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PGRI Introduction: Brazil is the largest country in South America, and the fifth largest in the world, both by geographical area and by population with over 192 million people. In 2011, the Brazilian GDP was at R\$ 5,1 trillion (US\$ 2,5 trillion), which makes Brazil as the sixth largest economy in the world. The national lotteries are a public service that is operated by Caixa Econômica Federal (CAIXA), which is also the largest government-owned bank in Latin America. CAIXA-operated games include Lotto, Instantes, and sports-betting. Its flagship national lottery game, Mega-Sena, regularly produces multi-million dollar prizes, is drawn twice a week, and pays 46% of ticket sales to prizes. Total CAIXA lottery sales in fiscal 2011 were R\$ 9,7 billion (US\$ 4,7 billion), of which R\$ 4,5 billion (US\$ 2,2 billion) was contributed to social programs of the Federal Government in the areas of Social Security, Sport, Culture, Public Safety, Education and Health, as well as social projects developed by non-government entities.

Sr. Fábio Cleto is the CAIXA executive who directs the Brazil National Lottery, and has led the effort to modernize the Brazil National Lottery over the past five years.



Paul Jason, Public Gaming: *How does a large financial institution like CAIXA Econômica Federal integrate the entrepreneurial drive to innovate and achieve the great results as it has over the past five years?*

Fábio Cleto: CAIXA is a fascinating object of study because besides operating as a commercial bank, this public company also manages funds, programs and services of the Federal Government, as is the case of the lotteries, and acts as the main financial agent for policies of housing and sanitation projects in Brazil.

CAIXA closed the year 2011 with assets of nearly R\$ 500 billion (US\$ 243 billion). CAIXA ensures seamless integration between all its activities, and adopts the management by processes. The company is structured into 11 vice-presidencies,

among which there is the vice-presidency of Government Funds and Lotteries, which is where I have served since April/2011.

The lotteries are managed and run by the National Superintendence of Lotteries and its National Managements committees. This management also includes activities that are the responsibility of the Vice-presidency of Service, Distribution and Business (which administers the lottery points of sale), Vice-presidency of Information Technology (responsible for managing the systems of CAIXA Lotteries) and the Vice-Presidency of Logistics and Back Office (responsible for managing the contracts and suppliers of lottery tickets and thermal paper rolls), as well as the Executive Director of Marketing and Communications, which is directly linked to the Presidency of CAIXA and

responsible for managing the advertising and marketing of CAIXA lotteries.

CAIXA has more than 62 thousand service points throughout the national territory, of which nearly 20% are lottery points of sales.

Your title is vice president of "Government Funds and Lotteries". Does this division of CAIXA include areas of responsibility other than the Brazil National Lottery?

F. Cleto: I am responsible for funds management, the Federal Government insurances and programs delegated to CAIXA, the main one being the Assurance Fund for Period of Work (FGTS), which was created in the 1960s to protect the employee dismissed without just cause. With this fund, the worker has the chance to form a heritage as well as acquire their

own homes, with the resources of their account in the fund. In addition to protecting the interests of workers, FGTS - which in 2011 recorded assets of R\$ 290 billion (US\$ 141 billion) - finances popular housing programs, sanitation and urban infrastructure, which benefit society in general, especially low income families.

Briefly describe the types of games that CAIXA offers.

F. Cleto: CAIXA Lotteries currently have ten products in its portfolio. There are lotto games (Mega-Sena, Quina, Lotofácil, Lotomania and Dupla Sena), sports lottery games (Loteca and Lotogol), Special lotto game (Timemania) and ticket lottery (Federal Lottery and Instant). The most important game operated by CAIXA is the Mega-Sena, which in 2011 was responsible for 47.5% of sales – with R\$ 4,6 billion (US\$ 2,2 billion) – its main feature is the provision of millionaire prizes.

What games do you expect to have the highest growth potential over the next two years?

F. Cleto: We are working hard to launch new issues of instant lotteries, adopting measures to make this product more attractive by increasing the payout and offering prizes in goods, as well as the expansion of the exchange prizes (reintegro).

As part of the process of having special draws on special dates, which began three years ago with Mega da Virada (held every December 31) and Quina de São João, launched in June 2011 (in the month we celebrate the day of St. John), we will start in September this year the Lotofácil of Independence and plan to launch in April 2013 the Easter Lotomania. With this, we conclude our project of having four special draws each year.

The special draws have distinctive features: no jackpot rollover and millionaire prizes considering the longer period to play, which increase the sales.

Are you introducing any significant new game changes or new game categories over the next two years?

F. Cleto: We plan to launch new lotto games of numerical prognostics with the aim of increasing the offer of attractive products to players. We have also carried out researches and completed projects about new games. We are now just waiting for the right moment to develop and launch.

Does Brazil have an effective means of enforcing laws against unlicensed internet gaming and illegal slot machines?

F. Cleto: According to Brazilian law, except the federal lotteries, horse betting and philanthropic draws – whose operations are authorized by the Federal Government as an exception - all other forms of gambling and gaming are classified as a misdemeanor. So games like slot machines and bingo, for example, are repressed by police agencies in our country.

