products, and make the games more accessible to the players. Empowering lotteries to deliver the best player experience results in a much healthier overall games-of-chance environment.

We could perhaps even highlight the aspect in which public policy failures are often the direct result of misguided regulatory decisions that happen when the law-making branch tries to micromanage the lottery. When lotteries have been allowed to run the business according to broad policy objectives established by the legislature—that’s when we’ve seen some great success stories.

*It sometimes seems like policy is being formed without adequate understanding of all the facts about how the policy will impact the welfare of society. For instance, is the current spate of decisions relating to Daily Fantasy Sports properly informed about the law and the implications of their decisions?*

**K. Mullally:** In fact, a good percentage of my personal time is spent on these issues. GLI does not take positions on policy issues, but we understand how to frame and communicate the factual bases necessary to make good, sound public policy decisions. Our role in that arena is to arm policy makers with the information they need to understand the industry, the technology, the impacts of policy decisions, and apply our worldwide experience to help our clients understand the options available to them.

*GLI does not make policy recommendations. But you might point out that the Internet enables a much higher level of RG messaging and control over the transaction than the anonymous transaction at retail, right?*

**K. Mullally:** Well, yes. Compare the transactional experience that happens in the retail store with the experience that happens online. The lottery player walks into a convenience store and is served by an 18-year-old clerk who may have been there for a few weeks and not fully trained and knowledgeable about games-of-chance. This clerk is the industry’s first line of defense against fraud, underage gaming, problem gaming, money laundering ... against a variety of risk issues. Insofar as the retail transaction is anonymous, there is no record of who the customer is, no record of the player history and how much they spend on lottery or how much they bought yesterday or last week. There is no mechanism for RG messaging that can help the players manage their activity.

Now, imagine a world where we could sell lottery tickets and have a direct personal relationship with the player. You would know their location. You would know how old they are. You would know where their money came from. You would know what games they like to play and could offer the games that appeal to their play-style. Analyzing the play could yield insight into the underlying dynamics and enable development of games that are not only more entertaining and interactive, but also more responsible. They could play games with their friends that promote socializing which is itself an antidote to problem gambling. You could provide players with the ability to set daily, weekly or monthly limits on how much they spend on lottery. Internet gaming and iLottery transactions provide the operators with all these tools and many more.

The anonymous retail transaction exposes the customer, the retailer and the operator to a far larger variety of risk issues than does Internet gaming, which enables the interactive relationship that provides the tools and information needed to promote re-

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## Moti MALUL

Executive Vice President, Sales & Business Development,  
NeoGames

### On the Happy Marriage of iLottery and Retail

**NEOGAMES®**  
bringing back the fun!

**PGRI Introduction:** One of the concerns about iLottery is the impact it has on a lottery's network of land-based retailers.

Retailers do not want their business to be

cannibalized, and lotteries do not want to antagonize their most valued channel partners. The NeoGames solution is to reshape the way we think about the business of engaging consumers and connecting with lottery players. Instead of thinking about how to manage channels of distribution, a focus on the player experience makes most of the channel-conflict issues literally disappear.

Everyone wins, including the retailer. The success of their approach speaks volumes.

**Paul Jason:** *One of the more surprising and interesting parts of your activities worldwide is how retail sales grew at a faster rate after the launch of iLottery. Should this surprise us?*

**Moti Malul:** Not at all. If handled correctly, interactive supports retail sales and vice versa.

We are asked about omni-channel, both in the US market and in Europe. The fundamental reason for our success is how we marry interactive and retail so that the online iLottery augments retail sales. We promote and facilitate a parallel focus approach of optimizing and investing in retail growth, side-by-side with digital.

One of the things we do to accomplish

that is to reframe the whole paradigm to focus on the player experience, as opposed to on the operator logistics. Legacy lottery systems are product-focused; even the term “omni-channel” reflects this, referring to the multiple distribution channels deployed to make the product available in the marketplace. This is the wrong focus. We choose to put the focus where it belongs: on the driver of these strategies—the source of demand for lottery products—which is the consumer.

So we reframed the whole approach by replacing the focus on “channels” and instead putting the focus on the players and their touch points. Since the consumer wants and expects ubiquitous access to

providers of products and services, we focus on what we call the omni-player. Our goal is to harness the capacity of the digital domain to enhance the entire player experience. This delivers benefits far beyond the sales generated online.

The Omni player approach is about driving player engagement across all channels and media. It's about creating a player journey that integrates channels and media so that playing the lottery becomes a singular and seamless activity. The players migrate among the various consumer touch points, but they are not thinking about “channels of distribution” or “consumer access.” Instead, they are just thinking about playing the lottery and engaging in the activities that are second-nature to the modern consumer. They use their mobile, they walk into retail stores and go about their lives and business without thinking about the logistics of distribution. Relationships with friends, with work colleagues, and with merchants all blend into a seamless mix of online, mobile, and physical connectivity.

The Omni Player lives in a world where fluid and constant connectivity is taken for granted. Interaction happens on various platforms, but the navigation between those platforms has become so easy and seamless that the mechanisms that enable

the migration from interactive to retail become invisible to the consumer. The consumer just expects everything to work flawlessly, to get what they want precisely when they want it.

They are happy and engage when everything goes smoothly; they are confused and disengage when it doesn't.

It is about creating that easily navigable and interactive relationship with the player that drives engagement on all levels, and across all channels. Creating this engaged relationship is the cornerstone of any sustainable growth plan.

*What are some concrete ways that digital is merging with retail?*

**M. Malul:** The first thing is to not think of them as two separate channels existing side-by-side to deliver two ways for the consumer to access and play lottery. Instead, think of the digital domain as existing in a virtual world that permeates everything we do and hovers above, around and within the physical world—which happens to include the retail domain.

For example, cashing in and cashing out win money from your digital wallet can be done in multiple ways at retail. Loyalty club activities and entries that are managed online can be integrated with retail purchases. Assistance with player registration is provided online but can be integrated to a retailer's POS access point as well. The player can choose to post the retail purchase into his or her digital player account management system at the retailer's POS. The retailer's POS can even be equipped to process anonymous digital transactions if the player so chooses. The digital and retail domains merge and function together.

The Omni player strategy enables the ongoing layering of additional options and services to every consumer touch point and POS. As an industry, we are in the very early stages of building out the full capabilities of this integrated Omni player interface. This fully integrated player journey across multiple touch points is adding more and more content and service, and unleashing a wave of innovation that is transforming the lottery player experience and the industry.

*How are these ideas being applied in Michigan, the Czech Republic, Portugal, and other NeoGames client markets?*

**M. Malul:** At one of our partner lotteries, we enable the players to use a card to buy lottery tickets at retail points so the transaction posts to the player's digital account management (PAM). The player's purchase is posted to his or her PAM, the process of entering the second-chance draw or other promotion is greatly simplified, and there is a record of the purchase in case the ticket is lost. Retailers can offer this card to their customer through their own POS terminal. That puts the retailer in the position to engage its own customer while also being an ambassador for the lottery by assisting the player in the registration process.

Using cash money as a means of playing online is an option that has proven to be surprisingly popular, and is another avenue that loops in the retailer. That option is doubly enhanced by enabling the players to cash-out their Internet prizes at retail locations. Players can also do the reverse—collect their winnings of retail purchases and convert them into online currency (win \$10 at the store but have it deposited in your Internet account).

There are countless synergies that may seem convoluted, but that is just because they have not been commonly used in the lottery industry yet. It is seamless and easy for the consumer who is already quite familiar with all these integrations of digital and physical transactions. Players get it; they are availing themselves of these many options, and the result is a highly engaged Omni player experience.

*It sounds like you are sometimes surprised at the ease and speed at which the consumer adopts new ways of doing things.*

**M. Malul:** I am! Of course, we would not create and implement these tools, these new ways to interact with the lottery, if we weren't convinced they would appeal to the consumer and retailers and contribute to the success of the operator. But I am often surprised at how quickly and easily these innovations are received and adopted by the consumer.

The opening up of the mind to countless new ways to fulfill our goals is all due to the Internet. Those of us who came to the digital world in our 20s or 30s think of it as a second language, something separate and different that we are in a constant state of figuring out how to use, but "Digital" is the first language for digital natives who were born in the 1990s. They are so fluent, so familiar with all the underlying protocols and nuances that they don't even have to think about it.

The physical world of land-based retail and billboards and commercials that advertise products—and cash that enables transactions—have limiting constraints that the digital native is no longer bound by. The integration of all these new digital tools into the mix is all second nature to them, neither complicated nor burdensome. There is no learning curve like there may be for non-digital natives. They already use these tools in the conduct of their relationships with other merchants and businesses. Their lives are already completely managed on digital platforms. Their social media connection to friends, their work relationships, the commerce of information and agreements and projects and everything we do as actors in the information economy—these are all bound together by the Internet and digital platforms.

So yes, I am surprised by the rapid adoption of innovation by the consumer. But now in hindsight, I shouldn't have been surprised. It all makes sense and so we are excited about the timelines in which new digital tools that we have in the pipeline will convert to value-added benefits for the consumer, the retailer and the operator.