Although there are some bills pending in Congress addressing the topic of gambling over the Internet, currently Brazil does not yet have a specific legislation on this type of game.

CAIXA serves a variety of interest groups. Could you explain the “stakeholder” structure? Who defines the mission and financial objectives of the National Lottery?

F. Cleto: The strategic plan of the Vice-Presidency of Government Funds and Lotteries of CAIXA is elaborated in a participatory manner. For the definition of strategic objectives, projects and goals related to lotteries, in addition to listening to the suggestions from the employees, we work in accordance with the guidelines of the Secretariat of Economic Monitoring of Ministry of Finance – regulator of the federal lotteries – and we also analyze suggestions made by the retailers, beyond the proposals of the players that are identified through qualitative and quantitative researches.

Does CAIXA have the authority to decide to launch new games and how the games can be promoted and distributed; or are there strict government oversight committees that make those decisions?

F. Cleto: In Brazil, the creation of new forms of lotteries depends on specific legislation. In the case of creating new products for the games categories that already have their law, prior authorization is required from our regulator, the Secretariat of Economic Monitoring of Ministry of Finance. Once the creation of a new game is approved, CAIXA has autonomy to decide about the distribution and promotion.

When did you start selling Mega-Sena tickets online, what percentage of Mega-Sena sales are online, and what do you project the growth rate of your online sales to be over the next two years?

F. Cleto: The online sales of Mega-Sena was started in April 2011 and in this first phase of the project, allows an account holder of CAIXA to play through the internet banking of the institution. Currently, the sales of Mega-Sena through this channel represents 0.42% of total sales.

Making a conservative estimate, we calculate that at the end of the next two years online sales will reach 3% of total sales in points of sales. We are working intensively on this project, in order to provide convenience for players.

How about mobile, cell-phones? Are you able to measure the volume of sales made via mobile devices? And what do you project the growth rate to be for the mobile channel over the next two years?

F. Cleto: We intend to make available to players this option to play on federal lotteries, and for this we have studied the necessary procedures for sale of games on cell-phones. Upon the conclusion of this project for sale of games over the Internet, we will be able to dedicate ourselves to that theme.

Anything interesting to report about your plans for “social media” like Facebook?

We consider very important the use of social media because they are an effective way to reach new groups of players. Since November of 2011, CAIXA Lotteries are on Facebook and Twitter, with information on lottery products, revenues and social transfers, as well as calendar and place of the draws.

What is the ratio of retailers to consumers in Brazil? Insofar as it is low, and you want to increase consumer access to the games, do your online and mobile distribution channels offer an opportunity to ‘leapfrog’ a generation of technology based on land-based communications infrastructure?

F. Cleto: The retailers’ network of CAIXA lotteries has an important role not only for players but for the general population. Currently there are approximately 11,400 points of sales distributed in 4.761 Brazilian municipalities, in which consumers can play and do financial and banking transactions, and also receive social benefits paid by the Federal Government to needy population. To get an idea of the importance of this network, we emphasize that in 2011, the average number of transactions/day taken in these units was 17.3 million, including

games and non-games transactions.

Despite games sales which represent increasing growth rates every year, we continue work on the development of virtual channels of sale, such as the Internet, aiming to expand our customer base through the acquisition of new groups of players who do not usually go the land-based retailer.

Is increasing the number of land-based retailers an important business objective? If so, what is CAIXA doing to accomplish that?

F. Cleto: CAIXA, through its Vice-presidency of Service, Distribution and Business, constantly monitors the network of points of sales, with the goal of identifying locations where there is potential for opening new units. In addition, the number of transactions is monitored to identify those units that need to increase the number of terminals to better meet the needs of customers.

The multi-jurisdictional games, like Powerball and Euromillions and many others, have been very important sales-drivers.

Do you anticipate joining in a multi-national game in the near future? Do you feel that introduction of a second super-jackpot game (either national or multi-national) would produce a net win for the lottery, or do you feel that the Mega-Sena brand is so powerful that you prefer to stick with that as the only national super-jackpot game?

F. Cleto: We consider interesting the proposal for a multi-jurisdictional game and we have dedicated ourselves to study the subject in order to identify all the issues concerning to legislation, operating systems and routines involved, besides, of course, the analysis of the impacts that such a game could have on sales of Mega-Sena, our main game nowadays.

You serve on the executive committee of the World Lottery Association and as the Cibelae representative to the World Lottery Association (WLA). How is the mission of the WLA evolving?

F. Cleto: WLA plays an important role among its members by offering them access to certification in Security (SCS / WLA) and Responsible Gaming. More-

over, the high-level seminars and conventions promoted by that association, offering relevant information on trends in the global lotteries and games and case studies of success, are inputs to the strategic decision making within the State Lotteries. The approach between WLA and CIBELAE has produced very positive results, as it enables the exchange of information and data on our lotteries members. As a member of WLA, CAIXA Lotteries have great interest in knowing more about new products and new sales channels, as this information will be useful to define new projects for the expansion of federal lotteries in Brazil.

What do you see as the most important goals for CAIXA over the next two years?

F. Cleto: Our main objective is to expand our base of players by offering products more attractive and modern, and also through launching new virtual sales channels that offer to our customers convenience, security and agility to purchase lottery products. ♦