*What is a specific example of how consumer response to a new idea surprised you?*

**M. Malul:** Sisal, our customer in Italy, built an app whereby you can configure your draw game and once you finished configuring it you have two options. One button says "Pay Here" and the other button says "Pick up at Point of Sale." Now, why would the player who just spent the time to configure a ticket in the online app prefer to go to the point of sale to pick up the ticket? Yet in some markets, as many

as 30% of the players do exactly that. The Omni player approach expands upon this phenomenon with greater consumer choice and enablement.

The consumer world has always been comprised of multiple touch points: retail stores, advertising messages, self-serve kiosks, delivery services, etc. Digital has simply exploded the number of those touch points to completely transform the way we think and interact and conduct commerce of ideas as well as goods and services and currency.

The irony is that for all the technological sophistication being applied to unlock the power and capacity of the digital universe, the end result is a system that is far more consumer-centric than the analog world ever was. Tools that enrich the consumer experience are being introduced at warp speed. The process of acceptance and rejection is so efficiently actuated in real time that it becomes almost invisible. The merger of the player-centric digital domain with the physical world of retailers and products and services is not only transforming the consumer experience—it is a revolution that is transforming the entire world of commerce.

*How is the iLottery player experience different from playing the Instant game at a retail point of sale?*

**M. Malul:** Years ago—and still today for some lotteries—the Internet was thought of as simply another channel of distribution through which product can be sold. Lotteries basically put their Instant products online. Maybe they changed some visuals and added some digital features, but basically they were still selling the same product. It was a logical approach, but it was aligned with the misguided presumption that there are immutable constraints to the design of an Instant game. Regulatory constraints and past experience in the marketplace were inhibiting the process from taking full advantage of the potential to reinvent the games within a medium that is so completely different from the physical world. The Internet opens up a whole new galaxy of potential, represents a fresh new canvass upon which we can create innovative game concepts.

We thought long and hard about the underlying concept of Instant games. We discovered that while the Instant ticket has certain fundamental properties that make it an Instant ticket, you can deconstruct the attributes of the product and rebuild it in many different ways. Think of it as Lego. The regulator allows you a certain number of pieces of Lego to create a game. The game has to include those pieces, but you have lots of flexibility in how those pieces are joined together into a gaming product. In the physical world of retail, one of those attributes is the printed scratch card. The printed scratch card has certainly served a good purpose over the years, but it is not a regulatory requirement. So we remove that from the list of required properties and let our imagination reinvent a whole new realm of possibilities.

At first, our ideas to reinvent the game were met with incredulous reactions framed with the concern “I don’t know if we are allowed to do that.” So now, to our customer’s surprise, we ask that the legal team be a part of the conversation from the very beginning. All lottery products have always been vetted with the legal team, but typically that happens at the end of the process, not the beginning. We now ask that Legal be a part of the entire discussion. We found that addressing the questions and getting buy-in from Legal throughout the process is a more practical way to avoid a decisive thumbs-up or thumbs-down at the end and going back to the drawing board.

We also find this to be an effective means of engaging Legal in the broader business objectives of delivering games that are both entertaining and in compliance. Everyone, including or even especially Legal, gets very excited at the notion of recasting the product in fresh new ways. Legal has actually been very helpful at creating solutions. “Well, you can’t do that because of this rule, but you can do it this way instead and achieve a similar result.” Legal becomes part of the creative team that drives the best solutions. And of course, they love it!

Once we share our insights, the results that can be achieved and the reasons for powering through the process of deconstruction and re-building a fresh new product, the

clients embrace the challenge and infuse the process with their own creativity. Their enthusiasm for the possibilities takes over and the drive to reimagine the whole concept of what can be accomplished springs to life.

NeoGames brings a wealth of experience for what works and what has not worked so well in other markets, as well as the technical expertise to make it happen. But it is our clients who are driving the bus. It is their vision that sets the stage for all of us to work together to reinvent the business. We end up learning at least as much from them as they learn from us! The result is an exciting interactive player-experience that drives both interactive sales and retail sales.

*To what extent are your ideas informed by the game attributes of popular non-lottery or non-money games?*

**M. Malul:** We think of our job as “innovating inside the box.” Our experience with game developers who are not immersed in lottery is that they are slow to connect the dots that make the games work from a compliance point of view. There is incredibly exciting innovation in the broader world of gaming. We analyze, learn from, and take inspiration from the amazing success of these non-lottery games. But the world of government lotteries is unique in many ways. You know, it’s not just about what is permissible from a regulatory point of view. We need to be sensitive to responsible gaming, political and public-relations aspects of everything we do.

*What is an example of a game concept that has been done online but not in a retail store?*

**M. Malul:** How about letting the player decide the price of the ticket? That is easily done online and creates a wonderful dynamic that players love, “gamifying” the player experience. It engages the player in the process of deciding the relationship between the odds, wager and reward. This is not done at retail. It might seem impractical to attempt that in the analog world of retailers, but as the world of retailers becomes digitized, even this option could be migrated over to retail—yet another example of cross-pollination of ideas benefiting retailers as well as players.

Actually, the player just decides among a large variety of pre-existing game matrices. Players who decide the price of the ticket they want may feel like they are creating their own unique game, but they are actually selecting a pre-existing game. This works online and not in the physical world because we can field an almost unlimited variety of games online. There is no cost of printing countless tickets ahead of time, or the impossible task of finding the space for them in a retail environment. The user interface does not display the countless permutations and combinations of price/odds/reward; it just displays the option of creating your own game. But the selections end up channeling the order into a game in the system, so the transac-

tion is processed, posted, audited, settled and subject to the same administrative actions as all other lottery games.

*The Omni player puts control back into the hands of the player in ways that would be hard to imagine without the integration of digital into the player experience.*

**M. Malul:** It would be hard to imagine because it could not be done from a logistics and cost point of view. But two things are happening simultaneously that are changing the face of both retailing and lottery gaming.

One, digital is opening up a whole new world of possibilities that will transform gaming. It has already been transforming the world in myriad ways and now it is working its magic on the world of gaming.

Second, the distinctions between online and off-line are disappearing. As one young person said in a presentation at an EL Marketing conference, there are no “line-people,” there are only people embracing a world rich with options and opportunity to connect and interact and fulfill our dreams.

As digital becomes integrated into the retail space, as the worlds of online and off-line converge and the distinctions disappear, as innovation migrates seamlessly across channels and media to inhabit the world of the Omni player—this is the transformative power of digital that benefits everyone.

All aboard, because the engines are already started, the bus is leaving and the destination is clearly in view! ■

## Hansjörg Höltkemeier Interview ... continued from page 16

in a distant future and hard to measure in this moment. Unfortunately, as is evident already in many jurisdictions, it is not a distant future. Market-place changes happen with astonishing speed. And it is very often not realized that the Pandora's Box of undesirable consequences might be opened without any chance to close it again.

It is a big task and top-priority for EL to make sure that the impacts of liberalization are clearly understood by those jurisdictions which are still in the decision-making process. The effects of regulatory change that open up the markets is clearly visible in those jurisdictions which have already decided on commercializing the gambling sector. The strength of the EL position is that the facts are on our side. We just need to make sure the facts of those consequences are recognized and understood by everyone, particularly those who are influencing public, regulatory, and taxation policy. That is why it is in the

interests of EL and its members to engage in active dialogue with everyone who has a stake in the issue of market liberalization. The EL must fulfil its responsibilities as an established and respected stakeholder in the games-of-chance sector. It is vital that EL has actual and relevant data to exercise influence and reinforce its position of influence within the industry. This is largely accomplished by our activities with technology partners and political institutions, through our new Infohub (be introduced this year), and by way of ongoing projects in which we coordinate and communicate the activities of our members.

Last but not least: our approach to support members in their daily business is slightly changing. Based on our strong seminar-offer and our information-sharing approach, we are working to broaden our scope to focus on the most relevant and timely business-themes. Fighting for a strong regulated state-licensed model, we

can no longer limit our focus to be solely on our legal expertise, on responsible gaming, and on security-standards. The more the legal and illegal competition breaks through to directly impact our businesses, the more it is our duty to support our members in those markets through enabling innovation, driving efficient operations, and leveraging the power of digitalization. As an industry, we must recognize the fast increasing interest in those competitive offers and we must anticipate what is driving demand.

So, EL continues its mission to fight for the model of state-licensed lotteries and its values. At the same time, the EL is equally committed to enabling and supporting its members in highly competitive markets to achieve the best results for their stakeholders, even under strict regulation and challenging market conditions. ■

## Kevin Mullaly Interview ... continued from page 48

sponsible play and control other risk factors like money laundering and retailer fraud.

It might sound like I am advocating for the legalization of Internet gaming, but I am not. GLI is in the explaining business, not the deciding business. There may be

fact-based reasons for a legislator to vote to prohibit Internet gaming. It's just that the notion that you can't control the Internet and effectively manage the elements of the transaction isn't one of them. You would think that the simple facts of the matter

should put the fake news to rest. But it can be hard, as Mark Twain points out, to pierce the bubble of what people are convinced is true, especially when special interest groups make it their business to propagate disinformation. ■

# Kambi

## The implications of potential legislative changes in New York for the wider sports-betting market in the U.S.

KRISTIAN NYLÉN, CEO OF KAMBI



The recent legislation introduced by lawmakers in New York to legalise and regulate sports betting in the state should not be viewed in isolation.

It is the latest step in a growing movement to legalise the vertical, and comes after similar attempts in New Jersey and California. Of course, the journey towards a regulated US sports betting industry will be a long one,

and there are still many barriers to overcome, not least a federal prohibition dating back to 1992.

However, I strongly believe that the appetite and will, both politically and among the wider population, is there, and that it is only a matter of time before Americans outside of Nevada and a handful of other states are permitted to legally wager on sports.

As such, it is time for lottery operators to sit up and take notice, or risk missing a once-in-a-generation opportunity when regulation is finally introduced in New York and beyond.

### Engaging with the process

The proposed New York regulation is a prime example of why lottery operators need to engage. While the proposed legislation includes several worthy provisions, not least a commitment to use proceeds to aid state education, it also restricts betting to racetracks, simulcast theatres and casinos.

There is no mention of an online component, which for the time being looks to be a separate battle entirely. While it is positive that the topic is being discussed, we are still a long way from strong, practical legislation.

This should both encourage and concern US lottery operators. They only need to look at their colleagues north of the border in Canada, as well as in Europe, to see how provincial and state lotteries can grow revenues through sports betting.

When regulation does come, whether in New York or elsewhere, I believe lottery operators should be central to the process. It is time to deliver a safe, secure and regulated sports betting offering to US customers, and few are better placed to provide such a service as existing lottery operators.

### Lottery's opportunity

These operators already have a track record of delivering responsible gaming to users, and in partnership with licensed providers, there is no reason this offer shouldn't be extended to sports in a similar manner to how it is in regulated markets around the world.

This process will be a steep learning curve. The prohibition on sports betting in the US has left the sector lagging behind its Euro-

pean counterpart. Fortunately, many of the innovations and lessons Kambi has learned in Europe will have applications stateside.

At Kambi, we understand the challenges of operating in strictly regulated jurisdictions. It is vital that operators have access not only to a flexible platform, but also the expertise and know-how that comes with a full turnkey sports betting service.

### The power of partnerships

This means entering strong partnerships that allow for the co-creation of a world-class user experience, drawing upon both the technical platform and service expertise.

Many lottery operators are also in search of full-service solutions, which is why Kambi recently signed an MoU with Novomatic Lottery Solutions (NLS) with the mission to provide a powerful full-service gaming solution to government regulated lotteries around the world.

The service will combine Kambi's state-of-the-art sports betting service with NLS's market leading lottery platform, providing a one-stop-shop for operators.

We recently showcased this integrated offering at the World Lottery Summit in Singapore, and we will once again be displaying our innovative retail solution at stand S2-110 at ICE, which offers a range of self-service terminals, over-the-counter and bring-your-own-device options for operators, all backed up by Kambi's digital infrastructure and expertise.

### Industry game-changer

Regardless of whether this latest New York bill progresses, the appetite for sports betting in the US is undeniable. You only need to pick up a newspaper and read the sports pages to see that many Americans are already speaking the language of sports bettors.

And the remarkable surge in popularity that daily fantasy sports has enjoyed over recent years is only an indication of how popular the real thing might be should it finally be legalised and regulated.

Meanwhile, professional sports bodies have softened their view on the prospect of legalised sports betting in recent years. In 2014, NBA Commissioner Adam Silver said it was "inevitable" that more states would ultimately legalise sports betting, and that the NBA would participate in the process.

If the lottery vertical is to continue to thrive and ensure players are not lured offshore, it must expand its product offering to remain competitive. This message needs to be conveyed clearly to lawmakers across the US, and it must be stressed that lottery operators should play a central role in this process.

The US market will ultimately be a game-changer for global sports betting, and while we may still be some time away from full legislation, the lottery sector must begin planning for this future. ■



## David ROY

International Business Development Director  
—Carmanah Signs, A Division of STRATACACHE

carmanahsigns.com

### Transforming the Player Experience at Retail



**PGRI Introduction:** STRATACACHE and its gaming division, Carmanah Signs, is the world's leading provider of digital signage network software, hardware, and services. An active member of the global lottery community, Carmanah serves 49 lottery customers on four continents—providing everything from digital signage software and hardware (media players, screens, tablets, networking equipment, and jackpot signs) to services (content creation, scheduling and distribution, network monitoring, and technical support). Together, STRATACACHE and Carmanah have over 1.4 million connected media players and 130,000 wireless jackpot signs at retailers around the world.

David Roy, who spent the previous seven years working with IGT's European clients on retail sales optimization, joined the Carmanah team in 2015. Prior to that he was a top retail executive with Coca-Cola International. His current mission? To engage Lottery players by digitizing the in-store playing experience.

**Paul Jason:** *With competition from online vendors like Amazon, isn't the pressure on retail to modernize just as compelling as it is for Lottery? How is STRATACACHE evolving the in-store experience?*

**David Roy:** Retailers are facing a fundamental challenge as e-commerce redefines the shopping experience. STRATACACHE is focused on supporting retailers by providing scalable in-store digital solutions that personalize the in-store experience and distribute targeted real time messaging. We're integrating (rather than competing with) online and

mobile, leveraging the power of touch interactive, proximity to product, and real time content distribution.

How do we honor and manage customers as assets? What data can we pull about the customer? How do we use that information to align the customer's experience? For example, Amazon will use previous sales to suggest new purchases to the customer. What can we do to guide the customer; to make their experience easier, better, faster, more relevant, more entertaining? These are the questions we ask when building highly effective, mass

scale solutions for the largest retail networks in the world.

*Aren't retailers looking to Lottery to help them modernize?*

**D. Roy:** That has been a theme at Lottery industry conferences and is congruent with what we've found in the field. Retailers know they must evolve to survive and are looking for guidance and leadership. Lottery holds a privileged position and valuable real estate at retail, and is positioned to be a leader in this area. Lottery could and should step into that role. Be the leader. Show retailers how to adapt, how to transform the retail experience, how to create a new level of customer engagement. There is so much that can be done to alter the in-store experience.

It's no longer a question of whether to invest in upgrading the shopping experience with digital solutions; at this point it's about developing a comprehensive retail strategy that will position both Lottery and retailers for long-term success. Retailers that install digital signage—promoting winner awareness, new game launches, rising jackpot levels, special promotions or prizes, and more—are delivering a different kind

of experience. Lottery is a game, it's fun. Buying a candy bar or milk will never be a theatrical experience, but Lottery is an inherently entertaining activity that readily lends itself to engaging consumers and increasing dwell time.

*Jackpot awareness is a vital component, but the Carmanah solution is to think bigger?*

**D. Roy:** Exactly. We're reimagining the role of signage, helping Lottery and retailers to personalize the player experience, and driving conversion. The goal isn't just to communicate a message, but to engage and inspire action. That's our mission. It means both innovating and expanding on our traditional jackpot signage, as well as exploring leading edge digital signage solutions tailored to the specific needs of Lottery.

We're using advanced jackpot signage to drive incremental sales by reimagining zones of activation at retail. For example, in-lane jackpot signage is increasing sales in the grocery channel by making it quick and simple to add lottery to grocery sales, while gas pump toppers are driving additional foot traffic into gas convenience stores.

Scalable digital solutions that distribute targeted real time messaging, instant customer service, robust shopper analytics, immediate product information, and easy mobile integration—those are the retail experience of today, and we're delivering these capabilities right now. At the moment that means solutions such as upgrading traditional PlayStations to touch interactive Digital PlayStations, using Digital Menu Boards as animated Instant Ticket planograms, and evolving traditional window jackpot signs to Sunlight Readable LCD Window Signs that make video and other short dwell time content visible in direct sunlight.

Both the traditional jackpot signage and Digital Signage (DS) are driven by ActiVia for Media—the most robust, reliable DS software available today. Built to handle the most complex DS networks at massive scale, ActiVia is currently powering the largest retail networks in the world.

*So ActiVia also supports signage not attached to a PlayStation?*

**D. Roy:** Absolutely. ActiVia powers the entire network, integrating everything from terminals and media players, to Digital Menu Boards and Digital PlayStations, along with all variations of wireless jackpot signs in between. It supports the streaming of highly targeted messaging across massive networks

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It's no longer a question of whether to invest in upgrading the shopping experience with digital solutions; at this point it's about developing a comprehensive retail strategy that will position both Lottery and retailers for long-term success.

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of signs, both inside and outside of the store—up to 250,000 screens at a time. This can be animations, HD video, gamification, and other interactive experiences. It can be advertisements, optimized for dwell time and location in the store. It can be real time jackpot awareness, winner information, and top prizes

remaining. Whatever you want it to be.

The dynamic tagging and highly efficient content distribution enabled by ActiVia allow for hyperlocal targeting, giving Lotteries full control of any segment of any screen, in any store, in any type of retail channel, in any location, at any time. This means you can target specific audiences by location and time of day, adjusting for language or other regional differences, showing local store specific winner information, with live jackpot feeds, even tying in third party data such as weather. Using one of our Quick Serve Restaurant (QSR) customers as an example, McDonald's actually accesses real time weather data, adjusting their signage to promote hot beverages when the temperature falls below a certain point (and vice versa).

*Lotteries have sales data about what types of games are sold in each store. Would ActiVia enable the Lottery to shape their messaging to appeal to the play styles and demographics of the individual store?*

**D. Roy:** Yes, precisely. It's one thing to have incredible data, but it's of little value if you can't capitalize on it. ActiVia uses the Lottery's data in real time to deliver exceptionally targeted messaging to very specific screens, stores, and locations. As with all ActiVia driven digital signage, content can be hyperlocalized down to the single store level based on content and store meta-tagging. The tagging capabilities with ActiVia are endless. Combined with the detailed analytics available, this represents a quantum leap forward in optimizing Lottery sales at retail.

We have entered the age of retail modernization. The future is here now, and Lottery can be a key enabling partner. Owning that leadership role will put Lottery in a position to drive both player and retailer engagement. That's our vision for Lottery, and we're ready to help make it happen! ■

## THINK, LOOK, ACT, Differently!

Herbert Stein's Law, *if something cannot go on forever, it will stop* is precisely what Herbert Stein, an American economist, who was best known for his focus on trends, would have concluded when examining the instant ticket industry. Many lotteries have been successful in growing instant sales, however the reality of a stagnant player base means continued growth cannot be sustained into the future. Lotteries *must* be proactive to attract new players.

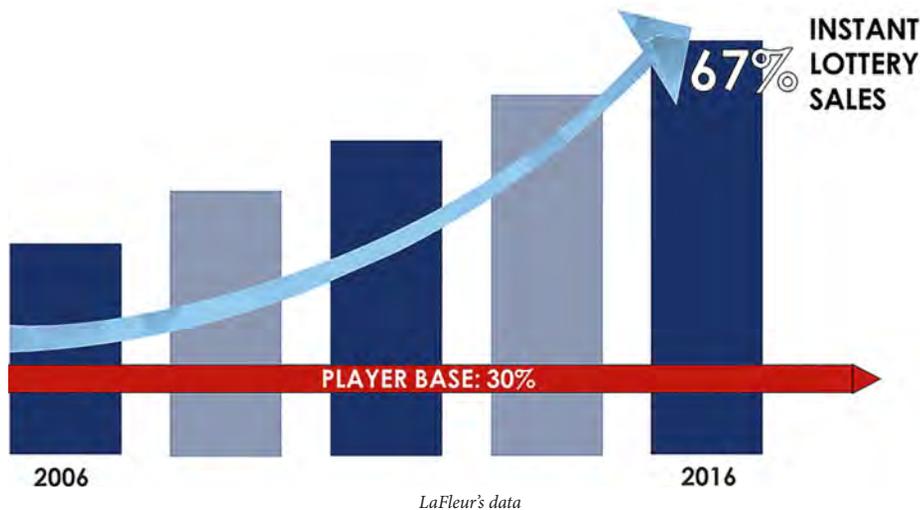
Lotteries should challenge themselves to **think** about instant products in new ways and **look** for new opportunities to let consumers see instant tickets with a fresh perspective. To assess the success of new and existing strategies, lotteries require effective tools to convert complex data into simplified insights that identify clear opportunities to **act**.

keep existing players engaged. Striking a balance between games that are simple and easy to understand for new players, but still incorporate fun and fresh play features for existing players, is key.

Taking a traditional product and morphing it into a new offering is not revolutionary. A great example of this is the introduction of baby carrots to the marketplace<sup>1</sup>—they expanded the reach of the carrot category to new consumer segments and retailers. This simple way of rethinking a common product led to nearly doubled per capita consumption of carrots in the U.S. over a 15-year period.

Similarly, Pollard Banknote is continually reimagining what an instant ticket can look and play like and has proven its ability to do so. For example, observing trends both in and outside of the lottery industry has led to the development of some of the company's most successful instant ticket innovations such as Scratch FX®, Gloss FX™, and Eco Scratch™.

Recent product innovations—Pop 'n' Play™, PlayBook Mini™, and Flip Scratch™—are further examples of the company's continued commitment to developing meaningfully unique ideas. Pop 'n' Play™ is an innovative folded ticket



U.S. instant lottery sales have grown 67% from 2006 to 2016. Comparatively, Nielsen Scarborough's research shows that the percentage of players who purchased an instant ticket in the previous 30 days remains constant at approximately 30%. What are these statistics telling us? Engaging new players is critical to continued sales growth.

In the U.S., the proportion of total lottery sales derived from instant tickets is steadily increasing, from 55% in FY 2006 to 66% in FY 2016. To maintain overall growth, it is vital that lotteries continue to focus on the strongest driver of sales— instant tickets.

### THINK...

Lotteries need to continuously think about how to appeal to new players, while also developing products that



Pop 'n' Play™



PlayBook Mini™



Flip Scratch™

<sup>1</sup> <https://first-the-trousers.com/2015/12/08/two-innovation-lessons-baby-carrots-can-teach-brands-yes-baby-carrots/>

that reveals exciting scratch-off areas inside. The game boasts double the play space of other tickets its size, enhancing the play value. Games can also be added to the outside surfaces—maximizing winning opportunities for players.

Pollard Banknote's PlayBook®, which brings multiple games together in booklet format, shattered sales records in numerous jurisdictions. The PlayBook Mini™ builds on this success by providing players a new pocket-sized page turner. Measuring in at 3.9" x 4", this unique booklet may incorporate a single play style, such as Crossword, or may be designed to include a variety of different play styles around a broad theme—such as money, lucky 7s, gems, travel, or the holidays.

Flip Scratch™ provides a unique way for lotteries to add value and excitement to an instant game. Players snap open windows to reveal an integrated play area that combines variable imaging on the back of each window and a scratch area that covers additional play symbols. The win outcome is determined by the relationship between the pop-open window and scratch-off area. Flip Scratch™ accommodates many different play styles, including slots and popular casino card games such as poker, blackjack, and high-low.

In addition to these instant ticket innovations, Pollard Banknote's Space Between™ games extend the life of instant tickets sold at retail by incorporating an interactive experience through a lottery's website or mobile app, attracting a growing segment of players who want to

engage digitally with lotteries.

### LOOK...

Presenting products to consumers in unique ways to increase brand interaction and awareness has proven extremely successful. One retail strategy that has been generating buzz is the use of pop-up shops—temporary retail spaces launched to promote specific products and build a strong consumer following. Pop-ups capture foot traffic and can target specific consumer segments.

While pop-up shops have most commonly been used in the apparel and toy industries, lotteries can achieve the same results by utilizing Try-Vesting™—Pollard Banknote's innovative strategy to reach lottery consumers by taking the product directly to them. A cross between advertising, product promotion, and marketing, Try-Vesting™ allows consumers to “try before they buy”, which has proven successful in generating excitement about playing lottery games, especially for non-players.

Try-Vesting™ programs are typically conducted at large-scale events, festivals, concerts, and other venues. Presenting products to a captive audience in an exciting, non-traditional setting gives lotteries the opportunity to reach new players and gather valuable insight into how to attract various demographics.

Try-Vesting™ also presents a great opportunity for lotteries to build the player base, as the program promotes lower price point tickets; an effective means to attract new players. Data from a recent research study conducted by one

U.S. lottery showed that 80% of instant ticket players recall that the first instant ticket they purchased was at the \$1 price point.

### ACT...

Market research is most valuable when delivered in a manner that converts complex data into useful, digestible information. For example, activity trackers help people monitor a wide variety of fitness-related metrics by displaying them in a way that is easily understood.



Pollard Banknote had a similar goal in mind when developing its proprietary SMART™ solution—a robust database that tracks the sales information from lotteries around the world, and presents it to users in a clear and concise format for the purpose of data mining, sales forecasting, and strategic planning.

### THINK, LOOK, ACT, Differently

Leveraging these three strategies internally as well as from industry and non-industry vendors allow lotteries to take advantage of the untapped potential that comes with expanding their player bases. Increasing a lottery's player base means more sales, and more sales means more money for good causes—don't be afraid to be different—it works.

# Pulse of the Industry



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## WORLD NEWS

### DATA ANALYTICS CAN SPOT ADDICTED GAMBLERS

One of the pre-eminent gaming companies in Europe is employing big data analytics to identify customers who show signs of gambling addiction. Veikkaus, the largest gaming agency in Finland, captures huge amounts of real time data from both digital and offline betting channels. The company created a modern data architecture to manage, prepare, and integrate data running through its environment.

One special area of interest is identifying individuals who show signs of gambling addiction. Problem gambling is no worse in Finland than on the rest of the European continent, but Veikkaus can now use the data it is capturing to take proper action.

Veikkaus is able to identify most of its customers by their user ID when they are logged into a digital channel or through a loyalty card program. Currently, Veikkaus says it is able to classify 1.9 million of Finland’s total population of 5.5 million as customers.

### BATTLE LINES BEING DRAWN IN SWITZERLAND OVER THE ISSUE OF IP BLOCKING OF UNLICENSED I-GAMING OPERATORS

### EUROPEAN OPERATORS TO EXIT AUSTRALIAN MARKET IN WAKE OF ONLINE GAMBLING LAWS

Changes to Australia’s interactive gambling laws are expected to cause many European gaming operators to exit the market in the near future. Vera&John, a popular English-language on-line casino, notified its Australian customers that the company was departing. That move is expected to be the first of many by operators providing on-line casino and poker services.

Clarifications made within Australia’s Interactive Gambling Amendment Bill 2016 passed in November triggered the exodus.

Vera&John, based in Malta, is owned and operated by Dumarca Gaming Ltd. Dumarca, in turn, is owned by Canada-based Intertain Group, which acquired Vera&John in an €89.1 million deal in early 2015. The parent company of global online-poker market leader PokerStars, Amaya Gaming, disclosed in its most recent quarterly financial-results conference that it was planning a similar move when Australia’s interactive-gambling amendments are officially enacted.

Black-market sites probably will continue to serve Australia’s bettors. Such sites offer little recourse for consumers if things go awry.

### OPAP ADDRESSES THE NEW BEHAVIORAL DRIVERS OF MILLENNIALS

Millennials represent the consumer market of the future. Much more than previous generations, Millennials expect companies to conduct business in a fashion that reflects their values. And they make their buying decisions based on the affiliation they feel for the companies that provide goods and services. They talk about those decisions, and why they support some merchants over others, on their social networking digital media channels. Further to that, it has been observed that the Millennials pay less attention to advertising and marketing messages than they do to each other. The combined effect of these behavioral drivers of the next generation of consumers is that Corporate Social Responsibility (CSR) has become a vital aspect of brand imaging—and communicating those values and the material efforts to promote those values, has become a cornerstone to an effective overall Marketing Communications agenda. They look for, and they are overwhelmingly requesting from companies, from all different sectors, to offer them a mission that they will back up though their choices. Inherently sensitized to concerns about the welfare of the people and the world around them, consumers need to feel that their choices support good causes and see the actual results. In addition, looking closely at Millennials, it is evident that CSR is combining

with other activities which are driving the behavior of the modern consumer much more than they did the behavior of previous generations of consumers. Consumers now expect the brands they affiliate with to be fast, online, inspirational and work towards connecting people and co-creating with them a better tomorrow.

Consumer behavior as it manifests in the gaming industry is no different. After all, Millennials are a new breed that gamifies everything, from dating to finances. Therefore, they expect immersive and intense experiences, authentic storytelling and online interaction. But most of all they expect transparency and honesty which are key elements for their trust. And trust is key to winning their support and engagement.

Understanding the playground that Millennials have developed, OPAP has undertaken the decision to communicate strongly and transparently our CSR strategy and results, making them an integral part of our brand and marketing communications efforts.

As a responsible company, OPAP continues to evolve its business operations, focusing on initiatives that improve the living conditions of the communities and especially youth. Meanwhile we constantly develop online experiences that connect Millennials with our CSR agenda and offer them a platform to support our initiatives.

Indicatively, we are actively engaging them through social media and we have developed a CSR dedicated app through which people can actively engage. We then translate their engagement into investment for significant causes that benefit society. For example, on the occasion of the Authentic Athens Marathon, more than 200,000 people were actively engaged through our application and we translated their engagement into monetary investment for the renovation of the two largest Children Hospitals in Greece.

Moving forward and having experienced the intense engagement of this specific target group with such initiatives, we continue to provide them with all the digital ammunition they need, as well as content on the results of our CSR initia-

tives to resonate with our programs and inspire consumers to co-create with us the initiatives to improve their communities and society in general.

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#### **UKRAINIAN OPERATOR OF STATE LOTTERIES (MSL) SPONSORS THE MOLODIST (YOUTH) GRAND PRIX FILM FESTIVAL**

For over 46 years, the Ukrainian operator of state lotteries (MSL) has been conscientiously working to improve the lottery market in Ukraine. Additionally and at its own expense and following the traditions of European and world lotteries, MSL is investing in the development of national culture and sports. Thus, attention is focused not only on building sports infrastructure but also on the support of cinematic production. The most outstanding example is the ongoing sponsorship cooperation of the Ukrainian Lottery operator MSL with one of the most famous international film festivals: “Molodist” (Youth) that takes place every year in Kiev. For the past fifteen years, the MSL holds the title of official partner and sponsor of the “Molodist” Festival Grand Prix. The company annually gives \$10,000 as a main prize to the winner of the festival and invested a lot of time and efforts in building positive public image of the cooperation between lottery and culture. “Molodist” has become one of the greatest specialized cinema events in Eastern Europe, according to the International Federation of Film Producers Associations (FIAPF).

General Director of “Molodist” Andrei Khalpakhchi said: *“We have been working with MSL since 2000 and this is our most reliable partner and, perhaps, the most long-term one. Of course, we are very grateful that we are working with them. Their contribution is very significant, it is almost equal to the public financing of the festival, and we hope that we will have further productive cooperation with them in the future.”* This year’s main prize went to the movie “Last Family” made by Jan P. Matushinskiy (Poland).

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#### **THE NEW GAMING COMPANY VEIKKAUS STARTS ON 1 JANUARY 2017**

The Finnish gaming operations will be

shouldered entirely by a single company, as the activities of the current three operators – Fintoto, Finland’s Slot Machine Association RAY, and Veikkaus – merge in 2017. The merger aims at strengthening the Finnish gaming system while at the same time reinforcing the mitigation of the social and health-related problems that are associated with gaming. For our customers, the merger means a more versatile game portfolio and even better customer experiences.

Veikkaus generates over one billion euros a year for the common good: 53% will be channelled to sports, science, culture, and youth work. Promoting health and social wellbeing will receive 43% of the funds, whereas horse breeding and equestrian sports will receive 4%. Finland’s largest consumer webstore veikkaus.fi has 400 000 players a week.

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#### **KAMBI GROUP PLC PARTNERS WITH NOVOMATIC LOTTERY SOLUTIONS (NLS)**

Kambi Group plc and NOVOMATIC Lottery Solutions (NLS) have signed an MoU, with the mission to provide a powerful full-service gaming solution to government regulated lotteries. The service will combine NLS’s market leading lottery platform with Kambi’s state-of-the-art sports betting service.

This strategic partnership will see Kambi and NOVOMATIC Lottery Solutions joining forces to deliver a unique and modern omni-channel solution, which responds to an increasing demand in the lottery sector, for a superior user experience in all channels and most notably in interactive gaming. This service will be co-branded and marketed under ‘NLS Sports Betting - Powered by Kambi’.

Commenting on the partnership, Kristian Nylén, CEO of Kambi said:

“We are very excited to have formed this partnership with NLS; NLS is the ideal partner and share our vision for growth and innovation within the lottery sector. The co-branded service will offer a modern best-in-class solution, creating a competitive service giving government regulated lotteries the possibility to make a leap, especially in interactive gaming across all verticals. We look forward to collaborating with NLS and are excited to reveal ‘NLS Sports Betting - Powered

by Kambi' at the World Lottery Summit in Singapore."

"This alliance is a part of our 'best of breed' philosophy where combining two modern systems, deploying state-of-the-art technologies while exercising the inherent expertise of each, delivers world beating performance in highly competitive markets. "NLS is very pleased to be working with Kambi, whom we feel is a like-minded partner in technology and an expert in sports betting operations." said NLS's CEO Frank Cecchini.

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**IGT WINS SEVEN-YEAR CONTRACT TO PROVIDE VIDEO LOTTERY TERMINALS, CENTRAL SYSTEM, SITE CONTROLLERS, GAMES AND OPERATIONAL SERVICES TO SVENSKA SPEL IN SWEDEN.**

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**IGT SIGNS NEW FIVE-YEAR PRIVATE OPERATOR CONTRACT WITH COLJUEGOS IN COLOMBIA**

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**IGT TO PROVIDE LOTO-QUÉBEC WITH GEMINI TOUCH LOTTERY PRODUCT VENDING MACHINES**

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**IGT SIGNS AGREEMENT WITH SOCIETE DE LA LOTERIES SUISSE ROMANDE TO PROVIDE AURORA™ LOTTERY TECHNOLOGY AND SERVICES.**

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**SCIENTIFIC GAMES COMPLETES ACQUISITION OF DEQ SYSTEMS CORP**

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**NOVOMATIC CLEARED TO ACQUIRE 17.2% STAKE IN CASINOS AUSTRIA.**

The ownership structure of Casino Austria includes the Czech Sazka Group. In fiscal 2015, Casinos Austria generated sales of EUR 3.6 billion and an operating profit of more than EUR 100 million.

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**NOVOMATIC HAS COMPLETED THE FINAL REQUIRED STEPS FOR THE SUCCESSFUL ACQUISITION OF THE ALBANIAN NATIONAL LOTTERY.**

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**WILLIAM HILL EXITS CZECH MARKET FOLLOWING NEW GAMBLING LEGISLATION**

Leading UK sports betting and casino operator William Hill has left the

Czech Republic market. The operator's exit took place only days ahead of the enforcement of the country's new set of online gambling laws.

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**888POKER LEAVES AUSTRALIAN MARKET**

In the wake of changes to Australia's interactive gambling laws, online poker operator 888poker has exited the Australian market. 888poker informed its Australian players that operations would cease beginning January 16. Players will be able to withdraw any funds through the poker room's web cashier.

888poker is not the first operator to discontinue operations in Australia. Malta-based casino gaming brand Vera&John announced that its products would no longer be available to Australian players.

PokerStars is rumored to be the next major operator to leave the market.

Under current law, sports betting is the only legalized online gambling service permitted in Australia. Online poker and casino games are not strictly prohibited, but neither are they expressly legal. New legislation will provide clear-cut definitions of what will be legal and how iGaming operations will be regulated. ■

## NORTH AMERICAN NEWS

**LEGISLATIVE CONSIDERATION OF ONLINE GAMBLING CARRIES INTO 2017**

Legislative deliberations related to on-line gambling have resumed in Pennsylvania, New York, and Michigan as the new year begins with the same budget pressures that plagued state governments in 2016. In Pennsylvania, the legislature confronts a \$100 million budget shortfall earmarked to be filled through the legal adoption of

on-line gambling options, and with a final budget resolution required by late spring, momentum for new gaming revenues may accelerate.

If Pennsylvania approves on-line gambling measures, New York may respond quickly with legislation that would skirt its state's constitutional ban on gambling beyond lotteries, horse racing, and casinos. New York could declare on-line poker as a skill-based activity, rather than a game of chance, which could position the state to compete for on-line players with neighboring Pennsylvania and New Jersey. If gaming advocates can convince New York to include projected revenue from on-line poker in the state budget, the

legislature will be forced to give the issue serious consideration.

In Michigan, where the legislature moved internet gambling measures all the way through the committee approval and recommendation process last year, both advocates and opponents are watching Pennsylvania's actions with interest.

Overlaying these state legislative deliberations is a national initiative to prevent the legalization of on-line gambling. This initiative is led by billionaire casino owner Sheldon Adelson, who was a significant donor to Republican candidates in the U.S. election in November. Even though the new national Congress

is controlled by a Republican majority, gaming experts believe the party's adherence to its long-held principle opposing federal involvement in states' rights issues (like gambling) will thwart Adelson's efforts to nationalize an on-line gaming ban. Adelson supported Donald Trump in the presidential election, but the president-elect, a casino owner himself, has not publicly expressed a position on Adelson's efforts to promote a nationwide ban.

California also is a pivotal state in the on-line gambling debate. A few years ago, California seemed to be positioned to legalize on-line poker, based predominantly on a strong political coalition formed between on-line advocates and the state's horse racing interests. But infighting among Native American tribal authorities who possessed partnerships with various on-line poker companies stalled the legislative momentum.

With California's interest in considering internet-based gambling on the wane, Pennsylvania, known as the keystone state, becomes the key state for industry observers to watch.

2017 may be a watershed year for on-line gaming proponents or just another year of unresolved debate.

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### **DEFENSE AGENCY LINKS THINKERS IN ON-LINE COMMUNITY**

The U.S. Defense Advanced Research Projects Agency announced a program it hopes will spur the world's best strategic thinkers to explore emerging science and technology for advanced applications.

The agency proposed an online community called Gamifying the Search for Strategic Surprise (GS3) that would "apply a unique combination of online game and social media technologies and techniques to engage a large number of experts and deep thinkers in a shared analytic process to rapidly iden-

tify, understand, and expand upon the potential implications and applications of emerging science and technology. The program will also develop a mechanism to identify and quickly fund research opportunities that emerge from this collaborative process."

The basis for the initiative emerged from previous research that examined ways to improve the state of the art in exploring and understanding the potential applications of emerging science and technology, specifically by improving the quality and speed of analyses. That study indicated it could be possible to accelerate and improve science and technology analysis through online discussion.

That study also described a platform composed of online gaming and social media technologies designed to facilitate interactions between knowledgeable individuals as they explore the possible applications of emerging science and technology. DARPA said that such a platform included the following attributes:

- A user system that supports thousands of users
- A user communication system
- An interaction system that supports evidence-based analysis
- Gamification strategies that attract, maintain, encourage, and motivate participants
- Interaction with participants on a variety of platforms, including mobile phones, smart tablets, and desktop/laptop browsers
- A mechanism that allows participants to aggregate the evidence and analyses from other participants with their own to identify collaboration opportunities
- Appropriate user management, security, data protection, and database infrastructure

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### **NEW GAMING APPROACHES ATTRACT MILLENNIALS IN 2016**

VGMs, Skins, and DFS. This may become the new language the gaming industry will use to speak to the coveted Millennial generation of potential players.

Millennials do not appear to be attracted to traditional gambling pastimes, such as slot machines and casino floor games. With this in mind, Caesars became the first casino company in the world to introduce skill-based gaming machines, known as VGMs. These machines are hybrids of slots and popular video games, and they are programmed to offer bigger pay-outs for skilled players.

Gambling with in-game virtual currencies, known as skins, also became a dominant topic in the gaming industry in 2016. Millennials and younger players, including minors, had evolved the use of skins to the point where they possessed real-money value. That constituted actual gambling, and operators were forced to pull the plug on the entire illegal industry.

Another attraction to Millennial players—daily fantasy sports (DFS)—began 2016 in a state of disarray. Facing regulatory uncertainty across the country, as well as an injunction and potential fines running into billions of dollars in New York, things seemed dire for the two industry leaders, FanDuel and DraftKings.

As the year unfolded, some states began to legalize and regulate the contests, or offer legal clarification on DFS.

Despite that legal progress, FanDuel and DraftKings were cash-strapped and in November, it was announced that a long-rumored merger would occur as the two companies sought to achieve cost savings through consolidation.

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## **ALAN LARRICK APPOINTED WEST VIRGINIA LOTTERY DIRECTOR**

Mr. Larrick has a law degree from West Virginia University and has been an attorney in Beckley for 38 years.

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## **LOTTERY DEBATE REVIVES IN MISSISSIPPI**

Mississippi lawmakers began the New Year with a flurry of activity in an effort to approve a state lottery. In 2016, Mississippi, one of only five states without a lottery, came as close as it ever has to approving the creation of one.

A proposal introduced on the first day of the 2017 legislative session would establish the Mississippi Lottery for Education. Mississippi has had one referendum on the lottery issue when voters agreed to remove a constitutional ban on lotteries. Four lottery-related bills failed last year in Mississippi.

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## **IRS WILL NOT LOWER THRESHOLD ON REPORTABLE WINNINGS**

The Internal Revenue Service will no longer pursue a plan to require casinos and racinos to report tax information when slots, bingo, and video lottery players win \$600 or more.

The IRS will maintain its current regulations, which require a casino to file tax forms on winnings of \$1,200 or more on a slot machine jackpot or bingo game, and winnings of \$1,500 on a game of keno.

A gambling trade group, the American Gaming Association, had opposed the \$600 threshold, claiming that the plan could cost states millions of dollars in gaming revenue. When a player wins a jackpot, the machine locks until IRS forms are completed and the game is reset. During that down time, no one can play the machine, resulting in lost revenue.

All gambling winnings are considered

taxable income and must be reported. The government relies on winners to be honest and report winnings under the \$600 threshold.

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## **SENATE BILL DEFINES GAMES OF CHANCE, CALLS FOR TAX**

A new Senate bill could shape the federal landscape of sports gambling and daily fantasy sports. The proposed law, introduced by Sen. Jerry Moran of Kansas, defines “chance” and includes special tax treatment for gaming operators, a group that may include Nevada sportsbooks and daily fantasy companies.

For many years, whether a game is based on skill or chance has been an important legal distinction in gambling laws. Games of chance generally are banned or subject to heavy regulation; skill-based activities often are permitted. States vary in how they view the skill or chance issue.

DFS companies such as FanDuel and DraftKings have argued their games are skill-based. However, no court has ever clarified that issue.

The new bill includes provisions for gaming “sponsors” and provides a definition of “chance.” According to the legislation, chance includes a bet or wager involving “(1) a random or unpredictable event or (2) an event over which neither the gaming sponsor nor the person purchasing the chance has control over the outcome.”

The legislation would impose a 23 percent tax on a company offering games of chance. The bill does not specify whether DFS companies or Nevada sportsbooks would be subject to the tax.

The bill comes as the U.S. Supreme Court considers later this month whether to decide the long-running litigation between New Jersey Gov. Chris Christie and various sports leagues on the issue of sports wagering in the Garden State.

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## **VIRTUAL REALITY AND NANOTECHNOLOGY MAY CHANGE THE FUTURE OF GAMING**

Advancements in the development of Virtual Reality (VR) gear, games, and game consoles continue to occur at dizzying speed, but the prohibitive cost of required equipment dampens widespread adoption.

Many consumers have begun to dabble with VR games—it is relatively affordable to buy a pair of VR glasses, a data glove, and a games console. However, truly immersive experiences that necessitate head-mounted displays and high-end graphics continue to be out of the reach of most budget-conscious consumers. Like other forms of technology, prices will reduce as manufacturing competitors enter the industry and more people will be able to enjoy VR gaming options.

A compelling new development is the speculation that nanotechnology may be used as a means of allowing us to push beyond the boundaries of the human body and actually enter into a digital world. A player’s brain would be uploaded into a computer system or network, but beyond this conceptual framework, no one knows what constitutes science fiction and physical facts.

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## **PENNSYLVANIA LEGISLATURE RE-VISITS ON-LINE GAMBLING AS NEW YEAR KICKS OFF**

The Pennsylvania legislature ended its session in December without resolution of on-line gambling proposals, but lawmakers wasted no time in rekindling debate on the topic as the new year began.

As 2017 dawned, the state was facing a budget that had passed last year calling for \$100 million in online gaming revenue, but without the appropriate supporting legislation. The House passed a bill to produce those funds in 2016, but the Senate did not take action and the measure died. ■

# SPORTS BETTING IN THE U.S.

## MARYLAND, WASHINGTON, AND FLORIDA POISED TO LEGALIZE AND REGULATE FANTASY SPORTS

### NEW JERSEY SPORTS BETTING MEASURE RESTS IN HANDS OF US SUPREME COURT

Advocates of sports betting are awaiting word from the U.S. Supreme Court on whether it will consider a case from New Jersey that could establish precedent for sports betting measures around the country. New Jersey argues that a federal law that prevents most forms of sports betting is unconstitutional.

New Jersey Governor Chris Christie (R) and the state's Thoroughbred Horsemen's Association have called on the Supreme Court to consider the lawsuit, which names the NCAA and Big Four professional sports leagues as defendants.

New York is watching the Supreme Court decision very closely. A bill that would legalize sports betting in NY is expected to be introduced in the 2017 legislative session. Prior legislative measures failed in the 2015 and 2016 New York Assembly sessions. As the New Jersey case has demonstrated, enacting a sports betting law is just the start of a long journey to legal sports betting. If New York were to enact a law, it would be challenged by the professional sports leagues and the NCAA under PASPA. That means years of legal wrangling with an uncertain outcome. New York is in a different federal appellate circuit (Second) than New Jersey (Third), which has fast held against sports betting. That means different appellate judges would be hearing the PASPA argument, perhaps with a different outcome than what New Jersey has experienced in its attempts to legalize sports betting.

### "FREE-MARKET COALITION" URGES SESSIONS, PENCE TO OPPOSE ONLINE GAMBLING BAN

Attorney general nominee Jeff Sessions' stated in his confirmation hearing that he

was "shocked" at the U.S. Department of Justice decision that the 1961 Interstate Wire Act doesn't apply to online gambling, a coalition of free market groups is urging Sessions and Vice President-elect Mike Pence to reject calls for a ban. The USDoJ ruled Congress intended the Wire Act of 1961 to apply specifically to sports-betting and not to online gambling. That would seem a reasonable inference considering that no form of online gambling was to even exist for decades after the passage of the Wire Act. The Free Market Coalition letter's co-signers include Competitive Enterprise Institute, Institute for Liberty, Campaign for Liberty, Taxpayers Protection Alliance, Center for Freedom and Prosperity, Digital Liberty, Institute for Policy Innovation and the Rio Grande Foundation. The coalition points out that while prohibition is backed by some Republicans, more oppose it because it raises concerns about violating the Tenth Amendment, which delegates powers to the states not specifically given to the federal government in the U.S. Constitution.

Many attempts have been made over the last few years to amend the Wire Act to make it apply to online gambling.

The Restoration of America's Wire Act (RAWA) and other bills have been introduced but failed to gain support in Congress. Speculation that a RAWA-like bill would be rammed through in the lame-duck session didn't come to fruition.

"Neither consumers nor state governments would benefit from a federal online gambling ban," the Coalition letter states. "The only people who would profit are those who compete with legal online gambling: illegal gambling sites and the few brick-and-mortar casinos that are uninterested in expanding into the online market."

### NEW JERSEY PROTESTS THAT FEDERAL GOVERNMENT HAS NO RIGHT TO IMPOSE ONLINE GAMBLING BAN

President Elect Trump's Administration Attorney General Nominee, Jeff Sessions, has made statements indicating his intention to revisit the U.S. Dept of Justice decisions regarding the Wire Act, how it applies to online gaming, and the rights of states to determine regulatory and taxation policy as it relates to online gam-

ing. Some states have been offering online gambling for years, and most states attorneys general oppose the abrogation of states' rights when it comes to regulating and taxing the gambling industry.

### PGA LOOKING INTO SPORTS BETTING

The PGA Tour has been exploring opportunities with sports betting, and new commissioner Jay Monahan has pledged to maintain an open mind as possibilities arise.

Legislation to change federal gambling laws is under development, and the American Gaming Association is forming a coalition that includes sports leagues to begin lobbying to lift the federal prohibition of sports betting in 2017.

The National Basketball Association has publicly supported the proposed expansion of legalized sports betting. But the PGA has remained quiet on the issue and is one of the few professional sports leagues that has not partnered with a daily fantasy sports operator, such as DraftKings or FanDuel.

### SPORTS BETTING LEGISLATION INTRODUCED IN NEW YORK, SOUTH CAROLINA

As the new year began, New York and South Carolina introduced bills designed to legalize sports betting.

In New York, a bill sponsored by Senator Tony Avella would authorize "gambling on professional sporting events and athletic events sponsored by universities or colleges."

In South Carolina, Representative Todd Rutherford's proposal is a wider gambling expansion bill that includes the authorization of sports betting among casino gaming and horse race betting.

Neither the New York nor South Carolina proposals have much of a chance to succeed unless the U.S. Supreme Court agrees to hear New Jersey's appeal of a Third Circuit Court ruling that blocked its attempt to legalize sport betting at its casinos and racetracks.

Attorneys general of five states, West Virginia, Arizona, Louisiana, Mississippi and Wisconsin, have filed briefs in support of New Jersey's case. ■



The so called “Brexit” will have substantial political and legal consequences that need to be assessed. There has been a lot of discussion on what the future UK-EU trade relationship might look like.

This article focuses on the possible impact of Brexit on the lotteries and gambling industry, and in particular the special position of Gibraltar. Gibraltar, as a self-governing British overseas territory, is not an individual member of the European Union and will have to follow the UK in its decision to leave the Union—even though Gibraltar voted on June 23 by 96% to remain in the Union. Gibraltar became a European hub of online gambling when the 2005 Gambling Act came into force. Today, online gaming is a dominant sector in Gibraltar’s economy—an economy built around financial services and the port that needs the European Union and access to its internal market.

In the Portuguese Santa Casa case of 2009, the

Brexit further, we will be discussing what this Brexit means in terms of procedure.

The UK referendum set Brexit in motion. Next step is the application of Article 50 of the Lisbon Treaty (TEU), the action in which the EU Commission is formally informed of the intention of the member state to leave the EU. Theresa May has indicated her intention for Article 50 to be executed before April of 2017. This Article sets out the procedure to be followed by an EU country which wants to leave the Union voluntarily. Before 2007 there was no provision in the Treaty that provided this possibility for the Member States. The drafters of the Treaty did not think it possible a Member State would want to leave the Union.

Article 50 TEU now states that “any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.” The procedure requires from the Member State that it shall notify its intention to leave the Union to the European Council. After this notification, the Union shall negotiate and conclude an agreement with the leaving Member State which establishes legal grounds for a future relationship with the EU. The agreement needs a qualified majority of Member States and consent of the European Parliament to be concluded. Article 50, paragraph 3 indicates a time period of two years to conclude those new arrangements which runs from the date of the notification. The procedure has never been used since its introduction in 2009.

Procedurally, after the referendum on Brexit, the real application of Article 50 has not yet been triggered. Although the outcome of the referendum is not legally binding for the UK government, it is most likely that the UK will give effect to the vote in favor of a “leave.” But, given the complexity of the issues at stake, it could still take years before the real decision to leave the European Union becomes effective.

European leaders are already putting pressure on the UK government to make a decision as quickly as possible. In her first responses, UK’s Prime Minister Theresa May asked the European leaders to have time to prepare the negotiations, while always emphasizing her commitment to take Britain out of the EU. On 2 October 2016, Theresa May made the plan for Brexit a bit clearer when she announced that Article 50 would be triggered by the end of March 2017. She also made reference to a forthcoming ‘Great Repeal Bill,’ based on the idea that this law will, on the day following secession, retain all relevant EU legislation as sovereign UK law unchanged in the first instance.

# The Impact of BREXIT on Gambling: The Gibraltar Gambling Case

BY PHILIPPE  
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European Court explicitly denied application of the mutual recognition principle for gaming services for companies established in Gibraltar trying to enter the Portuguese market. This means that an operator gaming license in one EU Member State (e.g. Gibraltar), does not automatically mean the operator is permitted to provide services under the same licence in another EU Member State. Of course, an EU Member state can only restrict access to its market to the extent that its gambling policy complies with the European Courts’ case law which requires policy to be aimed at protecting consumers by channeling the gaming desire.

If the UK leaves the European Union, UK based gambling companies will no longer be able to question restrictive national measures under European law. It is even not guaranteed that UK based operators, including Gibraltar, will have any market access to EU states.

Before elaborating on possible consequences of

pharumlegal  
GUIDANCE - PROTECTION

Even if from the UK's side the plans are not clear yet, the European leaders seem to have found an agreement on how they want to deal with Brexit. They propose a three-step model of (i) withdrawal, (ii) transition and then a (iii) "new relationship." The European leaders also hold on to their position that the UK will never be able to "cherry-pick" the good aspects of EU membership.

On behalf of the EU, the formal negotiating will be led by Europe's chief negotiator Michel Barnier. A draft proposal for a detailed set of "Guidelines" that were published at the beginning of December 2016 by the EU seem to have sidelined the European Parliament in these negotiations. They significantly reduced the role of the Parliament to an advisory role with only the possibility to "exchange views" before each meeting.

The United Kingdom consists of four countries: England, Scotland, Wales and Northern Ireland. The Isle of Man and the Bailiwicks of Jersey and Guernsey are the three Crown dependencies that are not part of the United Kingdom. These are independently administered jurisdictions. Internationally, the Crown dependencies are recognized as "territories for which the United Kingdom is responsible" but they remain self-governing possessions of the Crown. The three Crown dependencies are consequently also not a part of the European Union but fall within the EU's customs union.

Gibraltar is one of the fourteen overseas territories of the United Kingdom and falls under its jurisdiction and sovereignty. Inhabitants of Gibraltar fall under full British citizenship. There is self-government through an elected parliament—the executive authority in Gibraltar is vested in the Governor, who is the Queen's representative. Some powers remain under responsibility of the UK's Government, such as defence and foreign relations.

When it comes to lotteries & gambling jurisdictions in the UK, the UK white-listed six regulatory jurisdictions on its territory for online gambling: the UK itself through the UK Gambling Commission (UKGC), the Isle of Man, Alderney, Jersey, Guernsey and Gibraltar. These jurisdictions have their own sets of regulations. Both Gibraltar and the Isle of Man form "hubs" for online gambling due to a more favorable tax regime.

The economy of Gibraltar is built around tourism, online gambling, financial services and shipping. For this reason, Gibraltar needs access to the EU's internal market. They voted on June 23 by 96% to remain in the European Union. Gibraltar's Chief Minister Fabian Picardo, confirmed that Brexit is an existential threat to Gibraltar's service-based economy.

Only one precedent of a country leaving the Union can be looked at: Greenland.

As one of Denmark's overseas territories, Greenland left the EU in 1985 after two years of negotiation. This decision followed a referendum held in 1982 where 52% voted in favor to leave the Union. Article 50 TEU, nor any other statement of a formal procedure for leaving the Union, existed at the time. Greenland was part of an EU Member State and left the European Union, while Denmark remained in the European Union.

Gibraltar, as overseas territory of the UK could use the example of Greenland in a 'reversed way.'

However, the case of Greenland is still different from Gibraltar's situation today. At the time Denmark joined the EEC in 1973, Greenland did as well. One year before, Greenland had shown its opposition towards this accession in a referendum where the vote was 70% against joining the EEC. They had to follow the decision of the Danish population, who voted by 63% in favor of joining the EEC. Following their expressed opposition, the debate continued even after accession. In 1979 Greenland received "Home Rule," whereby the influence of the Danish state in Greenland decreased. A Greenlandic Parliament was established and Greenland gained sovereignty in areas such as education, health, fisheries and the environment. At the time of leaving the EU in 1985, Greenland had gained more autonomy in its relationship with Denmark than Gibraltar has with the UK today.

In 1999, the *Matthews v United Kingdom* case of the European Court on Human Rights clarified the position of Gibraltar towards the UK. Gibraltar is a dependent territory of the UK. It forms part of Her Majesty the Queen's Dominions, but is not a part of the UK. Executive authority in Gibraltar is vested in the Governor, who is the Queen's representative. The Chief Minister and the Government of Gibraltar are responsible to the Gibraltar electorate via general elections to the House of Assembly which is the domestic legislature in Gibraltar. The EU Treaties are certain extent, applicable to Gibraltar by virtue of a provision in the Treaty which provides that they apply to the European territories for whose external relations a Member State is responsible.

In *Matthews*, the issue raised whether the UK could be held responsible for the lack of elections to the European Parliament in Gibraltar. The Court recalled that it is uncontested that legislation emanating from the legislative process of the European Union affects the population of Gibraltar in the same way as legislation which enters the domestic legal order exclusively via the House of Assembly in the UK. The UK government tried to defend that the absence of elections in Gibraltar in 1994 did not give rise to a violation but instead fell within the State's margin of appreciation. The UK here tried to escape its obligation towards Gibraltar by saying they have a margin of appreciation. Even if it is a dependent territory of the UK, the UK saw Gibraltar as a "separate part" of their country.

Also in *Spain v United Kingdom* of 2004, the UK expressed its view on Gibraltar. This time the European Court of Justice of the EU accepted that the UK differentiated the organization of the elections for the European Parliament in Gibraltar from the UK. The UK undertook a Declaration in 2002 to 'ensure that the necessary changes are made to enable the Gibraltar electorate to vote in elections to the European Parliament as part of and on the same terms as the electorate of an existing UK constituency.' The Court followed the UK government in its view that 'on the same terms' cannot be understood as meaning

that the UK legislation would apply without adaptation to the Gibraltar electorate by its assimilation to the electorate of the UK constituency with which it would be combined.

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**Today, online gaming  
is a dominant sector in  
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Two other pending cases in which the Court did not rule yet, could have an influence in this negotiation process of Gibraltar.

The first case is Gibraltar Betting and Gaming Association Ltd. And the Queen (C-591/15). The hearing will take place on October 4 of 2016. The issue in this case concerns a new tax regime introduced in the United Kingdom—due from December 1 of 2014. Some taxes are no longer due according to the place of supply but according to the place of consumption. Every participation to remote gambling in the UK will be taxed, irrespective of the place of establishment of the gaming provider. The applicant in this case is the Gibraltar Betting and Gaming Association, an association whose members are mainly providers of games of chance that are established in Gibraltar. They offer their services to customers in the UK.

The question referred to the CJEU asks whether Gibraltar and the UK must be considered to be part of one Member State. Consequently, European law would not apply and the issue is a purely internal situation. Other questions are whether Gibraltar has the constitutional status of an autonomous region as regards the UK, whether it is a third country/territory or whether there is another qualification for their relationship possible.

During the written procedure, the applicant argued that Gibraltar has the constitutional status of an autonomous region regards the UK and that Article 56 TFEU applies.

The defendants, Commissioners for Her Majesty's Revenue and Customs and Her Majesty's Treasury, supported by the EC, Belgium and Portugal, argue that Gibraltar is not a Member State on itself. Gibraltar must be considered as a part of one and the same Member State, the United Kingdom. Therefore this tax issue is a purely internal situation on which the free

movement provisions do not apply. In its opinion, delivered on 19/01/2017, the Advocate General of the CJEU stated also that Gibraltar is part of one and the same Member State, the United Kingdom.

The outcome of this case will be of particular concern for Gibraltar's situation. If the Court rules that Gibraltar is part of one and the same Member State for which European law does not apply, Gibraltar will have more difficulties to negotiate a "special deal" with Brussels in order to stay in the European Union. On the contrary, if the Court would rule that Gibraltar must be considered as an autonomous region, they could use this judgment to find a way to split off from the UK.

The second case, *Fisher v Commissioners for Her Majesty's Revenue and Customs* (C-192/16) is a more recent case where there has only been a request for a preliminary ruling. The dispute also concerns whether free movement between the UK and Gibraltar is restricted by a national measure. The applicants resided in the UK but delegated the activities of their UK based gambling company to a company based in Gibraltar. They UK ordered them to pay income taxation, saying they wanted to avoid taxation in the UK by delegating these activities. This income tax should not have been paid if the transfer had not intended tax avoidance. The applicants contend this measure by arguing it violates European law.

Since Gibraltar really needs the EU, they will probably try to negotiate a kind of "special deal" with Brussels. Their economy depends too much on the EU's internal market and they could use the case law discussed above to try to split off from the UK if the UK decides to leave the Union. But arguing this will not be so easy, since they are still dependent territory from the UK. This is where their position differs from Greenland's position.

A Brexit will most likely also have an impact on the way the UK will or will not continue to participate in the follow up of the European Commission's communication "Towards a comprehensive European framework for online gambling" from 2012. One of the issues will be whether the agreement of November 2015 between the gambling regulatory authorities of the EEA Member States which tries to enhance administrative cooperation will continue to apply.

It will be important to follow the ongoing and future negotiations between the UK and the European Union with regards market access for the lotteries & gambling industry.

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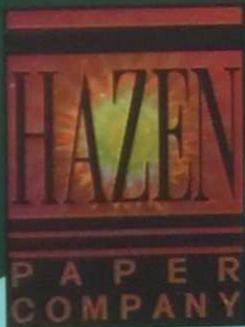
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\* The Tennessee lottery generated a 79% sales increase in a quantitative test that isolated holography as the only key variable. For details, visit: [www.holographyx.com/TN](http://www.holographyx.com/TN)



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